THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Tobacco International (HK) Company Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND OUTSTANDING QUOTAS OF THE TARGET COMPANY

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO (1) THE SALE OF TOBACCO TRANSACTIONS AND (2) THE PURCHASE OF AGRICULTURAL MATERIALS, TOBACCO AND SERVICE TRANSACTIONS AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

CICC
中金公司

Independent Financial Adviser
to the Independent Board Committee and Independent Shareholders

SOMERLEY CAPITAL LIMITED

A notice convening the extraordinary general meeting of China Tobacco International (HK) Company Limited to be held at 17/F, Tower A, China Life Tower, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong on Friday, 22 October 2021 at 3:00 pm is set out on pages EGM-1 to EGM-2 of this circular.

Whether you are able to attend the EGM or not, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible, and in any event so that it is received not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

In order to prevent the spread of COVID-19 pandemic and to safeguard the health and safety of Shareholders, the Company will implement the following precautionary measures at the EGM:

- **compulsory body temperature checks and health declarations**
- **compulsory wearing of surgical face masks**
- **no provision of refreshments and corporate gifts**

Any person who does not comply with the precautionary measures will be denied entry into the EGM venue. All attendees are requested to wear surgical face masks at all times at the EGM venue. Shareholders are reminded to exercise their voting rights at the EGM by appointing the chairman of the EGM as proxy to attend and vote on the relevant resolutions at the EGM instead of attending the EGM or any adjourned meeting in person.

29 September 2021

CONTENTS

Contents | **Page**

In view of the ongoing COVID-19 pandemic and recent requirements for prevention and control of its spread, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

(i) Compulsory body temperature checks will be conducted on every attending Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person found to be suffering from a fever or otherwise unwell will be denied entry into the EGM venue or be required to leave the EGM venue.

(ii) All attending Shareholders, proxies and other attendees are required to complete and submit at the entrance of the EGM venue a declaration form confirming their names and contact details, and be asked whether (a) they have travelled to, or to their best of knowledge had close contact with any person who has recently travelled to, areas outside of Hong Kong at any time in the preceding 14 days of the EGM; and (b) they are subject to any compulsory quarantine prescribed by the Hong Kong Government. Any person who responds affirmatively to any one of the above questions will be denied entry into the EGM venue or be required to leave the EGM venue.

(iii) All attendees are requested to wear surgical face masks at the EGM venue at all times, and to maintain a safe distance with other attendees.

(iv) No refreshments or corporate gifts will be provided.

To the extent permitted under applicable laws, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders' health and safety and in response to the recent guidelines on prevention and control of COVID-19 pandemic, **Shareholders are reminded that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by completing form of proxy in accordance with the instructions printed thereon, Shareholders may appoint the chairman of the EGM as proxy to attend and vote on the relevant resolutions at the EGM instead of attending the EGM or any adjourned meeting in person.**

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition of the entire issued and outstanding quotas of the Target Company (under the laws of Brazil the capital stock of a limited liability company is divided in quotas, which is equivalent to the meaning of shares) by the Company from the Seller pursuant to the terms and conditions of the Quota Purchase Agreement
"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 organized under the laws of North Carolina, United States in August 2018
"Articles of Association"	the articles of association of the Company, as amended from time to time
"Board"	the board of Directors
"Brazil"	the Federative Republic of Brazil
"Business Day"	any day, other than a Saturday or Sunday, on which commercial banks in Brazil or Hong Kong are not required or authorised to close
"CBT"	China Brasil Tabacos Exportadora S.A., a company incorporated in Brazil on 15 September 2011 with limited liability
"CBT Framework Tobacco and Services Purchase Agreement"	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the purchase of agricultural materials, tobacco and services entered into between CBT and Alliance One Brazil
"CBT Framework Tobacco Sales Agreement"	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the sale of tobacco entered into between CBT and Alliance One International
"Closing"	the closing of the Acquisition in accordance with the terms and conditions of the Quota Purchase Agreement

"Closing Date"	the date that is three Business Days after the Conditions have been satisfied or waived pursuant to the Quota Purchase Agreement, or such other date as the Company and the Seller may agree in writing
"CNTC"	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC on 15 December 1983 and wholly-owned by the State Council of the PRC (中華人民共和國國務院)
"CNTC Group"	CNTC and its subsidiaries
"Company"	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), a company incorporated in Hong Kong with limited liability on 26 February 2004 and the Shares of which are listed on the main board of the Stock Exchange (Stock Code: 6055)
"Conditions"	the conditions precedent to Closing as stipulated under the Quota Purchase Agreement
"Connected Transactions Agreements"	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
"Consideration"	the total consideration for the Acquisition, which is US$63.4 million (equivalent to approximately HK$494.5 million)
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules, and in the context of this circular, refers to the controlling shareholder(s) of the Company
"COVID-19"	the global novel coronavirus pandemic
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting to be convened to consider and, if thought fit, approve, the Quota Purchase Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Target Group immediately after Closing
"Financial Adviser"	China International Capital Corporation Hong Kong Securities Limited

"Framework Tobacco Purchase Agreement"	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the purchase of tobacco entered into between the Company and Alliance One International
"Framework Tobacco Sales Agreement"	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the sale of tobacco entered into between the Company and Alliance One International
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent committee of the Board, comprising all of the independent non-executive Directors who do not have a material interest in the relevant transactions, established to advise the Independent Shareholders in relation to the Acquisition
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, being independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
"Independent Shareholders"	the Shareholders, excluding those who are required to abstain from voting at the EGM to be convened in accordance with the Listing Rules and other applicable laws, rules and regulations
"Latest Practicable Date"	24 September 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"PRC" or "China"	the People's Republic of China, excluding, for the purposes of this circular, Hong Kong, Taiwan and Macau

"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)
"Quota Purchase Agreement"	the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and the Seller in relation to the Acquisition
"R$"	Brazilian reais, the lawful currency of Brazil
"Reorganisation"	the reorganisation of the Target Group completed on 31 March 2021, in order for CBT to become a non-wholly owned subsidiary of the Target Company
"Reporting Accountants"	KPMG
"RMB"	Renminbi, the lawful currency of the PRC
"Seller" or "CTIG"	China Tobacco International Group Limited (中煙國際集團有限公司), formerly known as Tian Li International Company Limited (天利國際經貿有限公司), a company incorporated in Hong Kong with limited liability on 17 March 1989
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	China Tabaco Internacional do Brasil Ltda., a company incorporated in Brazil on 6 June 2002 with limited liability
"Target Group"	the Target Company and its subsidiaries, including CBT
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America

"Valuation Base Date"	the valuation base date adopted in the valuation report prepared by the Valuer, being 31 March 2021
"Valuer"	China Enterprise Appraisals Co., Ltd., an independent valuer appointed by the Company

In this circular, the English translation of an entity's or a company's name in Chinese which is marked with "" is for identification purpose only. If there is any inconsistency between the Chinese names of entities or companies established in the PRC and their English translations, the Chinese names shall prevail.*

For the purposes of this circular, the exchange rate of US$0.1282 = HK$1.00 has been used, where appropriate, for the purposes of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at the above rate or at any other rates or at all.

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)

Non-Executive Director:
SHAO Yan *(Chairman)*

Executive Directors:
YANG Xuemei
LI Yan
LIANG Deqing
WANG Chengrui

Independent Non-Executive Directors:
CHOW Siu Lui
WANG Xinhua
CHAU Kwok Keung
QIAN Yi

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

29 September 2021

To the Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND OUTSTANDING QUOTAS OF THE TARGET COMPANY

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO (1) THE SALE OF TOBACCO TRANSACTIONS AND (2) THE PURCHASE OF AGRICULTURAL MATERIALS, TOBACCO AND SERVICE TRANSACTIONS AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 23 September 2021 in relation to the Acquisition, the Quota Purchase Agreement and the transactions contemplated thereunder. On 23 September 2021 (after trading hours), the Company entered into the Quota Purchase Agreement with the Seller, pursuant to which the Company has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the entire issued and outstanding quotas of the Target Company (under the laws of Brazil the capital stock of a limited liability company is divided in quotas, which is equivalent to the meaning of shares), subject to the terms and conditions therein.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, as one or more of the applicable percentage ratios under the Listing Rules for the Acquisition are 25% or more, but all such ratios are less than 100%. Accordingly, the Acquisition is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules. Further, as the Seller is a connected person of the Company by virtue of being a Controlling Shareholder, holding approximately 72.29% of the total issued share capital of the Company as at the Latest Practicable Date, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is also subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CBT (a non-wholly owned subsidiary of the Target Company) engages in the procurement, sale and export of tobacco leaves as part of its business activities, and historically has entered into transactions with Alliance One International and its subsidiaries (including Alliance One Brazil) 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. Immediately upon Closing, the Target Company will become a wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Group. Therefore, immediately upon Closing, Alliance One Brazil will become a connected person of the Company at the subsidiary level by virtue of holding 49% of the total issued share capital of CBT. Accordingly, such existing transactions with Alliance One Group carried out in the ordinary course of business of the Group and CBT will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. To regulate such existing transactions and to comply with the Listing Rules, (i) the Framework Tobacco Sales Agreement and Framework Tobacco Purchase Agreement have been entered into between the Company on the one hand, and Alliance One International on the other hand; and (ii) the CBT Framework Tobacco Sales Agreement and CBT Framework Tobacco and Services Purchase Agreement have been entered into between CBT on the one hand, and Alliance One International and Alliance One Brazil, respectively, on the other hand. Given that (i) 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 service transactions under the Connected Transactions Agreements are 5% or more; and (ii) the Board (excluding Mr. Shao Yan but including the independent non-executive Directors) have approved the terms of the Connected Transactions Agreements and the transactions contemplated thereunder and confirmed that the terms of Connected Transactions Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Connected Transactions Agreements and the transactions contemplated thereunder constitute continuing connected transactions which 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.

This circular provides you with, among other things: (i) further information on the Acquisition, the Quota Purchase Agreement, the Connected Transactions Agreements, and the transactions contemplated thereunder; (ii) the letter from the Independent Board Committee with its opinion and recommendation on the Acquisition, the Quota Purchase Agreement and the transactions contemplated thereunder to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser with its advice on the Acquisition, the Quota Purchase Agreement and the transactions contemplated thereunder to the Independent Board Committee and the Independent Shareholders; (iv) the financial information on the Group; (v) the accountants' reports on the Target Group and CBT; (vi) management discussion and analysis of the financial information on the Target Group; (vii) the unaudited pro forma financial information of the Enlarged Group; (viii) the summary of the valuation report from the Valuer; (ix) the report issued by the Reporting Accountants on the discounted cash flows used in the valuation; (x) the report issued by the Financial Adviser on the valuation report; and (xi) a notice of the EGM.

THE ACQUISITION

1 The Quota Purchase Agreement

Date

23 September 2021

Parties

(a) the Company (as purchaser); and

(b) the Seller (as seller).

The Acquisition

Pursuant to the Quota Purchase Agreement, the Company has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the entire issued and outstanding quotas of the Target Company, free from all encumbrances and together with all rights attaching to them.

Consideration

The Consideration for the entire issued and outstanding quotas of the Target Company is US$63.4 million (equivalent to approximately HK$494.5 million) which is equivalent to the appraised value of the Target Company under the independent valuation report provided by the Valuer. The Consideration will be settled in cash by the Company on the Closing Date. The payment of the Consideration will be funded by the internal resources of the Company, including the net of proceeds raised from the Company's global offering which were allocated to making investments and acquisitions that are complementary to the Group's business, as disclosed in the Company's prospectus dated 28 May 2019, as well as other internal funds.

The Consideration was agreed after arm's length negotiations (including the performance of business, tax, legal and financial due diligence on the Target Group and discussions around the appropriate purchase price considering the results of such due diligence) between the Company and the Seller on normal commercial terms having taken into consideration various factors, including but not limited to:

(a) the historical financial information of the Target Group and CBT for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021;

(b) the valuation of the Target Group conducted by the Valuer;

(c) the risks associated with the Target Group, including the risk of potential change in demand in the tobacco industry due to global tobacco control campaigns and legislations, the trade relations and policies between the PRC and Brazil or the United States, and local economic, political and regulatory risks in Brazil, such as inflation and appreciation of R$ against US$;

(d) the impact of COVID-19 on the production, shipment and sales of tobacco products;

(e) the business prospects of the Target Group, taking into account, among others, the Target Group's historical and expected growth in revenue and profit, business plans and strategies and trends in the tobacco industry in Brazil, the PRC and globally; and

(f) the reasons for and benefits of the Acquisition as described under the section headed "*Reasons and Benefits of the Acquisition*" in this circular below.

Pursuant to the independent valuation report provided by the Valuer, the Company understands that the appraised value of the Target Company is approximately US$63.4 million (equivalent to approximately HK$494.5 million) based on the asset-based approach as at the Valuation Base Date.

In arriving at the appraised value of the Target Company, the Valuer used the asset-based approach to determine the value of identifiable assets and liabilities of the Target Company set out in its balance sheet as at the Valuation Base Date, including, among others, the value of the portion of equity value of CBT attributable to the Target Company, accounts receivables and dividend receivables, equipment and debt. In particular, to determine the equity value of CBT, the Valuer also appraised the value of CBT's operating assets, surplus assets, non-operating assets and interest-bearing debt by using the income approach. The valuation of CBT's operating assets primarily involved the discounted cash flow method, under which the Valuer applied an applicable discount rate to CBT's estimated future free cash flow from operating assets, taking into account factors such as, among others, risk free interest rate based on Brazil government bond yields, equity risk coefficient calculated from comparable companies in the tobacco industry and exchange rate risk adjustment. The valuation of CBT's surplus assets, non-operating assets and interest-bearing debt did not involve free cash flow estimates and were derived from the cost method. Further details on the valuation is set out in the section headed "Profit Forecast in relation to the Valuation" below.

The Directors have considered the competence and independence of the Valuer before engaging the Valuer. Having considered that (i) the Valuer is an experienced advisory and valuation firm with 25 years of experience in overseas target appraisal based on its track records and (ii) the person in charge of the appraisal has over 10 years of experience in financial valuation and business consulting of overseas targets, the Directors believe that the Valuer has sufficient qualification, reputation and experience in performing the appraisal of the Target Group and has the relevant expertise and adequate resources to perform its role as an independent valuer. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Valuer is independent from the Group, the Seller, the Target Group and their respective connected persons.

In assessing the fairness and reasonableness of the appraised value of the Target Group, the Directors considered the following factors:

(a) With respect to the adoption of the valuation approach, the Directors understand that the Valuer had considered approaches that are generally accepted in business valuation, in particular the asset-based approach and market approach. The Valuer considered that the asset-based approach is appropriate for appraising the value of the Target Company, as the Target Company is principally engaged in the holding and management of CBT with no production activities itself, and information on ownership and details of the Target Company's assets and liabilities are clear, complete and accurately reflected in its accounts. The Target Company's value can therefore be fairly and comprehensively appraised through the asset-based approach. In relation to the valuation of CBT, the Valuer considered that the income approach is appropriate to reflect the expected future performance and profitability of the appraised entity. The Valuer considered that the fair value arrived from the income approach reflects factors such as whether each asset of the appraised entity is reasonably and fully utilised, and whether, when taken together, the assets reasonably contribute to the value of shareholders' equity interest, as well as how synergies from factors such as favourable policies enjoyed by the appraised entity, its operating qualifications, industry position, management and human resources impact its value. The Valuer had also considered the market approach to value the Target Group, selecting comparable companies that are listed on a stock exchange and operate in the same industry as the Target Group with similar businesses to conduct appraisals. However, the Valuer was only able to identify three comparable companies, as there are limited number of listed tobacco companies around the world, and financial information of such comparable companies needed to be adjusted when comparing against the Target Group, which impacts the valuation results. Further, the business models of the comparable companies are different to that of the Target Group, operating on a larger scale and focusing on other business segments such as the production and sale of cigarettes, which have a relatively higher profit margin, and produce finished cigarettes that benefit from brand effects. Such factors also impact on the representativeness of comparable multiples. The Valuer therefore determined that the asset-based approach and income approach are appropriate to value the Target Company and CBT, respectively, as such approaches consider, among others, the Target Group's specific assets and liabilities, corporate structure, customers, management and operating qualifications, and represent a more objective and comprehensive reflection of the value of the Target Group.

(b) Having discussed with the Valuer regarding their work performed, the Directors understand that in selecting the bases for conducting valuations and arriving at the valuation of the Target Group, the Valuer had (i) provided appropriate guidance to the management of the Target Group and conducted appropriate training for the team in charge of the appraisal, to ensure the quality of information obtained from the Target Group and that the appraisal team fully understands the economic background of the transaction, the characteristics of the appraised assets and the technical valuation requirements involved; (ii) conducted due diligence on and reviewed the assets, liabilities and operation performance of the Target Group, including obtaining and verifying information on assets within the scope of the appraisal, conducting research on, among others, the Target Group's business plans and strategies, past performance, macro and regional economic and political factors affecting the Target Group's operation and production, the growth and prospects of the industry in which the Target Group operates as well as the Target Group's position and competitiveness in that industry; (iii) obtained and analysed information from independent market sources, data terminals, central banks and various professional institutions to form the basis of the valuation; (iv) selected appropriate valuation methods for each specific type of asset valued; and (v) performed internal audit on the valuation results according to the Valuer's internal policies.

(c) With respect to the assumptions made in the valuation report, the Directors understand that the Valuer had adopted the assumptions set out in the section headed "*Profit Forecast in relation to the Valuation*".

(d) Directors note that, as disclosed in the valuation report, there may be factors affecting the valuation results which are outside of the Valuer's control, such as any changes to the assumptions mentioned therein, unexpected changes to market conditions or future events, the exchange rates used in the valuation, and limitations to the Valuer's onsite verification procedures due to COVID-19.

Having considered the above factors and the assumptions made by the Valuer, the Directors agree with the Valuer's view that the bases, valuation methodology, limiting conditions and assumptions adopted in the valuation report are appropriate under the current circumstances.

Having considered the valuation of the Target Group and the above factors, as well as the Directors' assessment of the business, operation and financial conditions of the Target Group during the due diligence process, the Directors are of the view that the Consideration is fair and reasonable as a whole.

Conditions

The obligations of each party to effect the transactions contemplated under the Quota Purchase Agreement at Closing shall be subject to the fulfilment or waiver (as the case may be) at or prior to Closing of, among others, the following Conditions:

(a) the representations and warranties of the Seller remaining true and correct as at the date of the Quota Purchase Agreement and as at the Closing Date, with only such exceptions as would not in the aggregate reasonably be expected to have a material adverse effect;

(b) the Seller having duly performed and complied in all material respects with all agreements and conditions under the Quota Purchase Agreement prior to or on the Closing Date;

(c) the consummation of the transactions contemplated under the Quota Purchase Agreement by the Seller not having been enjoined or prohibited by applicable law or any judgment, injunction, order or decree;

(d) the representations and warranties of the Company remaining true and correct as at the date of the Quota Purchase Agreement and as at the Closing Date, with only such exceptions as would not in the aggregate reasonably be expected to have a material adverse effect;

(e) the Company having duly performed and complied in all material respects with all agreements and conditions under the Quota Purchase Agreement prior to or on the Closing Date;

(f) the consummation of the transactions contemplated under the Quota Purchase Agreement by the Company not having been enjoined or prohibited by applicable law or any judgment, injunction, order or decree;

(g) the Independent Shareholders having passed the resolutions at the EGM approving the Quota Purchase Agreement and transactions contemplated thereunder; and

(h) the Seller having obtained approval of CNTC in relation to the Quota Purchase Agreement and transactions contemplated thereunder.

The Company may waive Conditions (a), (b) and (c) above on or prior to the Closing Date by notice in writing to the Seller. The Seller may waive Conditions (d), (e) and (f) above on or prior to the Closing Date by notice in writing to the Company. Conditions (g) and (h) above cannot be waived. On or prior to the Closing Date, the Seller shall deliver to the Company a certificate signed by its duly authorised officer, to the effect that Conditions (a), (b) and (c) have been satisfied. On or prior to the Closing Date, the Company shall deliver to the Seller a certificate signed by its duly authorised officer, to the effect that Conditions (d), (e) and (f) have been satisfied. If the Conditions above are not satisfied or waived (as the case may be) on or before the date that is 180 days after the date of the Quota Purchase Agreement, or as extended to such date by the mutual written consent of the Company and the Seller, the Company may terminate the Quota Purchase Agreement.

As at the Latest Practicable Date, none of the Conditions has been satisfied but the Company is not aware of any event which would cause any other Conditions above not capable of being fulfilled. The Company has no intention of waiving any of the Conditions (a), (b) and (c) above and the Seller has not indicated any intention to waive any of the Conditions (d), (e) and (f) above as at the Latest Practicable Date.

Closing

Closing is scheduled to take place on the Closing Date, which is three Business Days after the Conditions have been satisfied or waived pursuant to the Quota Purchase Agreement, or such other date as the Company and the Seller may agree in writing.

Following Closing, the Company will be the legal and beneficial owner of 100% of the issued and outstanding quotas of the Target Company. The Target Company will become a wholly-owned subsidiary of the Company following Closing, and the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Group.

None of the directors of the Target Company will become a Director of the Company upon Closing and it is expected that there will be no change in the directors and senior management of the Target Company after Closing.

In light of the above, the Board is of the view that the Target Group will continue to operate smoothly and there will be no material impact on the overall business and operations of the Target Group as a result of the Acquisition.

2 Reorganisation

As at the Latest Practicable Date, the Target Company is directly wholly-owned by the Seller. The business of the Target Company has mainly been carried out through CBT, a company owned as to 51% by the Target Company and 49% by Alliance One Brazil.

Prior to the Reorganisation, although CBT was owned as to 51% and 49% by the Target Company and Alliance One Brazil, respectively, the Target Company did not have control of CBT, and CBT was a joint venture of the Target Company, due to certain arrangements of the bylaws of CBT and a shareholders' agreement among the Target Company, Alliance One Brazil and CBT dated 21 February 2014. Such arrangements included, among others, the quorum required to hold shareholders meetings, the percentage of affirmative votes required to approve key operating decisions (including decisions in relation to, among others, the appointment and removal of the management of CBT, the creation of any board committee, the acquisition of interests in other businesses and the creation of any encumbrance over CBT's assets), as well as the number of directors appointed by the Target Company and Alliance One Brazil respectively. These arrangements effectively required unanimous consent from both the Target Company and Alliance One Brazil before the key operating decisions of CBT could be made. The Reorganisation involved a shareholders meeting of CBT held on 31 March 2021 to amend the bylaws of CBT and an amendment to the shareholders' agreement signed on 31 March 2021 among the Target Company, Alliance One Brazil and CBT to amend the provisions in relation to the aforementioned arrangements.

The Reorganisation was completed on 31 March 2021. Upon completion of the Reorganisation, the key operating decisions of CBT could be made by the Target Company, or its representatives, unilaterally, and therefore the Target Company obtained control over CBT, and CBT became a non-wholly owned subsidiary of the Target Company and the financial results, assets and liabilities of CBT have been consolidated into the accounts of the Target Group thereafter.

3 Profit Forecast in relation to the Valuation

Pursuant to the independent valuation report provided by the Valuer, the value of CBT was appraised by the Valuer using the income approach, which involved the discounted cash flow method as a primary methodology, and thus the calculations of the appraised value as set out in the valuation report are deemed as profit forecast under Rule 14.61 of the Listing Rules. Details of the principal assumptions, including commercial assumptions on which the profit forecast are made, are set out as below:

General principles

(a) The appraised entity has already been trading, and the Valuer evaluates the appraised entity by simulating a market with reference to, among others, its trading conditions.

(b) Both parties to the transaction or proposed transaction in relation to the appraised entity are on an equal position with each other, have the opportunity and time to obtain sufficient market information, are voluntary and rational in their trading behaviours, and are able to make rational judgments on the function, use and transaction price of the assets.

(c) The assets under valuation will be utilised continuously for current purposes and method of use.

(d) There are no material changes in the current applicable national laws, regulations and policies, national macroeconomic environment, and the local political, economic and social environment of the regions where the parties to the transaction are based.

(e) The appraised entity will continue to operate on a going concern basis according to the actual conditions of assets on the Valuation Base Date.

(f) There are no material changes in the interest rates, exchange rates, tax bases and tax rates, and policy-based levies applicable to the appraised entity, other than known changes and fluctuations on the date of the valuation report.

(g) The management of the appraised entity is accountable, stable and competent to perform their duties after the Valuation Base Date.

(h) Unless otherwise stated, the appraised entity fully complies with all relevant laws and regulations.

(i) There will be no force majeure and unforeseeable events which will materially and adversely affect the appraised entity after the Valuation Base Date.

Specific assumptions

(a) The accounting policies adopted by the appraised entity after the Valuation Base Date are consistent in all material aspects with the accounting policies adopted when preparing the valuation report.

(b) The business scope and operation of the appraised entity after the Valuation Base Date are consistent with its current scope and operation, based on the existing management method and level.

(c) The cash inflow of the appraised entity after the Valuation Base Date is an average inflow, and the cash outflow is an average outflow.

(d) The information and financial data provided by the appraised entity are true, accurate and complete.

Basis of the underlying assumptions for the discount rate

(a) Determination of risk-free rate of return

Treasury bond yields are generally considered risk-free because the risk of treasury bonds defaulting on maturity is low enough to be negligible. According to the information disclosed by the Bloomberg, the annual yield to maturity of the 5-year international bond issued by the Brazilian government in US$ on 31 March 2021 is 2.766%.

Considering that CBT's main business is conducted on the international market and its revenue is recorded in US$, 2.766% is used as the risk-free rate of return in the valuation report.

(b) Determination of risk coefficient of equity system

The risk coefficient calculation formula of the equity system of the appraised entity is as follows:

$$\beta_L = \left[1 + (1 - t) \times \frac{D}{E}\right] \times \beta_U$$

β_L: Risk coefficient of equity system with financial leverage;
β_U: Risk coefficient of equity system without financial leverage;
t: Income tax rate of the appraised entity;
D/E: Target capital structure of the appraised entity.

Based on the business characteristics of the appraised entity, the Valuer checked the βL, D/E and statutory tax rates of 8 listed comparable companies in the tobacco production industry on the Valuation Base Date through Bloomberg, and calculated the β_U.

According to the analysis of CBT's operating characteristics, the value of βU for the discount rate in the valuation is 0.7883. The target capital structure is determined by referring to the average level of mature listed companies in the industry, and the arithmetic average of D/E of comparable companies' capital structure is 17.86%. The income tax rate is calculated at 34.00%, and βL is calculated to be 0.8812 based on the above parameters and formula.

(c) Determination of market risk premium

The market risk premium is the rate of return required by investors for a well-diversified market portfolio that is higher than the risk-free rate. The market risk premium for the valuation is calculated as follows:

Market risk premium = base compensation of mature stock market + country risk compensation

Where: the basic compensation of mature stock market refers to the arithmetic average return difference between US stocks and Treasury bonds from 1929 to 2020 by 6.43%; the country risk compensation amount is 2.91%.

In this assessment, the market risk premium is 9.34%.

(d) Determination of enterprise-specific risk adjustment coefficients

The evaluation and calculation of equity system risk coefficient mainly referenced relevant indicators of listed companies, whose stocks can be circulated in the capital market. The assets included in this assessment are non-listed assets. Compared with similar listed companies, the equity risk of such assets is greater than that of similar listed companies. Taking into account factors such as CBT's income scale, industry status, and anti-risk capabilities, this assessment takes a value of 1.50% for the enterprise-specific risk adjustment coefficient of CBT.

(e) Determination of risk adjustment coefficient of exchange rate conversion

CBT's products are charged in US$. Its functional currency is US$ and its display currency is Brazilian Real. As actual payments received by CBT are made in US$, but all other costs and expenses are paid by CBT in Real, the company use both US$ and Real. The monetary unit of the financial model for this forecast is US$, which involves exchange rate conversion, so the forecast of cash flow faces certain exchange rate risks. Taking into account factors such as CBT's income scale and industry status, the value of the risk adjustment coefficient for CBT's exchange rate conversion in this assessment is 1.50%.

(f) Determination of discount rate during forecast period

(1) Calculate the cost of equity capital

Based on the parameters identified above, the cost of equity capital of CBT is calculated as follows:

$$K_e = r_f + MRP \text{ x } \beta_L + r_c + r_e$$
$$= 2.77\% + 9.34\% \text{ x } 0.8812 + 1.50\% + 1.50\%$$
$$= 13.99\%$$

(2) Calculate the weighted average cost of capital

The interest-bearing debt of the appraised entity on the Valuation Base Date is the loan in US$.

On inquiry, the Brazilian central bank's SELIC (Brazilian Interbank Borrowing Rate) at the end of March 2021 is 5%, and it is predicted to be 6.5% by 2023. Meanwhile, the average corporate borrowing rate for listed Brazilian companies is 9%-10%. All things considered, the long-term SELIC (6.5%) combined with a 2.5% floating rate is projected as the cost of capital for interest-bearing debt.

The above parameters are plugged into the weighted average cost of capital calculation formula, the weighted average capital cost of the assessed unit is calculated to be 12.77%.

$$WACC = K_e \text{ x } \frac{E}{E+D} + K_d \text{ x } (1-t) \times \frac{D}{E+D}$$
$$= 12.77\%$$

(g) Determination of discount rate after forecast period

According to the above formula, the discount rate after the forecast period is 12.77%.

Details of the valuation, including the assumptions used, are included in the summary of the valuation report in Appendix VI to this circular.

Review by Reporting Accountants and Financial Adviser

The Reporting Accountants have reviewed the calculations of the discounted cash flows and are of the opinion that so far as the calculations are concerned, the discounted cash flows have been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors as set out in the valuation report.

The Financial Adviser has discussed with the Directors and the Valuer the bases and assumptions upon which the forecast was based and has reviewed the report issued by the Reporting Accountants containing its opinion on the discounted cash flows as stated above. On the basis of the foregoing and opinion of the Reporting Accountants, the Financial Adviser is satisfied that the forecast upon which the valuation has been made, for which the Directors are solely responsible, has been made after due and careful enquiry.

Please refer to Appendix VII to this circular for the report issued by the Reporting Accountants and Appendix VIII to this circular for the report issued by the Financial Adviser according to Rule 14.62 of the Listing Rules.

INFORMATION ON THE PARTIES

1 The Company

The Company is principally engaged in the following businesses: (i) export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan; (ii) import of tobacco leaf products in the mainland China of the PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Republic of Zimbabwe); (iii) export of PRC-branded cigarettes to the duty-free outlets and cigarettes wholesalers for sales in Thailand, Singapore, Hong Kong and Macau, as well as areas within the borders, but outside the customs areas of the PRC; and (iv) export of new tobacco products to overseas market worldwide.

2 The Seller

The Seller is a company incorporated under the laws of Hong Kong on 17 March 1989 with limited liability and is principally engaged in the import and export business of tobacco products, the principal and ancillary ingredients for the production of cigarettes and mechanical equipment for processing tobacco. As at the Latest Practicable Date, the Seller, being directly wholly-owned by CNTC, directly holds 72.29% of the issued share capital of the Company and is a Controlling Shareholder and connected person of the Company under Chapter 14A of the Listing Rules.

3 The Target Group

The Target Company

The Target Company is a company incorporated under the laws of Brazil on 6 June 2002 and is principally engaged in investment holding, with CBT as its primary investment. As at the Latest Practicable Date, the Target Company is directly wholly-owned by the Seller.

CBT

CBT is a company incorporated under the laws of Brazil on 15 September 2011 and is principally engaged in the procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production. As at the Latest Practicable Date, CBT is owned as to 51% by the Target Company and 49% by Alliance One Brazil. Upon completion of the Reorganisation, CBT became a non-wholly owned subsidiary of the Target Company and the financial results, assets and liabilities of CBT have been consolidated into the accounts of the Target Group.

The original amount invested by the Seller in establishing the Target Company in 2002 was approximately US$0.4 million (equivalent to approximately HK$3.12 million). The Seller has continued to invest in the Target Company, with the total investment amount reaching approximately US$16.5 million (equivalent to approximately HK$128.7 million) by 2019, and with the investment in CBT, developed the business of the Target Group to include assisting with and supervision of the roasting, processing, sample preparation, inspection and procurement of tobacco and cigarettes in Brazil over several years of operation.

4 Financial Information on the Target Group

Set out below is a summary of the financial information of the Target Group and CBT extracted from the accountants' reports set out in Appendix II and Appendix III of this circular, respectively, (i) for each of the years ended 31 December 2019 and 2020; and (ii) for the three months ended 31 March 2021:

The Target Group

	For the year ended 31 December				For the three months ended 31 March	
	2019		2020		2021	
	(audited)		*(audited)*		*(audited)*	
	US$'000	*equivalent to HK$'000*	*US$'000*	*equivalent to HK$'000*	*US$'000*	*equivalent to HK$'000*
Profit before tax	6,350	49,530	8,753	68,273	56,021	436,964
Net profit after tax	6,350	49,530	8,753	68,273	56,021	436,964

CBT

	For the year ended 31 December				For the three months ended 31 March	
	2019		2020		2021	
	(audited)		*(audited)*		*(audited)*	
	US$'000	*equivalent to HK$'000*	*US$'000*	*equivalent to HK$'000*	*US$'000*	*equivalent to HK$'000*
Profit before tax	19,889	155,134	30,554	238,321	14,711	114,746
Net profit after tax	13,134	102,445	17,792	138,778	8,688	67,766

The audited consolidated net asset value of the Target Group attributable to the quotaholders of the Target Company as at 31 March 2021 was approximately US$63.3 million (equivalent to approximately HK$493.7 million).

For further details on the financial information of the Target Group and CBT for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, please refer to the sections headed "*Appendix II – Accountants' Report on the Target Group*", "*Appendix III – Accountants' Report on CBT*" and "*Appendix IV – Management Discussion and Analysis on the Target Group*" in this circular.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Closing, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the consolidated financial statements of the Group. It is expected that members of the Target Group, as subsidiaries of the Group, will provide additional revenue stream to the Group and will be accretive to the Company's net asset value. The unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular has been prepared to illustrate the financial effect of the Acquisition.

1 Assets and liabilities

As set out in the unaudited pro forma consolidated financial information of the Enlarged Group in Appendix V to this circular, assuming that Closing had taken place on 30 June 2021, the total assets of the Enlarged Group would have increased from approximately HK$2,483.1 million to approximately HK$3,622.6 million and the total liabilities of the Enlarged Group would have increased from approximately HK$793.1 million to approximately HK$1,667.7 million. Accordingly, the net asset value of the Enlarged Group would have increased from approximately HK$1,690.0 million to approximately HK$1,954.9 million as a result of the Acquisition, primarily as a result of consolidating the net assets of the Target Group attributable to the non-controlling interests of HK$280.6 million.

2 Earnings

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into the accounts of the Group. Based on the statement of income of the Target Group and the statement of income of CBT as respectively set out in Appendix II and Appendix III to this circular, the Target Group has been profit-making for the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2021. Considering the profit-making performance of the Target Group, it is expected that the earnings of the Enlarged Group will increase as a result of the Acquisition and that the Target Group will have a positive impact on the Enlarged Group's long-term financial performance.

Further information regarding the financial performance, financial position as well as the management discussion and analysis and other information of the Target Group can be found in Appendix IV to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors considered the following reasons for the Acquisition and believe that the Acquisition can offer the following benefits to the Group:

(a) reference is made to the Company's prospectus dated 28 May 2019. As disclosed in the Company's prospectus, the Company intends to reduce its reliance on the CNTC Group and also reduce the number of connected transactions with Controlling Shareholders, strengthening the Company's independence and competitiveness. The Company also intends to elevate its position in the tobacco industry chain, reduce transactional costs in the Company's business model and achieve vertical integration. In order to achieve these goals, the Company has been exploring opportunities to, among others, (i) acquire overseas tobacco leaf products operating entities; and (ii) acquire upstream tobacco leaf products manufacturing and processing entities. The Target Group is located in Brazil and mainly engages in the procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production, and is currently an important tobacco leaves supplier to the Group. The Target Group therefore has been identified as an overseas tobacco products entity that is suitable in helping the Company meet the above objectives. The Directors believe that the Acquisition will expand and diversify the Company's businesses, reduce the Company's reliance on the CNTC Group, optimize the long-term sustainability and reliability of the Company's businesses and enhance the Company's overall bargaining power and profitability;

(b) as disclosed in the Company's annual report for the year ended 31 December 2020, the international tobacco supply chain has been materially and adversely impacted by the unexpected outbreak of COVID-19, causing major delays in the production and import of tobacco leaf products. As one of the important segments of the Company's business is the procurement of tobacco leaf products from overseas locations, with disruption in the global supply chain and significant reduction in logistics capacity, the Group's business of importing tobacco leaf products had been significantly negatively impacted in 2020. The Directors believe that, by acquiring the Target Group, one of the Group's supplier of imported tobacco leaf products, monitor the supply of imported tobacco leaf products, oversee delivery and shipment workstreams, and mitigate relevant risks to its tobacco leaf products import business;

(c) the Target Group has a proven track record of providing high quality tobacco leaf products and maintained growth in its revenue and profit. Further, there has been a trend in the tobacco industry for major tobacco companies to acquire and establish direct upstream tobacco supply channels to ensure tobacco supply, facilitate vertical integration and reduce dependence on tobacco merchants. Further, as disclosed in the Company's prospectus, being the designated offshore platform for capital markets operation and international business expansion, the Company aims to establish an international platform for overseas business operation and capital utilization as part of our business strategy. In line with our strategy, through the Acquisition, the Group will be able to concentrate and integrate the overseas resources of the CNTC Group, including tobacco supply resources such as the Target Group, gain control over a well-established tobacco supplier, enjoy the benefit of a steady supply of high quality tobacco leaf products as well as expand the geographic coverage of its business into a promising market, and maintain competitiveness in the global tobacco market against major tobacco companies with established direct upstream tobacco supply channels;

(d) upon completion of the Acquisition, the Company is expected to secure immediate and stable profit and cash flow from the Target Group. For the year ended 31 December 2020, the tobacco sales by CBT was 40,649 tonnage and revenue and net profit were approximately US$136.2 million (equivalent to approximately HK$1,062.7 million) and US$17.8 million (equivalent to approximately HK$138.8 million) respectively; and

(e) CNTC Group had originally acquired 51% of the interest in CBT from the Alliance One Group, forming a joint venture to assist both groups in sourcing tobacco leaves from Brazil. CBT has also been a way for the CNTC Group to gain access to Alliance One Group's distribution channels and customer base through the cooperation with CBT. Therefore, CBT historically supplied the majority of its tobacco leaves to the CNTC Group and Alliance One Group, including to the Company as a member of the CNTC Group. For the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, revenue derived from the sales to the CNTC Group and Alliance One Group together accounted for approximately 95.2%, 97.1%, 94.9% and 98.2% of CBT's total revenue, respectively. In relation to the transaction amount between the Company and CBT, CBT recognised revenue of approximately US$112.4 million (equivalent to approximately HK$876.7 million), US$119.3 million (equivalent to approximately HK$930.5 million), US$84.6 million (equivalent to approximately HK$659.9

million) and US$39.9 million (equivalent to approximately HK$311.2 million) from the Company for the years ended 31 December 2018, 2019 and 2020 and three months ended 31 March 2021, respectively. In the Company's consolidated financial statements for each reporting period after completion of the Acquisition, CBT's revenue to the Company will be fully eliminated and the inventory will be written down to eliminate the unreleased profit related to the goods that are unsold at the end of the reporting period. Upon Closing, the Company, through CBT, will also be able to take the benefit of Alliance One Group's distribution channels, and better manage its tobacco leaves stock by distributing different grades of tobacco leaves to customers with different corresponding needs through such distribution channels.

CONTINUING CONNECTED TRANSACTIONS

CBT (a non-wholly owned subsidiary of the Target Company) engages in the procurement, sale and export of tobacco leaves as part of its business activities, and historically has entered into transactions with Alliance One International and its subsidiaries (including Alliance One Brazil) 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. Immediately upon Closing, the Target Company will become a wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Group. Therefore, immediately upon Closing, Alliance One Brazil will become a connected person of the Company at the subsidiary level by virtue of holding 49% of the total issued share capital of CBT. Accordingly, such existing transactions with Alliance One Group carried out in the ordinary course of business of the Group and CBT will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Alliance One Brazil is a company incorporated under the laws of Brazil on 28 October 1971 and is principally engaged in the growing, procurement, processing and sale of tobacco leaves. Alliance One International is a company organized under the laws of North Carolina, United States in August 2018 and is principally engaged in the production, processing, procurement and sale of tobacco leaves. As at the Latest Practicable Date, Alliance One International and Alliance One Brazil are indirectly wholly-owned subsidiaries of Pyxus. Pyxus is a company incorporated under the laws of Virginia, United States in August 2020 and trading on the New York OTC Market (OTC: PYYX). Pyxus is principally engaged in providing tobacco agricultural products, ingredients and related services.

The transactions carried out under the Connected Transactions Agreements include the following:

1 Framework Tobacco Sales Agreement

Background and reasons for the transactions

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 the Group and sells them to its end customers in Southeast Asia, Hong Kong, Macau and Taiwan as part of its business activities. Upon Closing, such existing transactions with Alliance One International will become continuing connected transactions of the Company under the Listing Rules.

To regulate the sale of tobacco leaves transactions following Closing and to comply with relevant requirements under the Listing Rules, on 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Sales Agreement. The Framework Tobacco Sales Agreement will become effective upon Closing, 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.

Principal terms

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 will commence on the Closing Date and end 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.

Pricing policies

The price and amount of the sale of tobacco leaves transactions contemplated under the Framework Tobacco Sales Agreement will be 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 will be 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.

Historical amount

The historical amounts (on an aggregated basis) in relation to the sale of tobacco leaves to Alliance One Group by the Group for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, respectively, are set out below:

	For the year ended 31 December						For the three months ended 31 March	
	2018		2019		2020		2021	
	US$ million	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*
Sale of tobacco leaves to Alliance One Group by the Group	27.9	217.8	62.0	483.6	54.6	425.6	6.2	48.0

2 CBT Framework Tobacco Sales Agreement

Background and reasons for the transactions

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. Upon Closing, such existing transactions with Alliance One Group will become continuing connected transactions of the Company under the Listing Rules.

To regulate the sale of tobacco leaves transactions following Closing and to comply with relevant requirements under the Listing Rules, on 23 September 2021, CBT and Alliance One International entered into the CBT Framework Tobacco Sales Agreement. The CBT Framework Tobacco Sales Agreement will become effective upon Closing, 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.

Principal terms

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 Framework Tobacco Sales Agreement will commence on the Closing Date and end 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.

Pricing policies

The price and amount of the sale of tobacco leaves transactions contemplated under the CBT Framework Tobacco Sales Agreement will be separately negotiated between CBT and relevant members of Alliance One Group on an arm's length basis. In particular, the tobacco leaves will be 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.

Historical amount

The historical amounts (on an aggregated basis) in relation to the sale of tobacco leaves to Alliance One Group by CBT for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, respectively, are set out below:

	For the year ended 31 December						**For the three months ended 31 March**	
	2018		**2019**		**2020**		**2021**	
	US$ million	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*
Sale of tobacco leaves to Alliance One Group by CBT	61.6	480.5	65.3	509.3	44.1	344.0	16.3	127.1

3 Framework Tobacco Purchase Agreement

Background and reasons for the transactions

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. Upon Closing, such existing transactions with Alliance One International will become continuing connected transactions of the Company under the Listing Rules.

To regulate the purchase of tobacco leaves transactions following Closing and to comply with relevant requirements under the Listing Rules, on 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Purchase Agreement. The Framework Tobacco Purchase Agreement will become effective upon Closing. 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.

Principal terms

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 will commence on the Closing Date and end 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.

Pricing policies

The price and amount of the purchase of tobacco leaves transactions contemplated under the Framework Tobacco Sales Agreement will be 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 will be 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.

Historical amount

The historical amounts (on an aggregated basis) in relation to the purchase of tobacco leaves from Alliance One Group by the Group for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, respectively, are set out below:

	For the year ended 31 December						**For the three months ended 31 March**	
	2018		**2019**		**2020**		**2021**	
	US$ million	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*
Purchase of tobacco leaves from Alliance One Group by the Group	139.5	1,088.3	117.1	913.0	80.9	631.3	28.5	222.3

4 CBT Framework Tobacco and Services Purchase Agreement

Background and reasons for the transactions

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. Upon Closing, such existing transactions with Alliance One Brazil will become continuing connected transactions of the Company under the Listing Rules.

To regulate the purchase of agricultural materials, tobacco leaves and processing services transactions following Closing and to comply with relevant requirements under the Listing Rules, on 23 September 2021, CBT and Alliance One Brazil entered into the CBT Framework Tobacco and Services Purchase Agreement. The CBT Framework Tobacco and Services Purchase Agreement will become effective upon Closing. The CBT Framework Tobacco and Services 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.

Principal terms

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 Framework Tobacco and Services Purchase Agreement will commence on the Closing Date and end 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.

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 will be 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% will be 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 will be 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, in the period commencing from the Closing and ending on 31 December 2021 and for the year ending on 31 December 2022, a fixed fee of approximately R\$1.084 and R\$1.139, respectively, will be charged for each kilogram of tobacco leaves processed, where such fixed fee will be 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 the aforementioned costs.

Historical amount

The historical amounts (on an aggregated basis) in relation to the purchase of agricultural materials, tobacco leaves and processing services from Alliance One Brazil by CBT for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, respectively, are set out below:

	For the year ended 31 December						For the three months ended 31 March	
	2018		**2019**		**2020**		**2021**	
	US$ million	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*
Purchase of agricultural materials, tobacco leaves and processing services from Alliance One Brazil by CBT	26.8	209.0	27.1	211.4	28.4	221.5	3.5	27.3

Annual caps

Sale of tobacco transactions

As sale of tobacco transactions contemplated under both the Framework Tobacco Sales Agreement and the CBT Framework Tobacco Sales Agreement will be conducted between the Enlarged Group and the Alliance One Group, the sale of tobacco transactions are calculated on an aggregated basis. The expected annual caps in respect of the sale of tobacco transactions contemplated under each of Framework Tobacco Sales Agreement and the CBT Framework Tobacco Sales Agreement (on an aggregated basis) for the period commencing from the Closing and ending on 31 December 2021 and for the year ending on 31 December 2022 respectively are set out below:

	For the period ending 31 December 2021*		**For the year ending 31 December 2022**	
	US$ million	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*
Framework Tobacco Sales Agreement	30.0	234.0	76.0	592.8
CBT Framework Tobacco Sales Agreement	20.0	156.0	65.0	507.0
Aggregated annual cap	50.0	399.0	141.0	1,099.8

* From the period commencing on Closing.

Accordingly, one or more of the applicable percentage ratios of the annual caps (on an aggregated basis) under the Listing Rules for the sale of tobacco leaves transactions are 5% or more.

Basis for annual cap

The annual cap for the sale of tobacco leaves is determined with reference to the following factors:

(a) the historical transaction volume and amounts in relation to the sale of tobacco leaves to Alliance One Group;

(b) the expected demand for tobacco leaves of end customers who procure through Alliance One Group, taking into account average historical growth rates in such end customers' demands and the decrease in the value of R$, which is expected to lead to an increase in the global demand for Brazil's tobacco leaves and consequently an increase in our production volume;

(c) the current grading policies and historical requirement of end customers in relation to specific grades of tobacco leaves, taking into account the risk of any change in the end customers' preferences, as well as their production plans and orders for the year ahead;

(d) the estimated growth of the international tobacco industry and the trends in relation to the grading, supply and demand of various grades of tobacco leaves;

(e) the current and expected production capacity of tobacco leaves producers who supply to the Enlarged Group, taking into account their historical performance and expected expansion in the number of tobacco leaves producers who may supply to the Enlarged Group;

(f) the expected cost of procurement from tobacco leaves producers, taking into account the average historical costs;

(g) the impact of COVID-19 causing reduction in logistics capacity, leading to delay in the delivery of a portion of tobacco leaves produced in 2020, which had only been delivered in 2021, and is expected to result in a larger volume of tobacco leaves being sold in 2021; and

(h) the expected increase in the price of the tobacco leaves sold to the Alliance One Group. For the past few years, the Company has mainly provided industrial stock tobacco leaves to the Alliance One Group, which is sold at a relatively lower price. It is expected that by the end of 2021 sales of such industrial stock tobacco leaves will come to an end, and going forward new tobacco leaves, which will be priced higher than the industrial stock tobacco leaves, will be sold to the Alliance One Group.

Purchase of tobacco and services transactions

As purchase of tobacco and services transactions contemplated under both the Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement will be conducted between the Enlarged Group and the Alliance One Group, the purchase of tobacco and services transactions are calculated on an aggregated basis. The expected annual caps in respect of the purchase of tobacco and services transactions contemplated under each of Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement (on an aggregated basis) for the period commencing from the Closing and ending on 31 December 2021 and for the year ending on 31 December 2022 respectively are set out below:

	For the period ending 31 December 2021*		**For the year ending 31 December 2022**	
	US$ million	*equivalent to HK$ million*	*US$ million*	*equivalent to HK$ million*
Framework Tobacco Purchase Agreement	115.8	903.2	264.4	2,062.3
CBT Framework Tobacco and Services Purchase Agreement	4.0	31.2	48.0	374.4
Aggregated annual cap	119.8	934.4	312.4	2,436.7

* From the period commencing on Closing.

Accordingly, one or more of the applicable percentage ratios of the annual caps (on an aggregated basis) under the Listing Rules for the purchase of agricultural materials, tobacco leaves and processing services transactions are 5% or more.

Basis for annual cap

The annual cap for the purchase of agricultural materials, tobacco leaves and processing services is determined with reference to the following factors:

(a) the historical transaction volume and amounts in relation to the purchased agricultural materials, tobacco leaves and processing services, including the historical seasonal trend that the majority of tobacco leaves purchases will be concentrated during the year end, due to the growth and shipping cycle of tobacco leaves;

(b) the expected demand for tobacco leaf products of end customers, taking into account average historical growth rates in demands and their current and expected requirements in relation to the quality and grade of tobacco leaf products, as well as their production plans and orders for the year ahead;

(c) the estimated growth of the tobacco market and the trends in relation to the preference and demand for Brazilian tobacco leaf products, taking into account the decrease in the value of R$, which is expected to lead to an increase in the global demand for Brazil's tobacco leaves;

(d) in relation to the purchase of agricultural materials and tobacco leaves, the current and expected production capacity of Alliance One Group, taking into account its historical production volume and production quality; and

(e) in relation to processing services, the current and expected processing capacity of Alliance One Brazil, taking into account its current processing capability and expected expansion in processing facilities, as well as the CBT's expected demand of such services, taking into account an expected increase of 5% to 10% of tobacco producers engaged by CBT in 2022; and

(f) the expected increase in the amount of tobacco leaves sourced in the United States to be purchased from the Alliance One Group. While the Company historically purchased from the Alliance One Group tobacco leaves sourced in Brazil and other countries around the world, from 2021, the Group has begun to purchase tobacco leaves sourced in the United States from the Alliance One Group, and expects to further increase the amount of such purchases as trade frictions ease between the PRC and the United States, as well as to complement the variety of tobacco leaves offered to the Group's customers.

Internal control measures

The Company has undergone and will undertake the following steps and measures, among others, to ensure that the terms of the Connected Transactions Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better:

(a) Prior to entering into the Connected Transactions Agreements, to ensure that the transactions contemplated under the Connected Transactions Agreements will be conducted in compliance with Chapter 14A of the Listing Rules, and that the price and terms of such transactions are no less favourable to the Enlarged Group than the price and terms available under transactions with independent third parties of the Enlarged Group:

- In relation to the sale of tobacco transactions, when determining the pricing of tobacco sold to the Alliance One Group, the Company's management team has considered the price of tobacco of the same grade and quality offered in the market, based on prices of tobacco in the same region and the management's understanding of the current international market conditions, as well as accounting for the procurement costs of the tobacco to be sold, by reviewing and analysing the usual costs of, among others, raw material and operations, for such sale of tobacco transactions. In addition, historical contracts and sale prices of tobacco sold by the Group and CBT, including those sold to independent third parties, have been reviewed and used as reference when setting the pricing policies and terms of the sale of tobacco transactions contemplated under the Framework Tobacco Sales Agreement and the CBT Framework Tobacco Sales Agreement.

- In relation to the purchase of tobacco and services transactions, the Company's management team has considered sample products, price quotes, and service quality and performance of various suppliers, including reviewing and comparing information from the Group's and CBT's historical and ongoing purchase transactions with independent third party suppliers, in order to ensure that tobacco and services to be purchased from the Alliance One Group will be made on the most favourable prices and terms to the Enlarged Group. Various sample contracts and transaction documents with independent third party suppliers has also been reviewed and considered by the Company's management team when determining the terms of the tobacco and services purchase transactions under the Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement, to ensure that such principles and terms are consistent with those set out in the Enlarged Group's contracts with other third party suppliers.

- The Company's connected transactions control committee (the "**Connected Transactions Control Committee**"), which currently consists of four Directors, the majority of which are independent non-executive Directors and the chairman being an independent non-executive Director, has, among others: (i) reviewed the pricing and procedures carried out by the management of the Company for the sale of tobacco transactions and purchase of tobacco and services transactions referred to above; (ii) reviewed the pricing policies, principals and terms set out in the Connected Transactions Agreements; and (iii) reported to the independent non-executive Directors on their views of the connected transactions under the Connected Transactions Agreements.

- The Directors (including the independent non-executive Directors) have: (i) reviewed historical financial information of the transactions entered into between the Group and the Alliance One Group and those between CBT and the Alliance One Group; (ii) reviewed the audited financial statements of the Target Company and CBT and the disclosure note on related party transactions included therein; and (iii) reviewed samples of transaction documents and contracts with other independent third parties to compare key commercial terms.

(b) Going forward, the Company will continue to monitor and manage the transactions contemplated under the Connected Transactions Agreements to ensure that such transactions are conducted on terms no less favourable than that with independent third parties of the Enlarged Group and in accordance with the principals and terms set out in the Connected Transactions Agreements:

- In relation to the sale of tobacco transactions, the Company's management team will monitor the market prices on a annual basis, focusing on the pricing of similar tobacco products sold in Brazil and other regions to other third party customers of the Enlarged Group, and reviewing multiple transactions with such third party customers in relevant regions each time the Company conducts such review, to ensure that the prices offered by the Enlarged Group are competitive and fair compared to other suppliers in the market. Using the results of such review, the management team of the Company will negotiate the final price of the tobacco to be sold to the Alliance One Group so that it is in line with the market price of tobacco sold to independent third parties. The Company's management team will also compare on an annual basis transaction documents entered into with independent third party customers, selecting random samples of transactions conducted with such independent third parties during the review period, to ensure that tobacco will be sold to the Alliance One Group on similar terms. The management of the Company will apply the same pricing process as that of other third party customers to the tobacco which will be sold to the Alliance One Group, in compliance with the pricing policies set out in the Framework Tobacco Sales Agreement and the CBT Framework Tobacco Sales Agreement.

- In relation to the purchase of tobacco and services transactions, purchase decisions will be based on the business plans of the Enlarged Group, and the Company's management team will identify relevant tobacco and services required based on such business needs. Such business plans will be reviewed on an annual basis in line with the tobacco harvest cycle. The Company's management team will then solicit offers from several suppliers for relevant tobacco and services required, by obtaining samples products, service terms and price quotes from potential suppliers, and evaluating the offers received. The tobacco and services which may be purchased from the Alliance One Group will be subject to the same selection process, and the Enlarged Group will compare and choose from various services and products offered by multiple suppliers, ensuring that purchase is made from the supplier that offers products and services meeting the demand of the Enlarged Group on best commercial terms and price, such as the most favourable fixed fee or margin offered to the Enlarged Group. If purchases are made from the Alliance One Group, specific terms of such transactions will be determined under the principles and terms set out in the Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement.

- The Connected Transactions Control Committee will, among others: (i) review the management system for connected transactions, supervise its implementation and make recommendations to the Board; (ii) review and approve connected transactions of the Company and other related matters; and (iii) provide information for independent non-executive Directors and auditors to perform their periodical review of the connected transactions.

- The independent non-executive Directors, pursuant to Chapter 14A of the Listing Rules, will review the transactions contemplated under the Connected Transactions Agreements on an annual basis, and confirm in the Company's annual report whether, among others, the transactions have been entered into according to the principles and terms in the Connected Transactions Agreements, on normal commercial terms or better to the Group, in the Group's ordinary and usual course of business and are fair and reasonable and in the interests of the Shareholders as a whole. In particular, they will: (i) review the financial information of the Group to understand the transactions entered into under the Connected Transactions Agreements; (ii) review the audited financial statements of the Group and the disclosure note on related party transactions included therein; (iii) review various transaction documents to consider whether the sale of tobacco transactions and purchase of tobacco and services transactions complied with the Connected Transactions Agreements and the pricing policies, and are on normal commercial terms or better to the Group on a sampling basis; (iv) sample and review contracts with independent third parties to compare relevant key commercial terms with those in the connected transactions; (v) engage an independent financial adviser to report on the transactions conducted under the Connected Transactions Agreements on a half-yearly basis, and review and discuss with the independent financial adviser on its finding and opinions in relation to such transactions; and (vi) review the information provided by the Connected Transactions Control Committee as well as enquire management about implementation of connected transactions control measures.

- The external auditors of the Group will review and report on the transactions contemplated under the Connected Transactions Agreements on an annual basis, and confirm, among others, whether anything has come to their attention that causes them to believe such transactions were not entered into in all material respects in accordance with the Connected Transactions Agreements and pricing policies.

LISTING RULE IMPLICATIONS

The Acquisition

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, as one or more of the applicable percentage ratios under the Listing Rules for the Acquisition are 25% or more, but all such ratios are less than 100%. Accordingly, the Acquisition is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Seller is a connected person of the Company by virtue of being a Controlling Shareholder holding approximately 72.29% of the total issued share capital of the Company as at the Latest Practicable Date, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is also subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Continuing Connected Transactions

Given that (i) upon Closing, Alliance One Brazil will become a connected person of the Company at the subsidiary level under the Listing Rules and transactions carried out in the ordinary course of business of the Enlarged Group under the Connected Transactions Agreements will become continuing connected transactions of the Company under 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 service transactions under the Connected Transactions Agreements are 5% or more; and (iii) the Board (excluding Mr. Shao Yan but including the independent non-executive Directors) have approved the terms of the Connected Transactions Agreements and the transactions contemplated thereunder and confirmed that the terms of Connected Transactions Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Connected Transactions Agreements and the transactions contemplated thereunder constitute continuing connected transactions which 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.

Mr. Shao Yan, a non-executive Director and chairman of the Board, who also concurrently holds executive positions at the Seller, has abstained from voting on the board resolutions to approve the Quota Purchase Agreement, the Connected Transactions Agreements, and the transactions contemplated thereunder. All remaining Directors (including all the independent non-executive Directors) do not have a material interest in the Quota Purchase Agreement, the Connected Transactions Agreements, and the transactions contemplated thereunder and they unanimously approved the above resolutions. The Board (excluding Mr. Shao Yan but including the independent non-executive Directors) considers that the Quota Purchase Agreement, the Connected Transactions Agreements, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed pursuant to the Listing Rules. After considering the advice from the Independent Financial Adviser, the Independent Board Committee will advise the Independent Shareholders as to whether the terms of the Quota Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and how to vote. Each of the independent non-executive Directors has confirmed that he has no material interest in the Quota Purchase Agreement and the transactions contemplated thereunder.

Somerley has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard.

EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed, a copy of which can also be obtained via the website of the Company at www.ctihk.com.hk or the website of the Stock Exchange at www.hkexnews.hk. Whether you are able to attend the EGM or not, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's share registrar, Computershare Hong

Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible, and in any event so that it is received not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 20 October 2021 to 22 October 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, non-registered holders for its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 pm on 19 October 2021.

Given that the Seller is a Controlling Shareholder holding approximately 72.29% of the total issued share capital of the Company as at the Latest Practicable Date, and is considered to have material interests in the Quota Purchase Agreement and the transactions contemplated thereunder, the Seller shall abstain from voting at the EGM in respect of resolutions relating thereto.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon the Seller; and (ii) no obligation or entitlement of the Seller as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the Quota Purchase Agreement and the transactions contemplated thereunder, and thus no other Shareholder is required to abstain from voting on the proposed resolutions to approve the aforementioned matters.

Pursuant to Rule 13.39(4) of the Listing Rules, at any general meeting, a resolution put to the vote of Shareholders shall be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM will exercise his power under Article 74 of the Articles of Association to demand for poll voting on all the resolutions as set out in the notice of the EGM.

The results of the poll on all the resolutions as set out in the notice of the EGM in both English and Chinese will be published on the website of the Company at www.ctihk.com.hk and the website of the Stock Exchange at www.hkexnews.hk in accordance with the Listing Rules.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 38 of this circular which contains its recommendation to the Independent Shareholders in respect of the Quota Purchase Agreement and the transactions contemplated thereunder and voting at the EGM, and (ii) the letter from Somerley set out on pages 39 to 75 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Quota Purchase Agreement and the transactions contemplated thereunder.

On the basis of the information set out in this circular, the Directors (including the Independent Board Committee after considering the advice of Somerley) consider that terms and conditions of the Acquisition are on normal commercial terms and that the Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the proposed resolutions set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular on the Target Group, the Enlarged Group and other information required to be disclosed under the Listing Rules. You should consider carefully all the information set out in this circular before making any decision in relation to the Acquisition at the EGM or dealing in the Shares of the Company.

WARNING

As Closing is subject to fulfilment or waiver (as the case may be) of the conditions precedent to the Quota Purchase Agreement, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

Yours faithfully
By order of the Board
China Tobacco International (HK) Company Limited
SHAO Yan
Chairman

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Quota Purchase Agreement and the transactions contemplated thereunder.

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)

29 September 2021

To the Independent Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND OUTSTANDING QUOTAS OF THE TARGET COMPANY

We refer to the circular of the Company dated 29 September 2021(the "**Circular**"), of which this letter forms part. Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those defined in the Circular.

The Independent Board Committee has been formed to consider and advise you in respect of the Acquisition, the Quota Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" contained in the Circular. Somerley has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. The text of the letter of advice from Somerley containing its recommendations and the principal factors and reasons it has taken into consideration in arriving at its recommendations is set out on pages 39 to 75 of the Circular.

Having considered the terms and conditions of the Quota Purchase Agreement and the transactions contemplated thereunder, and after taking into account the principal factors and reasons and the advice of Somerley as set out in the "Letter from Somerley", contained in the Circular, we consider that the Acquisition, the terms of the Quota Purchase Agreement and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we strongly recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Quota Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of the
Independent Board Committee
China Tobacco International (HK) Company Limited

CHOW Siu Lui	**WANG Xinhua**	**CHAU Kwok Keung**	**QIAN Yi**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

29 September 2021

To: The Independent Board Committee and the Independent Shareholders of China Tobacco International (HK) Company Limited

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND
OUTSTANDING QUOTAS OF THE TARGET COMPANY**

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition. Details of the Acquisition are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 29 September 2021 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 23 September 2021, the Company entered into the Quota Purchase Agreement with the Seller, pursuant to which the Company has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the entire issued and outstanding quotas of the Target Company (under the laws of Brazil the capital stock of a limited liability company is divided in quotas, which is equivalent to the meaning of shares), for a cash consideration of US$63.4 million (equivalent to approximately HK$494.5 million). Upon Closing, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Company.

The Seller is a Controlling Shareholder, holding approximately 72.29% of the total issued share capital of the Company as at the Latest Practicable Date. As such, the Seller is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the Acquisition exceed 25%, but all such percentage ratios are less than 100%, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Therefore, the Acquisition is subject to reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. CHOW Siu Lui, Mr. WANG Xinhua, Mr. CHAU Kwok Keung and Mr. QIAN Yi, has been established to advise the Independent Shareholders on the Acquisition and to make recommendation as to voting. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, we have acted as an independent financial adviser to the Company in relation to the review of the continuing connected transactions of the Company for the six months ended 30 June 2021 and 2020 and for the years ended 31 December 2020 and 2019 (as disclosed in the Company's interim reports for the six months ended 30 June 2021 and 2020 and the Company's annual reports for the years ended 31 December 2020 and 2019 (together, the "**Annual Reports**") respectively). The past engagements were limited to providing independent advisory services to the Company, for which we received normal professional fee relevant to such type of engagement. Accordingly, we do not consider the past engagements would affect our independence to act as the independent financial adviser to the Company under the current engagement.

We are not associated with the Company, the Seller or any of their close associates, associates or core connected persons (all as defined in the Listing Rules) and accordingly we are considered eligible to give independent advice on the above matters. Apart from normal professional fee payable to us in connection with this or similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, the Seller or any of their close associates, associates or core connected persons.

In formulating our opinion and recommendation, we have reviewed, among other things, the Quota Purchase Agreement, the interim report of the Company for the six months ended 30 June 2021, the Annual Reports, the accountants' report on the Target Group as set out in appendix II to the Circular, the accountants' report on CBT as set out in appendix III to the Circular, the unaudited pro forma financial information of the Enlarged Group as set out in appendix V to the Circular, the summary of the valuation report (the "**Valuation Report**") issued by the Valuer, an independent valuer, in relation to the valuation of the entire equity interest of the Target Company as at 31 March 2021 (the "**Valuation**") set out in appendix VI to the Circular and the information as set out in the Circular. We have also discussed with the management of the Company (the "**Management**") about the Target Group and the prospects of the Enlarged Group. We have also interviewed and discussed with the Valuer regarding the Valuation.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the Management and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Company and the Target Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

1. Business and financial information of the Company

(a) Business of the Company

The Company is principally engaged in the following businesses: (i) export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan; (ii) import of tobacco leaf products in the mainland China of the PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Republic of Zimbabwe); (iii) export of PRC-branded cigarettes to the duty-free outlets and cigarettes wholesalers for sales in Thailand, Singapore, Hong Kong, Macau, as well as areas within the borders, but outside the customs areas of the PRC; and (iv) export of new tobacco products to overseas market worldwide.

(b) Financial performance of the Company

Set out below is a summary of the Company's financial performance for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021.

	For the six months ended 30 June		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
Revenue					
Tobacco leaf products export business	1,074.2	1,037.2	1,933.8	2,157.9	1,179.5
Tobacco leaf products import business	2,568.8	794.5	1,350.7	4,630.9	4,338.4
Cigarettes export business	27.6	49.3	158.1	2,161.4	1,497.9
New tobacco product export business	23.7	3.6	38.3	26.8	16.9
	3,694.3	1,884.6	3,480.9	8,977.0	7,032.7
Cost of sales	(3,519.8)	(1,810.3)	(3,343.1)	(8,558.1)	(6,659.8)
Gross profit	174.5	74.3	137.8	418.9	372.9
Other income, net	5.8	18.1	38.1	26.5	16.8
Administrative and other operating expenses	(25.4)	(26.7)	(67.0)	(65.0)	(65.0)
Profit from operations	154.9	65.7	108.9	380.4	324.7
Finance costs	(0.6)	(0.8)	(1.5)	(0.6)	–
Profit before income tax	154.3	64.9	107.4	379.8	324.7
Income tax	(24.6)	(7.7)	(12.2)	(60.9)	(62.9)
Profit for the period/year	129.7	57.2	95.2	318.9	261.8

The Company achieved a revenue of approximately HK$8,977.0 million for the year ended 31 December 2019, representing a growth of approximately 27.6% from that for the prior year. The increase in revenue was mainly attributable to (i) the surge in the tobacco leaf products export business segment from approximately HK$1,179.5 million for the year ended 31 December 2018 to approximately HK$2,157.9 million for the year ended 31 December 2019, representing a growth of approximately 83.0% compared with that for the year ended 31 December 2018, as the export volume reached 85,463 tons for the year ended 31 December 2019, which represented an increase of approximately 102.6% from that for the year ended 31 December 2018; and (ii) the noticeable rise in the cigarettes export business segment from approximately HK$1,497.9 million for the year ended 31 December 2018 to approximately HK$2,161.4 million for the year ended 31 December 2019, representing a growth of approximately 44.3% compared with that for the year ended 31 December 2018, as the total sales volume reached 5,505.8 million sticks for the year ended 31 December 2019, which represented an increase of approximately 51.0% from that for the year ended 31 December 2018. The gross profit margin of the Company was approximately 4.7% for the year ended 31 December 2019, which represented a drop of approximately 0.6% from that for the prior year and was mainly due to the decline in the gross profit margins of both the tobacco leaf products export business and the cigarettes export business. Overall, the Company recorded a net profit of approximately HK$318.9 million for the year ended 31 December 2019, representing a growth of approximately 21.8% from that for the prior year.

Outbreak of the COVID-19 in 2020 had caused governments around the world to implement lockdown policies and various emergency prevention and control measures to reduce the risk of the COVID-19 spreading and it caused a sharp decline in cross-boundary traffic flows and global supply chains disruption in major markets. As a result, the Company's business was severely affected and the Company's revenue shrank by approximately 61.2% to approximately HK$3,480.9 million for the year ended 31 December 2020. In particular, the cigarettes export business was impacted most amongst the four business segments of the Company and it reduced from approximately HK$2,161.4 million for the year ended 31 December 2019 to approximately HK$158.1 million for the year ended 31 December 2020, representing a drop of approximately 92.7%. This was mainly due to the temporary closure or shortened business hours of the duty-free shops in Thailand, Singapore, Hong Kong and Macau as well as those within or outside China's customs borders as a result of the implementation of measures in relation to movement control and border control to control the COVID-19. The tobacco leaf products import business was also severely impacted, which dropped by approximately 70.8% from approximately HK$4,630.9 million for the year ended 31 December 2019 to approximately HK$1,350.7 million for the year ended 31 December 2020. This decline was mainly due to delay in production progress in certain tobacco production areas coupled with the disruption in the global supply chain and dropped logistics capacity which prolonged the entire business cycle overall. Overall, the Company's profit for the year ended 31 December 2020 amounted to approximately HK$95.2 million, representing a decrease of approximately 70.1% from that for the prior year.

During the first half of 2021, the global economy had gradually returned to normal order despite the COVID-19 persisted. As such, the Company's business had recovered and recorded a revenue of approximately HK$3,694.3 million for the six months ended 30 June 2021, representing an increase of approximately 96.0% from that for the corresponding period in 2020. In particular, the tobacco leaf products import business had recovered sharply and generated a revenue of approximately HK$2,568.8 million for the six months ended 30 June 2021, representing an increase of approximately 223.3% from that for the six months ended 30 June 2020. In contrast, the tobacco leaf products export business remained relatively stable with a revenue of approximately HK$1,074.2 million for the six months ended 30 June 2021, representing an increase of approximately 3.6% from that for the corresponding period in 2020. The cigarettes export business had dropped by approximately 44.0% from approximately HK$49.3 million for the six months ended 30 June 2020 to approximately HK$27.6 million for the six months ended 30 June 2021 as this segment had been continuously affected by the COVID-19 due to the continued implementation of travel and cross-border restrictions that reduced the number of customers in the Company's duty-free outlets. Overall, the Company's profit for the six months ended 30 June 2021 amounted to approximately HK$129.7 million, representing an increase of approximately 126.7% from that for the corresponding period in 2020.

(c) Financial position of the Company

Set out below is a summary of the financial position of the Company as at 31 December 2018, 2019 and 2020 and 30 June 2021.

	As at 30 June 2021 *(HK$ million)*	**As at 31 December 2020** *(HK$ million)*	**2019** *(HK$ million)*	**2018** *(HK$ million)*
ASSETS				
Non-current assets				
Property and equipment	35.5	41.2	41.0	0.4
Rental deposit	1.9	1.9	1.9	–
	37.4	43.1	42.9	0.4
Current assets				
Inventory	117.9	1,623.1	237.3	1,038.0
Cash and cash equivalents	1,818.6	1,613.2	1,738.0	651.0
Other current assets	509.2	365.3	851.6	449.2
	2,445.7	3,601.6	2,826.9	2,138.2
LIABILITIES				
Current liabilities				
Trade and other payables	768.2	2,028.7	1,153.2	1,546.8
Lease liabilities	7.6	7.5	7.5	–
Current tax payable	–	–	78.9	18.0
	775.8	2,036.2	1,239.6	1,564.8
Net current assets	1,669.9	1,565.4	1,587.3	573.4
Non-current liabilities				
Lease liabilities	14.7	18.0	24.3	–
Provision for reinstatement costs	2.6	2.5	2.4	–
	17.3	20.5	26.7	–
EQUITY				
Share capital	1,403.8	1,403.8	1,403.8	500.0
Reserves	286.2	184.2	199.7	73.8
	1,690.0	1,588.0	1,603.5	573.8

As at 30 June 2021, the Company's total assets amounted to approximately HK$2,483.1 million, which represented a decrease of approximately 31.9% from approximately HK$3,644.7 million as at 31 December 2020. The decrease was mainly attributable to the significant drop in the level of inventory as at 30 June 2021 to approximately HK$117.9 million, which declined by approximately 92.7% from that as at 31 December 2020. The Company's inventory comprised mainly tobacco leaf products that were in transit in the course of sales. The relatively low level of inventory as at 30 June 2021 was because most of the inventory had been delivered and the relevant title had been passed to the relevant buyers. Accordingly, trade and other payables had also reduced to approximately HK$768.2 million as at 30 June 2021 from approximately HK$2,028.7 million as at 31 December 2020, representing a decrease of approximately 62.1%.

Cash and cash equivalents increased to approximately HK$1,818.6 million as at 30 June 2021, representing an increase of approximately 12.7% as compared to that as at 31 December 2020. The enhanced cash position was mainly attributable to net cash generated from operating activities during the first half of 2021. As at 30 June 2021, the Company did not have any bank borrowing and maintained a healthy working capital position (i.e. net current assets) of approximately HK$1,669.9 million with a current ratio (calculated as the total current assets divided by the total current liabilities) of approximately 3.2 times.

2. Reasons for and benefits of the Acquisition

As stated in the letter from the Board contained in the Circular, we noted that the Directors considered the following reasons for and benefits of the Acquisition:

(i) the Company intends to reduce reliance on the CNTC Group and also reduce the number of connected transactions with Controlling Shareholders, strengthening the Company's independence and competitiveness. The Company also intends to elevate its position in the tobacco industry chain, reduce transactional costs in the Company's business model and achieve vertical integration. The Target Group's principal business and currently being an important tobacco leaves supplier to the Company make the Target Group a suitable candidate in helping the Company to meet its objectives. As the Target Group has been an important tobacco leaves supplier to the Company and is currently a subsidiary of the Controlling Shareholder, we share a similar view with the Directors that the Acquisition will reduce the Company's reliance on the CNTC Group and the number of connected transactions with Controlling Shareholder and hence improve the independence and competitiveness of the Company. We are also of the view that the Acquisition will expand and diversify the Company's businesses and potentially enhance the Company's profitability;

(ii) reduce tobacco leaf products supply disruption. We concur with the Directors that by acquiring the Target Group, being one of the Company's suppliers of imported tobacco leaf products, the Company will be able to better monitor the supply of imported tobacco leaf products, oversee delivery and shipment workstreams, and mitigate certain risks to its tobacco leaf products import business;

(iii) the Company is the designated offshore platform for capital markets operation and international business expansion, the Company aims to establish an international platform for overseas business operation and capital utilisation as part of the Company's business strategy. The Acquisition will enable the Company to concentrate and integrate the overseas resources of the CNTC Group, including (a) tobacco supply resources by gaining control over a well-established tobacco supplier; (b) a steady supply of high-quality tobacco leaf products; (c) expand the geographic coverage of its business into a promising market; and (d) maintain competitiveness in the global tobacco market against major tobacco companies with established direct upstream tobacco supply channels. Based on our review of the prospectus of the Company dated 28 May 2019, we understand that the Company is the designated offshore platform for capital markets operation and international business expansion and we are of the view that the Acquisition is in line with the Company's stated strategy. Furthermore, given the Target Group is located in Brazil, being one of the world's largest producers and exporters of tobacco leaf products, and has been an important tobacco leaves supplier to the Company, we are of the view that the Acquisition may bring a strategic advantage to the Company such as a relatively more stable tobacco leaf products supply;

(iv) upon completion of the Acquisition, the Company is expected to secure immediate and stable profit and cash flow from the Target Group. Given the above, we have reviewed the Target Group's financial performance and the expected financial effects of the Acquisition on the Company, details of which are set out in the sections headed "5. Information of the Target Company and CBT" and headed "7. Financial effects of the Acquisition on the Company" in this letter. Based on our review, we noted that that Target Group delivered relatively stable profit and cashflows in recent years and the Acquisition could potentially enhance the income stream and profitability of the Company upon completion of the Acquisition; and

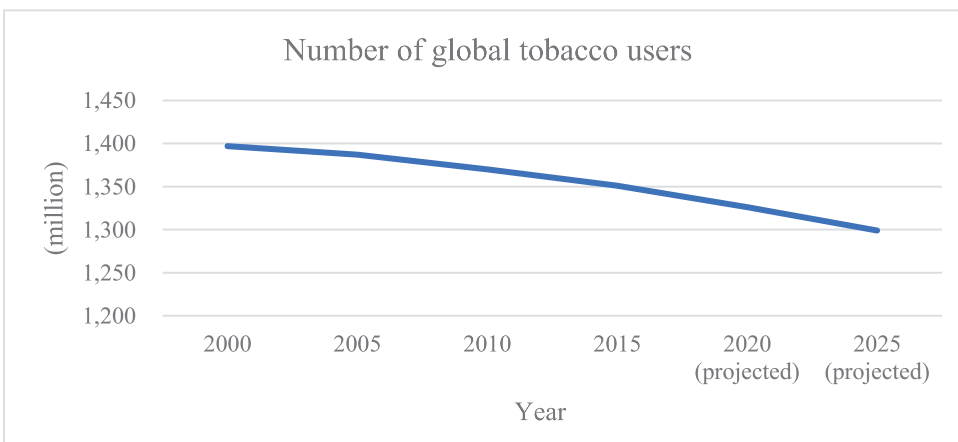
(v) CBT was formed as a joint venture to assist the CNTC Group and Alliance One Group in sourcing tobacco leaves from Brazil. CBT has also been a way for the CNTC Group to gain access to Alliance One Group's distribution channels and customer base through the cooperation with CBT. Therefore, CBT historically supplied the majority of its tobacco leaves to the CNTC Group and Alliance One Group, including to the Company as a member of the CNTC Group. In view of the above, we understand that the concentrated client portfolio was due to the primary function of CBT when it was formed and, hence, we consider it reasonable and we also concur with the Directors that the Company will be able to take the benefit of

Alliance One Group's distribution channels, and better manage its tobacco leaves stock by distributing different grades of tobacco leaves to customers with different corresponding needs through such distribution channels.

For details of the reasons for and benefits of the Acquisition, please refer to the section headed "Reasons for and benefits of the Acquisition" in the letter from the Board contained in the Circular.

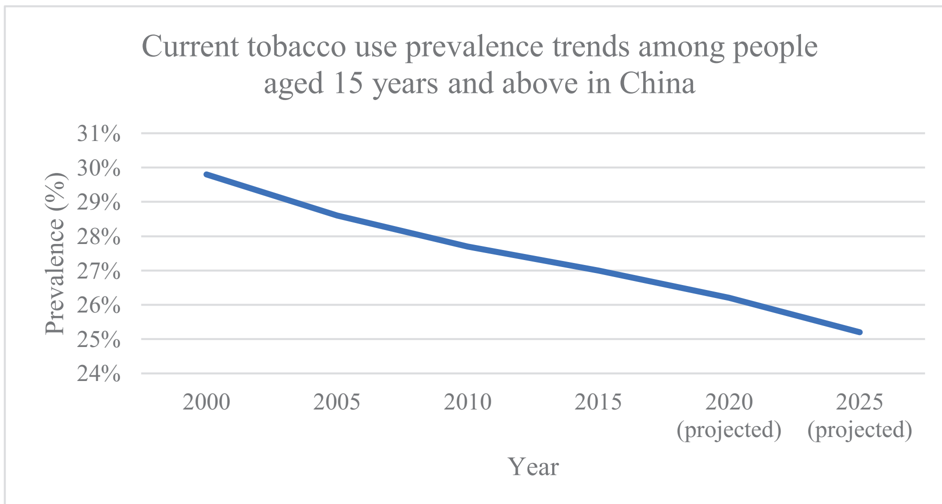
3. Industry overview

In recent years, tobacco control has been more active around the world and has exerted pressure on the consumption of tobacco products worldwide. According to the report "WHO global report on trends in prevalence of tobacco use 2000-2025, third edition" published by the World Health Organization in 2019 (the "**WHO Report**"), the number of tobacco users has declined since 2000. The estimated number of tobacco users decreased from approximately 1,397 million in 2000 to approximately 1,351 million in 2015, and it was projected to further reduce to approximately 1,299 million by 2025 as shown in the chart below.



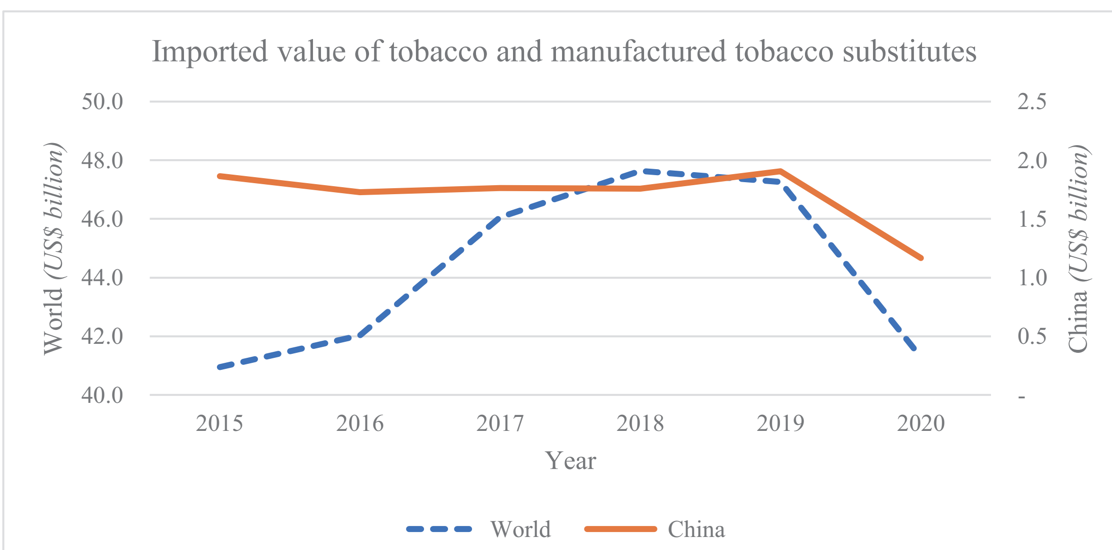
Source: World Health Organization

According to the WHO Report, China had the largest number of tobacco users in the world and it was estimated that there were approximately 306.2 million smokers in China in 2018. Similar to the downward trend of the number of global tobacco users, tobacco users aged 15 and above in China had been declining since 2000. As shown in the chart below, the percentage of current tobacco use prevalence among people aged 15 years and above in China had dropped steadily from approximately 29.8% in 2000 to approximately 27.0% in 2015, and it was projected to further decline to approximately 25.2% in 2025.



Source: World Health Organization

While the number of global tobacco users showed a downward trend, the global imported value of tobacco and manufactured tobacco substitutes, including hookah and snuff, illustrated an overall upward trend in the last few years. According to the data from International Trade Centre[1], the imported value of tobacco and manufactured tobacco substitutes increased from approximately US$40.9 billion in 2015 to approximately US$47.6 billion in 2018 before it dropped slightly in 2019. Unsurprisingly, the outbreak of the COVID-19 has caused the aforesaid value to shrinking dramatically, to approximately US$41.3 billion, in 2020. Despite that the number of global tobacco users decreased in the past few years, tobacco and manufactured tobacco substitutes's imported value, except for 2020 primarily due to the COVID-19, has increased and shown a stable demand for tobacco products. In China, the imported value of tobacco and manufactured tobacco substitutes in China remained relatively stable from 2015 to 2019, ranging from approximately US$1.7 billion to US$1.9 billion per year, as compared to the decreasing tobacco use prevalence trend, which could be due to higher consumption by smokers. According to the 2010 and 2018 China Tobacco Survey Report published by the World Health Organization, the average number of cigarettes smoked per day per smoker increased from 14.2 in 2010 to 16.0 in 2018. In 2020, the imported value of tobacco and manufactured tobacco substitutes in China had dropped significantly by over one-third mainly due to the outbreak of the COVID-19.



Source: International Trade Centre

1 International Trade Centre is the joint agency of the World Trade Organization and the United Nations that provides international trade statistics.

Notwithstanding the imported value of tobacco and manufactured tobacco substitutes in China remained stable in the past few years (except for 2020), it is expected that the tobacco control activities in China will become stricter. The "Healthy China 2030" blueprint released in 2016 by the Communist Party of China Central Committee and the State Council of China emphasised strengthening tobacco consumption control and reduce the smoking prevalence among people aged 15 and above to 20% by 2030. According to the latest China's 14th Five-Year Plan published in March 2021, tobacco consumption control initiatives would be carried out to promote a healthy lifestyle in China. Having considered above, while the sizes of the tobacco markets worldwide and in China will likely to remain substantial in the coming few years, there is an uncertainty that the tobacco consumption in these markets will continue to be strong in the long-term future.

4. Principal terms of the Quota Purchase Agreement

Date

23 September 2021

Parties

(1) the Company (as purchaser); and

(2) the Seller (as seller).

Subject

The Company has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the entire issued and outstanding quotas of the Target Company, free from all encumbrances and together with all rights attaching to them.

Consideration and terms of payment

The Consideration is US$63.4 million (equivalent to approximately HK$494.5 million) which is equivalent to the appraised value of the Target Company under the independent valuation report provided by the Valuer. The Consideration will be settled in cash by the Company on the Closing Date. The payment of the Consideration will be funded by the internal resources of the Company, including the net of proceeds raised from the Company's global offering which were allocated to making investments and acquisitions that are complementary to the Group's business, as disclosed in the Company's prospectus dated 28 May 2019, as well as other internal funds.

Basis of determination of the Consideration

The Consideration was agreed after arm's length negotiations (including the performance of business, tax, legal and financial due diligence on the Target Group and discussions around the appropriate purchase price considering the results of such due diligence) between the Company and the Seller on normal commercial terms having taken into consideration various factors, including but not limited to:

(a) the historical financial information of the Target Group and CBT for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021;

(b) the valuation of the Target Group conducted by the Valuer;

(c) the risks associated with the Target Group, including the risk of potential change in demand in the tobacco industry due to global tobacco control campaigns and legislations, the trade relations and policies between the PRC and Brazil or the United States, and local economic, political and regulatory risks in Brazil, such as inflation and appreciation of R$ against US$;

(d) the impact of COVID-19 on the production, shipment and sales of tobacco products;

(e) the business prospects of the Target Group, taking into account, among others, the Target Group's historical and expected growth in revenue and profit, business plans and strategies and trends in the tobacco industry in Brazil, the PRC and globally; and

(f) the reasons for and benefits of the Acquisition as described in the section headed "Reasons for and benefits of the Acquisition" in the letter from the Board contained in the circular.

According to the Valuation Report issued by the Valuer, the Company understands that the appraised value of the Target Company is US$63.4 million (equivalent to approximately HK$494.5 million) (the "**Appraised Value**") as at the Valuation Base Date. The Consideration is the same as the Appraised Value as set out in the Valuation Report. Details of the Valuation, including its methodologies and assumptions, are set out in the sub-section headed "(a) Business valuation" under the section headed "6. Analysis of the Consideration" in this letter and the Valuation Report in appendix VI to the Circular.

Conditions

The obligations of each party to effect the transactions contemplated under the Quota Purchase Agreement at Closing shall be subject to the fulfilment or waiver (as the case may be) at or prior to Closing of, among others, the following Conditions:

(a) the Independent Shareholders having passed the resolutions at the EGM approving the Quota Purchase Agreement and transactions contemplated thereunder; and

(b) the Seller having obtained approval of CNTC in relation to the Quota Purchase Agreement and transactions contemplated thereunder.

Conditions (a) and (b) above cannot be waived. Other conditions precedent to the Quota Purchase Agreement are set out in the letter from the Board contained in the Circular. As at the Latest Practicable Date, no condition has been fulfilled or waived.

Closing

Closing is scheduled to take place on the Closing Date, which is three Business Days after the Conditions have been satisfied or waived pursuant to the Quota Purchase Agreement, or such other date as the Company and the Seller may agree in writing.

Following Closing, the Company will be the legal and beneficial owner of 100% of the issued and outstanding quotas of the Target Company. The Target Company will become a wholly-owned subsidiary of the Company following Closing, and the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Group.

None of the directors of the Target Company will become a Director of the Company upon Closing and it is expected that there will be no change in the directors and senior management of the Target Company after Closing.

5. Information of the Target Company and CBT

(a) Business and shareholding

(i) The Target Company

The Target Company is a company incorporated under the laws of Brazil in 2002 and is principally engaged in investment holding, with CBT as its primary investment. As at the Latest Practicable Date, the Target Company was directly and wholly owned by the Seller. The business of the Target Company has mainly been carried out through CBT, a company owned as to 51% by the Target Company and 49% by Alliance One Brazil. For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2021, the main objective of the Target Company was to assist the delegation of CNTC to purchase tobacco from seven suppliers in Brazil and manage its passive investment in CBT.

(ii) CBT

CBT is a company incorporated under the laws of Brazil in 2011 and is principally engaged in the procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to the tobacco production.

Prior to the Reorganisation, although CBT was owned as to 51% and 49% by the Target Company and Alliance One Brazil, respectively, the Target Company did not have control of CBT, and CBT was a joint venture of the Target Company, due to certain arrangements of the bylaws of CBT and a shareholders' agreement among the Target Company, Alliance One Brazil and CBT dated 21 February 2014. Such arrangements included, among others, the quorum required to hold shareholders meetings, the percentage of affirmative votes required to approve key operating decisions (including decisions in relation to, among others, the appointment and removal of the management of CBT, the creation of any board committee, the acquisition of interests in other businesses and the creation of any encumbrance over CBT's assets), as well as the number of directors appointed by the Target Company and Alliance One Brazil respectively. These arrangements effectively required unanimous consent from both the Target Company and Alliance One Brazil before the key operating decisions of CBT could be made.

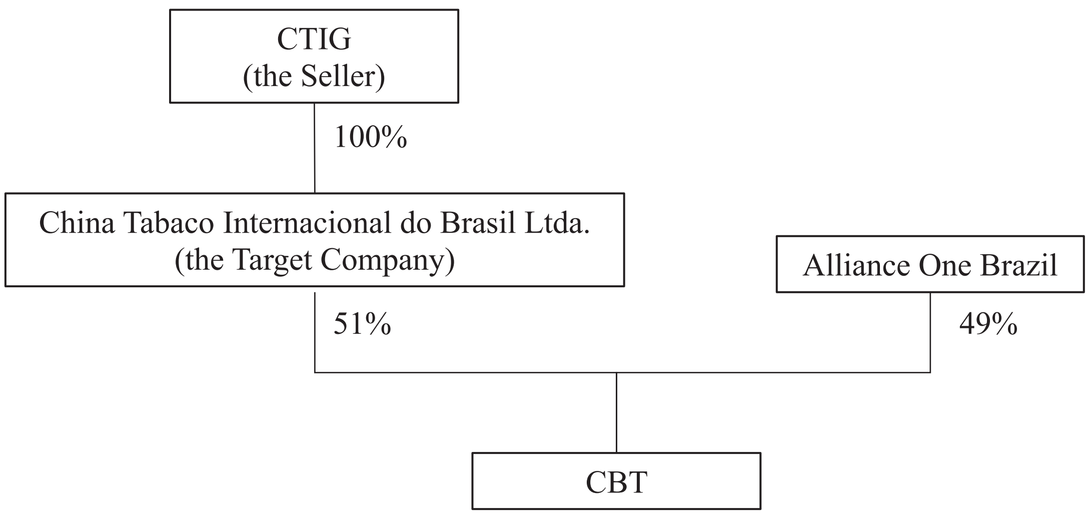
The Reorganisation involved a shareholders meeting of CBT held on 31 March 2021 to amend the bylaws of CBT and an amendment to the shareholders' agreement signed on 31 March 2021 among the Target Company, Alliance One Brazil and CBT, to amend the provisions in relation to the aforementioned arrangements. The Reorganisation was completed on 31 March 2021. Upon completion of the Reorganisation, the key operating decisions of CBT could be made by the Target Company, or its representatives, unilaterally, and therefore the Target Company obtained control over CBT, and CBT became a non-wholly owned subsidiary of the Target Company and the financial results, assets and liabilities of CBT have been consolidated into the accounts of the Target Group thereafter.

The original amount invested by the Seller in establishing the Target Company in 2002 was approximately US$0.4 million (equivalent to approximately HK$3.12 million). The Seller has continued to invest in the Target Company, with the total investment amount reaching approximately US$16.5 million (equivalent to approximately HK$128.7 million) by 2019 (the "**Seller Invested Amount**"), and with the investment in CBT, developed the business of the Target Group to include assisting with and supervision of the roasting, processing, sample preparation, inspection and procurement of tobacco and cigarettes in Brazil over several years of operation. After carrying out the aforesaid value-added activities, the original book value of net assets of the Target Company reached approximately US$23.2 million (equivalent to approximately HK$181.0 million) as at 31 March 2021 (the "**Original Book Value**") as set out in the Valuation Report, which was in excess over the Seller Invested Amount by approximately US$6.7 million (equivalent to approximately HK$52.3 million). While the Consideration, which is equivalent to the Appraised Value and the net book value attributable to shareholders of the Target Company as at 31 March 2021 as shown in the accountants' report on the Target Group as set out in appendix II to the Circular, is in excess over the Seller Invested Amount and the Original Book Value by approximately US$46.9 million (equivalent to approximately

HK$365.8 million) and approximately US$40.2 million (equivalent to approximately HK$313.6 million) respectively, we are of the view that the Consideration is fair and reasonable based on our analysis in the section headed "6. Analysis of the Consideration" in this letter.

(iii) Shareholding structure

Set out below is the shareholding structure of the Target Group as at the Latest Practicable Date.



(b) Financial performance and financial position of the Target Company

(i) Financial performance

Set out below is a summary of the financial performance of the Target Company for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2020 and 2021 (the "**Track Record Period**") prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") as extracted from the accountants' report on the Target Group in appendix II to the Circular. Since completion of the Reorganisation only took place on 31 March 2021, the summary of financial performance in the table below reflected the financial results of the Target Company only but had not consolidated the financial results of CBT during the Track Record Period.

	For the three months ended 31 March		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*	*(US$'000)*
Revenue	128.9	158.1	482.4	631.0	510.7
Other income, net	11.5	52.0	237.8	554.1	406.9
Administrative and other operating expenses	(448.1)	(331.0)	(1,611.0)	(1,923.1)	(2,725.9)
Loss from operations	(307.7)	(120.9)	(890.8)	(738.0)	(1,808.3)
Share of profit /(loss) of joint venture	4,278.4	(739.3)	9,644.2	7,088.1	7,175.0
Gain on deemed disposal of a joint venture	52,050.1	–	–	–	–
Profit before tax	56,020.8	(860.2)	8,753.4	6,350.1	5,366.7
Profit after tax	56,020.8	(860.2)	8,753.4	6,350.1	5,366.7

The Target Company's revenue was primarily generated from consulting services provided to CBT in an annual fixed amount in Brazilian reais. For the years ended 31 December 2018, 2019 and 2020, the Target Company's revenue fluctuated in a range of approximately US$0.5 million to approximately US$0.6 million, which was mainly due to exchange rate difference when translating Brazilian reais (the functional currency of the Target Company) to U.S. dollars (the functional currency of CBT). For the three months ended 31 March 2020 and 2021, the Target Company recorded a revenue of approximately US$0.2 million and US$0.1 million respectively due to the fluctuation in exchange rate as mentioned above. Other income of the Target Company mainly comprised gain or loss on disposal of fixed assets and interest income received. Changes in the other income during the Track Record Period were mainly due to fluctuation in the interest income and exchange rate difference when translating Brazilian reais to U.S. dollars.

The administrative and other operating expenses of the Target Company primarily comprised salaries paid to the Target Company's administrative personnel, which were in Chinese Renminbi, and amortisation of a portfolio of contracts with farmers who produced green tobacco. Changes in the Target Company's administrative and other operating expenses during the Track Record Period were mainly due to the entire portfolio of contracts with farmers was fully amortised by March 2019 and the exchange rate difference when translating Chinese Renminbi to U.S. dollars.

As advised by the Management, the share of profit or loss of joint venture for the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021 mainly represented the Target Company's share (i.e. 51.0%) of CBT's net profit or loss and the corresponding exchange rates differences when translating from U.S. dollars to Brazilian reais. For the three months ended 31 March 2021, the Target Company recorded a gain on deemed disposal of a joint venture of approximately US$52.1 million, which represented the fair value adjustment of CBT due to the Reorganisation.

The profit after tax of the Target Company for the years ended 31 December 2018, 2019 and 2020 amounted to approximately US$5.4 million, US$6.4 million, and US$8.8 million respectively, representing a year-on-year increase of approximately 18.3% for the year ended 31 December 2019 and approximately 37.8% for the year ended 31 December 2020. For the three months ended 31 March 2021, the profit after tax of the Target Company amounted to approximately US$56.0 million. Excluding the gain on deemed disposal of a joint venture of approximately US$52.1 million, the adjusted profit after tax would be approximately US$4.0 million, representing a turnaround from a loss of approximately US$0.9 million for the corresponding period in 2020. As the majority of the profits of the Target Company for the Track Record Period was generated from the share of profit or loss of CBT, we therefore further reviewed the financial performance of CBT in the sub-section headed "(c) Financial performance and financial position of CBT" in this letter below.

(ii) Financial position

Set out below is a summary of the financial position of the Target Company as at 31 December 2018, 2019 and 2020 and the consolidated financial position of the Target Company as at 31 March 2021. Since completion of the Reorganisation only took place on 31 March 2021, the summary of financial position in the table below reflected the financial position of the Target Company only as at 31 December 2018, 2019 and 2020 and the consolidated financial position of the Target Company (i.e. inclusive of the financial position of CBT) as at 31 March 2021.

	As at 31 March		**As at 31 December**	
	2021	**2020**	**2019**	**2018**
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*
Non-current assets				
Intangible assets	28,160.5	–	–	–
Goodwill	27,298.5	–	–	–
Interest in a joint venture	–	20,256.8	18,585.0	18,526.2
Other non-current assets	6,256.4	23.9	37.2	56.1
	61,715.4	20,280.7	18,622.2	18,582.3
Current assets				
Inventories	84,966.2	–	–	–
Trade and other receivables	73,335.1	4,883.3	3,913.7	3,903.8
Cash and cash equivalents	3,784.3	2,712.9	3,907.6	3,674.2
	162,085.6	7,596.2	7,821.3	7,578.0
Current liabilities				
Bank borrowings	82,491.7	–	–	–
Other current liabilities	27,613.4	267.4	383.4	684.9
	110,105.1	267.4	383.4	684.9
Net current assets	51,980.5	7,328.8	7,437.9	6,893.1
Non-current liabilities	14,373.4	–	–	–

	As at 31 March 2021 (US$'000)	As at 31 December 2020 (US$'000)	2019 (US$'000)	2018 (US$'000)
Capital and reserves				
Total equity attributable to equity shareholders of the Target Company	63,341.9	27,609.5	26,060.1	25,475.4
Non-controlling interests	35,980.6	–	–	–
TOTAL EQUITY	99,322.5	27,609.5	26,060.1	25,475.4

As at 31 March 2021, the consolidated total assets and consolidated total liabilities of the Target Company amounted to approximately US$223.8 million and approximately US$124.5 million respectively. Significant increases in the total assets and total liabilities of the Target Company as at 31 March 2021 as compared to those as at 31 December 2020, 2019 and 2018 were due to completion of the Reorganisation that took place on 31 March 2021, in which CBT became a non wholly-owned subsidiary of the Target Company. As a result, the assets, mainly comprising intangible assets, goodwill, inventories and trade and other receivables, and liabilities, largely consisting of bank borrowings, other current liabilities and other non-current liabilities, of CBT were consolidated into the accounts of the Target Company. Fair value adjustments on CBT's assets and liabilities of approximately US$28.2 million and approximately US$12.9 million respectively were made when CBT was consolidated into the Target Company. A substantial part of fair value adjustment on CBT's assets arose from intangible assets and inventories, and fair value adjustment on CBT's liabilities solely represented an increase in deferred income tax and social contribution.

Intangible assets of the Target Group as at 31 March 2021 consisted of CBT's software and portfolio of tobacco producers, which amounted to approximately US$0.6 million on CBT's level and approximately US$28.2 million on the Target Company's level after fair value adjustment.

Goodwill of the Target Group as at 31 March 2021 amounted to approximately US$27.3 million was solely arisen from the Reorganisation. The Reorganisation was completed on 31 March 2021, when the Target Company gained control over CBT. As a result, the identifiable assets and liabilities of CBT were consolidated into the Target Company at their fair values at 31 March 2021. Excluding goodwill, the Target Group's total equity attributable to equity shareholders of the Target Company as at 31 March 2021 amounted to US$36.0 million and the Consideration of US$63.4 million would be in excess of such amount by approximately US$27.4 million. Despite the Consideration is higher than the aforesaid adjusted total equity due to the sizeable goodwill, we are of the view that the Consideration is fair and reasonable given the asset-light nature of the business and the decent earnings capability of the Target Group as well as the relatively attractive price-to-earnings multiples as implied by the Consideration as detailed in section headed "6. Analysis of the Consideration" in this letter.

The balances of the interest in a joint venture as at 31 December 2018, 2019 and 2020 represented substantially the Target Company's investment in CBT and therefore such balance was fully eliminated as at 31 March 2021 as a result of the consolidation of CBT upon completion of the Reorganisation on the same day. Non-current liabilities of the Target Company mainly comprised CBT's deferred tax liabilities of approximately US$14.1 million as at 31 March 2021, which included the fair value adjustment of approximately US$12.9 million. The Target Company's inventories, trade and other receivables and bank borrowings were substantially from CBT upon consolidation and our review on these items are set out in the sub-section headed "(c) Financial performance and financial position of CBT" in this letter below.

(c) Financial performance and financial position of CBT

(i) Financial performance

Set out below is a summary of the financial performance of CBT for the Track Record Period prepared in accordance with the HKFRSs as extracted from the accountants' report on CBT in appendix III to the Circular.

	For the three months ended 31 March		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*	*(US$'000)*
Revenue	57,272.1	11,123.9	136,239.9	190,516.9	183,651.2
Cost of sales	(42,536.9)	(8,970.3)	(100,641.9)	(158,325.5)	(150,442.3)
Gross profit	14,735.2	2,153.6	35,598.0	32,191.4	33,208.9
Other income, net	2,168.2	1,931.5	3,410.6	202.6	2,870.7
Administrative and other operating expenses	(1,312.4)	(1,051.3)	(5,113.4)	(7,403.9)	(7,015.9)
Finance costs	(879.7)	(274.8)	(3,341.7)	(5,100.7)	(5,732.8)
Profit before tax	14,711.3	2,759.0	30,553.5	19,889.4	23,330.9
Income tax	(6,023.1)	(3,675.7)	(12,761.4)	(6,755.4)	(9,487.0)
Profit/(loss) for the period/year	8,688.2	(916.7)	17,792.1	13,134.0	13,843.9

CBT's revenue primarily comprised revenue from sales of processed tobacco leaf products. The revenue of CBT increased from approximately US$183.7 million for the year ended 31 December 2018 to approximately US$190.5 million for the year ended 31 December 2019 and decreased to approximately US$136.2 million for the year ended 31 December 2020. For the three months ended 31 March 2021, CBT's revenue increased over 4 times to approximately US$57.3 million from approximately US$11.1 million for the corresponding period in 2020. As mentioned in the section headed "Management discussion and analysis on the Target Group" in the appendix IV to the Circular, fluctuations in CBT's revenue were mainly attributable to different timings over the recognition of revenue, which was recorded upon shipment of tobacco. The slight increase in CBT's revenue in 2019 was mainly due to a small portion of tobacco processed in 2018 was shipped in 2019. The decline in the revenue of CBT in 2020 was chiefly due to a delay in shipment of a material volume of tobacco processed in 2020 caused by logistics problems as a result of the outbreak of the COVID-19. The surge in the revenue of CBT for the first quarter of 2021 was substantially due to part of the remaining volume of tobacco processed in 2020 was shipped at the beginning of 2021. As mentioned in the section headed "2. Reasons for and benefits of the Acquisition" in this letter, CBT was formed as a joint venture to assist the CNTC Group and Alliance One Group in sourcing tobacco leaves from Brazil. CBT historically supplied the majority of its tobacco leaves to the CNTC Group and Alliance One Group, including to the Company as a member of the CNTC Group. As per our discussion with the Management, the sales of tobacco leaves of CBT to the members of the CNTC Group have been driven by tobacco leaves purchasers in the PRC and were conducted on arms' length basis and on normal commercial terms. Accordingly, although CBT was formed as a joint venture between two partners, the trading relationship between CBT and the CNTC Group has been as if they were third parties independent of each other.

For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, the cost of sales of CBT amounted to approximately US$150.4 million, US$158.3 million and US$100.6 million, US$9.0 million and US$42.5 million, respectively, which were primarily comprised raw materials and consumables (mainly including green tobacco and packing materials). The fluctuations in the cost of sales were generally in line with changes in CBT's revenue for the corresponding periods.

The gross margin of CBT remained relatively stable at approximately 18.1% and approximately 16.9% for the years ended 31 December 2018 and 2019 respectively. For the year ended 31 December 2020, CBT's gross margin increased to approximately 26.1% which was mainly due to the depreciation of Brazilian reais when translating into U.S. dollars. As CBT's cost of sales was denominated in Brazilian reais whereas CBT's revenue was denominated in U.S. dollars, the depreciation of Brazilian reais caused an increase in CBT's gross margin. The gross margin of CBT increased from approximately 19.4% for the three months ended 31 March 2020 to approximately 25.7% for the corresponding period in 2021, mainly due to a combined effect of delay in shipment of tobacco and depreciation of Brazilian reais.

Other income of CBT mainly comprised (i) net exchange gains or losses arising from the net foreign exchange fluctuation of assets and liabilities exposed to currencies other than the functional currency (i.e. U.S. dollars), and (ii) value-added tax refund. CBT's other income decreased by approximately 92.9% for the year ended 31 December 2019 compared to that for the prior year. For the year ended 31 December 2020 and for the three months ended 31 March 2021, the other income of CBT increased by approximately 1,583.4% and 12.3% respectively compared to those for the prior year and the corresponding period in prior year. Significant changes in CBT's other income for the Track Record Period were mainly attributable to the foreign exchange rates fluctuations in Brazilian reais against U.S. dollars which resulted in exchange gains or losses.

CBT's administrative and other operating expenses remained relatively stable for the years ended 31 December 2018 and 2019. For the year ended 31 December 2020, the administrative and other operating expenses of CBT decreased by approximately 30.9% mainly because of the depreciation of Brazilian reais, which led to a reduction in such expenses in U.S. dollars terms, and delay in shipment of tobacco that was processed during the year as a result of logistics problems caused by the COVID-19. For the three months ended 31 March 2021, the administrative and other operating expenses of CBT increased by approximately 24.8% as compared to that for the corresponding period in 2020 primarily due to the shipment of a higher volume of tobacco during the first quarter of 2021, during which part of the remaining volume of tobacco processed in 2020 was also shipped.

Finance costs of CBT mainly represented interest on bank borrowing, which decreased by approximately 11.0% for the year ended 31 December 2019 and further decreased by approximately 34.5% for the year ended 31 December 2020. For the three months ended 31 March 2021, the finance costs of CBT were approximately US$0.9 million, representing an increase over 2.0 times as compared to that of approximately US$0.3 million for the corresponding period in 2020. Changes in the finance costs of CBT for the Track Record Period were mainly attributable to changes in the prevailing interest rate and borrowing amount of the respective years or periods.

Overall, the net profit of CBT remained stable for the years ended 31 December 2018 and 2019 and increased by approximately 35.5% for the year ended 31 December 2020 as a combined result of fluctuations in revenue and expenses mentioned above. For the three months ended 31 March 2020, CBT recorded a profit before tax of approximately US$2.8 million but a net loss after tax of approximately US$0.9 million, which was mainly due to the inclusion of a foreign exchange variation adjustment of approximately US$2.8 million arose from the depreciation of Brazilian reais in the income tax expense of approximately US$3.7 million. For the three months ended 31 March 2021, CBT turned to a net profit from a net loss for the corresponding period in 2020, which was chiefly due to the surge in revenue as discussed above.

(ii) Financial position

Set out below is a summary of the financial position of CBT as at 31 December 2018, 2019 and 2020 and 31 March 2021.

	As at 31 March 2021 (US$'000)	As at 31 December 2020 (US$'000)	2019 (US$'000)	2018 (US$'000)
Non-current assets				
Property, plant and equipment	3,079.7	2,518.8	2,826.0	2,738.3
Intangible assets	559.6	1,063.6	3,047.3	5,022.2
Trade and other receivables	2,517.8	1,518.4	864.1	803.7
Deferred tax assets	–	–	286.6	–
	6,157.1	5,100.8	7,024.0	8,564.2
Current assets				
Inventories	75,215.9	59,153.0	31,754.8	48,057.4
Trade and other receivables	73,220.0	122,899.5	36,575.5	97,004.2
Cash and cash equivalents	1,682.5	6,370.1	26,568.7	34,100.9
	150,118.4	188,422.6	94,899.0	179,162.5
Current liabilities				
Trade and other payables	20,139.0	11,676.9	9,028.3	8,844.6
Bank borrowings	82,491.7	133,091.9	55,462.1	137,837.3
Lease liabilities	322.7	428.9	503.4	168.8
Current tax payable	3,467.2	8,069.4	446.5	3,130.2
	106,420.6	153,267.1	65,440.3	149,980.9
Net current assets	43,697.8	35,155.5	29,458.7	29,181.6
Non-current liabilities				
Lease liabilities	319.2	131.2	41.5	132.5
Deferred tax liabilities	1,128.3	405.8	–	1,287.3
	1,447.5	537.0	41.5	1,419.8
Capital				
Share capital and reserves	48,407.4	39,719.2	36,441.1	36,326.0

During the Track Record Period, the assets of CBT mainly comprised trade and other receivables, inventories and cash and cash equivalents. As mentioned in the section headed "Management discussion and analysis on the Target Group" in the appendix IV to the Circular, fluctuations in CBT's trade and other receivables were primarily due to the timing of the shipment of tobacco. Early shipment of tobacco in 2019 resulted in early collection of receivables and hence the decrease in the trade and other receivables balance as at 31 December 2019, whereas delay in shipment of tobacco that was processed in 2020 caused the delay in collection of receivables and hence the increase in the trade and other receivables balance as at 31 December 2020. The trade and other receivables of CBT declined from approximately US$124.4 million as at 31 December 2020 to approximately US$75.7 million as at 31 March 2021 was primarily due to continued collection of receivables for tobacco processed and shipped in 2020 during the three months ended 31 March 2021.

The inventory level of CBT also depended on, among other things, the timing of the shipment of tobacco. Shipment before the end of 2019 reduced CBT's inventory balance as at 31 December 2019 as compared to that of 2018. Similar to the trade and other receivables, delay in shipment of tobacco processed in 2020 as a result of logistics problem caused by the COVID-19 resulted in the increase in the inventory balance of CBT as at 31 December 2020. CBT's inventory further increased from approximately US$59.2 million as at 31 December 2020 to approximately US$75.2 million as at 31 March 2021 was primarily due to (i) seasonality of the business of CBT, as CBT generally purchases tobacco in the first half of the year; and (ii) delay in shipment of tobacco that was processed in 2020.

As stated in the section headed "Management discussion and analysis on the Target Group" in the appendix IV to the Circular, CBT seeks to maintain a low cash balance. In general, bank loans are settled by cash generated from operating activities and a substantial portion of CBT's net profit is paid out as dividends. As a result, fluctuations in CBT's cash and cash equivalents were substantially due to timing differences with respect to (i) receipt of cash payments from customers; (ii) payment of outstanding bank loans; and (iii) distribution of dividends. The cash and cash equivalents of CBT as at 31 December 2020 were significantly lower than that of 2019 primarily due to repayment of its bank loans. As at 31 March 2021, the balance further fell to approximately US$1.7 million as CBT settled the payment for the purchase of tobacco in cash.

During the Track Record Period, the liabilities of CBT chiefly consisted of bank borrowings. The changes in CBT's bank borrowings were mainly caused by the tobacco shipping time and the position of accounts receivables. It was because delay in shipments of tobacco leads to delay in receipt of payments from customers and hence the increase in bank borrowings for financing the operations of CBT. Accordingly, the lower the balances of inventories and trade and other receivables were, the fewer bank borrowings were required, and vice versa.

Net current assets of CBT remained stable and amounted to approximately US$29.1 million and US$29.5 million as at 31 December 2018 and 2019 respectively. As at 31 December 2020, CBT's net current assets increased to approximately US$35.2 million, representing an increase of approximately 19.3%, and it further went up to approximately US$43.7 million as at 31 March 2021. The increases in net current assets were largely attributable to the growths in inventories, trade and other receivables as explained above.

Changes in net asset value ("**NAV**") of CBT were related to the profit generated and the amount of dividend distributions during the relevant year or period. As the profit generated was substantially distributed as dividend in the same year, the NAV of CBT remained stable as at 31 December 2018 and 2019. Since only part of the profit generated for the year ended 31 December 2020 was distributed as dividends, the NAV of CBT increased to approximately US$39.7 million as at 31 December 2020. The NAV of CBT further increased to approximately US$48.4 million as at 31 March 2021 as no dividend was paid during the three-month period.

6. Analysis of the Consideration

(a) Business Valuation

(i) Introduction

As stated in the letter from the Board contained in the Circular, the Consideration of US$63.4 million (equivalent to approximately HK$494.5 million) was arrived at after arm's length negotiations between the Company and the Seller after taking into account, among other things, the valuation of the Target Group. The Company engaged the Valuer to prepare the Valuation Report, which sets out a market valuation on the equity interest of the Target Company as at the Valuation Base Date (i.e. 31 March 2021). The full text of the Valuation Report is set out in appendix VI to the Circular. The Valuation Report has been prepared with reference to the Valuation Standards – General Standard issued by the Ministry of Finance of the PRC, and other practical and ethical Valuation Standards issued by the China Appraisal Society.

Independent Shareholders' attention is drawn to the Appraised Value is the same as the Consideration of the US$63.4 million (equivalent to approximately HK$494.5 million).

We have reviewed the Valuation Report and interviewed the relevant staff members of the Valuer with particular attention to (i) the Valuer's terms of engagement with the Company; (ii) the Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer in performing the Valuation. Based on our review of the engagement letter entered into between the Company and the Valuer, we are satisfied that the terms of engagement between the Company and the Valuer are appropriate to the opinion the Valuer is required to give. The Valuer confirmed that it was independent from the Company, the Seller and the Target Group and their respective related parties. We further understand that the Valuer is a long-established international professional valuation firm with staff possessing the relevant professional qualifications and experience required to perform the Valuation and the person in-charge of the Valuation has over 25 years' experience in conducting valuation services to a wide range of clients in different industries. We note that the Valuer mainly carried out its due diligence through management interviews and conducted its own proprietary research and has relied on public information obtained through its own research as well as the financial and operational information provided by the Management. We were advised by the Valuer that it has assumed the financial and operational information provided by the Company was accurate and it has relied to a considerable extent on such information in arriving at the opinion of value.

In addition, we note that the Financial Adviser, after conducting its own review of the forecast of CBT included in the Valuation Report, is satisfied that the forecast included in the Valuation Report and disclosed in the Circular has been made after due and careful enquiry by the Directors.

(ii) Valuation methodology, bases and assumptions

CBT

In our review of the Valuation, we note that the valuation of CBT was primarily based on the income approach involving the use of discounted cash flow. The income approach refers to valuation that capitalises or discounts the expected income of the valuation object to determine its value. We understand that the equity value of CBT is derived at by calculating the enterprise value of CBT and deducting the value of CBT's interest-bearing debt from the enterprise value. We have reviewed the relevant working papers of the Valuation (the "**Working Paper**") and discussed with the Valuer the methodologies, bases and assumptions adopted for conducting the income approach. According to the Valuer, the selection of the income approach to be the primary valuation approach because CBT has commenced operation since 2012 and it has sufficient historical financial information to support the financial projection required to conduct the Valuation. Furthermore, the visibility of CBT's future business level is relatively high since the tobacco leaf business segment is considered relatively stable as evidenced by the steady consumption level of tobacco products. In view of the above, we concur with the Valuer that it is reasonable to adopt income approach for the valuation of CBT.

In our discussion with the Valuer and the review of the Working Paper, we note that the Valuer derived at the enterprise value by determining the enterprise free cash flow in the future years as the basis, and applied an appropriate discount rate before summed them up. The projected financial information mainly comprised a year-by-year projection of CBT's future free cash flows after taking into account operational data and long-term financial projection including revenue, operating expenses, finance costs, taxes and capital expenditures, for years 2022 to 2030 and the free cash flows thereafter, which were assumed to grow at a constant terminal rate. The aforesaid cash flows were then discounted at the weighted average costs of capital of CBT of approximately 12.77%, which was determined after considering factors such as risk-free rate of return, market risk premium, risk coefficient of equity system, enterprise-specific risk adjustment coefficients and risk adjustment coefficient of exchange rate conversion, to arrive at the enterprise value of CBT. For details of the basis of determining the discount rate, please refer to the sub-section headed "Basis of the underlying assumptions for the discount rate" in the letter from the Board contained in the Circular. The entire equity value of CBT was then derived by deducting the interest-bearing debt, which mainly refer to short-term loans, from the enterprise value of CBT.

The Target Company

In our review, we note that the valuation of the Target Company was primarily based on an asset-based approach. Asset-based approach refers to an approach that evaluates the fair value of various assets and liabilities on and off the balance sheet based on the balance sheet of the valuation object on the base date. We understand that the Valuer has adopted an asset-based approach since the Target Company is principally engaged in the investment holding of CBT and information on ownership and details of the Target Company's assets and liabilities are clear, complete and accurately reflected in its accounts. In view of the above, we concur with the Valuer that it is reasonable to adopt asset-based approach for the valuation of the Target Company. The fair value of each of the assets and liabilities of the Target Company was reassessed as at the date of valuation. The equity value of the Target Company was then derived by summing up the fair value of each of the assets (including the appraised equity value of CBT as discussed above attributable to the Target Company) and liabilities of the Target Company.

We have also discussed with the Valuer and we understand that they have also considered the possibility to adopt market approach for its simplicity, clarity, and less reliance on subjective assumptions. However, the Valuer was not able to identify sufficient number of listed comparable companies which operate in the same industry as the Target Group with similar businesses to use market approach as the primary valuation methodology in the appraisals.

(iii) Profit Forecast

As the valuation of CBT involves the discounted cash flow method, the Valuation is deemed as profit forecast under Rule 14.61 of the Listing Rules (the "**Profit Forecast**"). In accordance with Rule 14.62 of the Listing Rules, the Reporting Accountants confirmed that they had reviewed the calculations for the Profit Forecast and the Financial Adviser confirmed that they were satisfied that the Profit Forecast has been made by the Directors after due and careful enquiry. The reports from the Reporting Accountants and the Financial Adviser are set out in appendices VII and VIII to the Circular respectively. In the same regard, we concur with the opinions of the Reporting Accountants and the Financial Adviser after conducting our independent review of the aforesaid matter such that the methodologies and assumptions adopted for the Valuation is fair, reasonable and complete.

Taking into account the above, we consider the Valuation fair and reasonable so far as the Shareholders are concerned.

(b) Comparable Companies

The principal activity of the Target Group is the procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production (the "**Upstream Tobacco Business**"). In order to assess the fairness and reasonableness of the Consideration, we have carried out an analysis by comparing peer companies engaging in similar principal business. We compared the price-to-earnings multiple (the "**P/E Multiple**") represented by the Consideration against that of the listed companies with principal business activities similar to the Upstream Tobacco Business (the "**Comparable Companies**"). Based on the above criteria, we identified two Comparable Companies as set out in the table below together with their respective P/E Multiples.

For the avoidance of doubt, we note that the principal activities of the Comparable Companies may not be entirely the same as that of the Target Company and market capitalisation of the Comparable Companies are noticeably higher than the valuation of the Target Company. Therefore, the identified Comparable Companies are included for reference purpose only.

Company name	**Stock code**	**Principal activities**	**Market capitalisation as at the Latest Practicable Date** *(HK$ million)*	**P/E Multiple** *(Note 1)* *(times)*
Universal Corporation	NYSE: UVV	It is a global business-to-business agricultural products supplier to consumer product manufacturers that sources and processes leaf tobacco and plant-based ingredients.	9,123.4	13.5
British American Tobacco Uganda Limited ("**BAT Uganda**")	Uganda: BATU	It grows and processes tobacco in Uganda and sells cigarettes and other tobacco products to the local market and for export.	3,233.8	73.8
			Average	43.7
The Acquisition				**4.7** *(Note 2)*

Source: Bloomberg and publications of the respective Comparable Companies

Notes:

1. The P/E Multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies as at the Latest Practicable Date divided by the profit attributable to the shareholders of the corresponding Comparable Companies for the trailing twelve-month period.

2. The implied P/E Multiple of the Acquisition of approximately 4.7 times is calculated based on the Consideration of US$63.4 million divided by the trailing twelve-month profit attributable to the shareholders of the Target Company, net of the one-off gain on deemed disposal of a joint venture.

3. For illustrative purposes in the table above, conversions of US$ and Ugandan shilling ("**UGX**") into HK$ are based on the exchange rates of US$1 to HK$7.8 and UGX1 to HK$0.0022 respectively.

The table above includes all the Comparable Companies that we could identify with principal activity similar to the Upstream Tobacco Business. However, the Independent Shareholders should note that BAT Uganda is listed on the securities exchange of Uganda, which is a developing country, and the level of trading in the Uganda Securities Exchange is relatively thin and the fairness of valuation of BAT Uganda might be affected. We have elected to include BAT Uganda to the list of the Comparable Companies above for completeness and illustration purposes.

Overall, the implied P/E Multiple of the Acquisition of approximately 4.7 times is lower than the P/E Multiples of Universal Corporation and BAT Uganda of approximately 13.5 times and approximately 73.8 times respectively. Shareholders should note that the range of the P/E Multiples is wide which might affect the comparability of the Comparable Companies to the implied valuation of the Acquisition and this section should be read for reference purpose only.

(c) Comparable Transactions

Given the limited number of the Comparable Companies available for assessing the fairness and reasonableness of the Consideration as discussed above, we have identified and reviewed market transactions in respect of the sales and purchases of companies principally engaged in the production of tobacco products (the "**Comparable Transactions**") announced during the period from 1 September 2016 (i.e. approximately five years before the date of the Quota Purchase Agreement) to the Latest Practicable Date.

In our assessment, we have chosen the implied P/E Multiples of the Comparable Transactions as the parameter for comparison. Based on the above criteria, we identified three Comparable Transactions as set out in the table below, which are considered exhaustive and representative, together with their implied P/E Multiples. For the avoidance of doubt, we note that the principal activities of the target companies of the Comparable Transactions may not be entirely the same as that of the Target Group and transaction values of the Comparable Transactions are noticeably higher than the valuation of the Target Company. Therefore, the identified Comparable Transactions are included for reference purpose only.

Date of announcement	Name of purchaser / subscriber	Target company	Principal activities of the target company	Percentage of the target company acquired	Transaction value	Implied P/E Multiple
				Approximately	*(US$ million)*	*(times)* *(Note 1)*
5 March 2020	United Brands of Shisha Bidco Limited	Al-Eqbal Investment Company	A Jordon-based investment company operates through its subsidiaries which are engaged in the manufacturing and sale of molasses, cigarettes	100.00%	1,184.4	18.7
16 March 2018	Japan Tobacco Inc.	JSC Donskoy Tabak	Russia-based company engaged in the production of tobacco products	100.00%	1,600.0	48.5 *(Note 2)*
17 January 2017	British American Tobacco Plc	Reynolds American Inc	US-based manufacturer of tobacco products	57.83%	57,224.9	18.0
					Average	28.4
					Median	18.7
					Maximum	48.5
					Minimum	18.0
	The Acquisition					**4.7** *(Note 3)*

Source: Mergermarket (http://www.mergermarket.com/) and the respective companies' announcements.

Notes:

1. Except for the sale and purchase of the equity interest in JSC Donskoy Tabak, the implied P/E Multiples of the Comparable Transactions are calculated based on the actual or implied valuation for the 100% equity interest in the target company divided by the profit attributable to the shareholders of the target company for the latest 12-month period immediately preceding to the announcement of the respective Comparable Transactions.

2. The implied P/E Multiple of the sale and purchase of the equity interest in JSC Donskoy Tabak is calculated based on the transaction value for the 100% equity interest in JSC Donskoy Tabak divided by the estimated net income of JSC Donskoy Tabak for the year ended 31 December 2017 published on the announcement of the acquisition of JSC Donskoy Tabak by Japan Tobacco Inc. on 16 March 2018.

3. The implied P/E Multiple of the Acquisition of approximately 4.7 times is calculated based on the Consideration of US$63.4 million divided by the trailing twelve-month profit attributable to the shareholders of the Target Company, net of the one-off gain on deemed disposal of a joint venture.

4. We have identified the acquisition of Fabrika duhana Sarajevo d.d. ("**Fabrika**") by CID Adriatic Investments GmbH, Ltd. announced on 15 September 2016, which falls into the selection criteria of the Comparable Transactions. However, as the implied P/E Multiple of Fabrika is over 150 times, we consider the implied P/E Multiple of Fabrika is an outliner and therefore the acquisition of Fabrika is excluded from the Comparable Transactions analysis.

5. For illustrative purpose in the table above, the conversion of US$ into HK$ is based on the exchange rate of US$1 to HK$7.8.

As illustrated above, the implied P/E Multiples of the Comparable Transactions are ranged from approximately 18.0 times to 48.5 times and have an average and a median of approximately 28.4 times and 18.7 times respectively. The implied P/E Multiple of the Acquisition of approximately 4.7 times is lower than all of the implied P/E Multiples of the Comparable Transactions.

Despite the market environment had been more stringent over the years which might inevitably have an impact on the tobacco industry, the Target Company and CBT's profitability had not been affected in the past few years as mentioned in the above paragraphs headed "Financial performance and financial position of the Target Company" and "Financial performance and financial position of CBT" in the section headed "5. Information of the Target Company and CBT" in this letter. Therefore, given that the implied valuation of the Acquisition is still lower than those of the Comparable Transactions back in 2017 and 2018, which had a more favourable operating environment, we are of the view that the Consideration is fair and reasonable. Lastly, Shareholders should note that the range of the above P/E Multiples is wide which might affect the comparability of the Comparable Transactions to the valuation of the Acquisition and this section should be read for reference purpose only.

7. Financial effects of the Acquisition on the Company

Upon Closing, the Target Company will become a wholly-owned subsidiary of the Company, the financial results, assets and liabilities of the Target Group will be consolidated into those of the Company.

(i) Earnings

The Company recorded a net profit of approximately HK$95.2 million for the year ended 31 December 2020 and the Target Company recorded a net profit of approximately US$8.8 million (equivalent to approximately HK$68.6 million) for the year ended 31 December 2020. Based on the historical financial performance of the Target Group, which was discussed in detail in the section headed "5. Information of the Target Company and CTIB" in this letter above, the Acquisition could potentially enhance the income stream and profitability of the Company upon Closing.

A goodwill of approximately US$27.3 million (equivalent to HK$212.9 million) was recognised by the Target Company when CBT became a subsidiary upon completion of the Reorganisation. Under the prevailing accounting standards, such goodwill will be tested annually for impairment and will be stated at cost less accumulated impairment losses on the consolidated statement of financial position of the Company.

(ii) Assets and liabilities

With reference to the unaudited pro forma financial information of the Enlarged Group as set out in appendix V to the Circular, the Target Group will be consolidated into the accounts of the Company upon Closing using the merger accounting principle ("**Merger Accounting Principle**") in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the Hong Kong Institute of Certified Public Accountants. Accordingly, the assets and liabilities of the Target Group will be recorded using the existing book values and they will not be revaluated to their respective fair values. Accordingly, no goodwill will arise from the Acquisition.

As set out in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, assuming Closing took place on 30 June 2021, the Enlarged Group's total assets would increase from approximately HK$2,483.1 million to approximately HK$3,622.6 million and its total liabilities would increase from approximately HK$793.1 million to approximately HK$1,667.7 million. The aforesaid changes were mainly due to (i) consolidation of all the assets and liabilities of the Target Group; (ii) payment of the Consideration by the Company; and (iii) elimination of inter-company balances between the Company and the Target Group. Accordingly, the Enlarged Group's pro forma NAV as at 30 June 2021 would increase by approximately 15.7% from approximately HK$1,690.0 million to approximately HK$1,954.9 million. Nevertheless, it should be noted that the aforesaid pro forma NAV includes a non-controlling interest (as set out in the accountants' report on the Target Group in appendix II to the Circular), representing the 49% interest in CBT owned Alliance One Brazil, of approximately US$36.0 million (equivalent to approximately HK$280.6 million) as at 31 March 2021. After excluding the aforesaid non-controlling interest, the pro forma NAV of the Enlarged Group attributable to the Shareholders would amount to approximately HK$1,674.3 million, representing a decrease of approximately 0.9% mainly attributable to the professional fees associated with the Acquisition. Excluding these professional fees, there would be almost no change in the NAV of the Company as a result of the Acquisition. This is primarily because (a) the Consideration is almost equal to the NAV of the Target Group attributable to its shareholders; and (b) the adoption of the Merger Accounting Principle for the Acquisition as discussed above.

(iii) Gearing and liquidity

As at 30 June 2021, the Company had no bank borrowing and its net current assets amounted to approximately HK$1,669.9 million with a current ratio (calculated as the total current assets divided by the total current liabilities) of approximately 3.2 times. Assuming Closing took place on 30 June 2021, the Enlarged Group's cash and cash equivalents would reduce by approximately HK$480.3 million to approximately HK$1,338.3 million since the Acquisition will be financed by the Company's internal funding. Accordingly, the Enlarged Group's net current assets would drop from approximately HK$1,669.9 million to approximately HK$1,565.5 million. The current ratio would also drop from approximately 3.2 times to approximately 2.0 times. Overall, although the Enlarged Group's liquidity will be affected, its overall liquidity is expected to remain healthy.

DISCUSSION AND ANALYSIS

Being the designated offshore platform for capital markets operation and international business expansion, the Company has been principally engaged in import of tobacco leaf products in the mainland China of the PRC and export of tobacco leaf products, PRC-branded cigarettes and new tobacco products to various places outside the PRC.

The Target Group is principally engaged in the procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production. It is currently an important tobacco leaves supplier to the Company. The Acquisition, being an upstream vertical integration, is expected to provide several benefits to the Company, including (a) reducing the Company's reliance on the CNTC Group and the number of connected transactions with Controlling Shareholder and hence improving the independence and competitiveness of the Company; (b) expanding and diversifying the Company's businesses; (c) better monitoring the supply of imported tobacco leaf products, overseeing delivery and shipment workstreams, and mitigating certain risks to the Company's tobacco leaf products import business; (d) bringing the strategic advantage of the Target Group, being located in one of the world's largest producers and exporters of tobacco leaf products, to the Company such as a relatively more stable tobacco leaf products supply; and (e) potentially enhancing the income stream and profitability of the Company. Overall, given the role of the Company in the CNTC Group, the Acquisition is considered to be in line with the Company's stated strategy.

Tobacco control has been more active around the world in recent years. The number of global tobacco users has seen a dwindling trend and such trend is expected to continue in the coming few years. Similar situations can be found in the PRC as the percentage of tobacco use prevalence among people aged 15 years and above in China had been declining since 2000. Nonetheless, the global imported value of tobacco and manufactured tobacco substitutes illustrated an overall upward trend in the last few years, except for 2020 due to the impact of the outbreak of the COVID-19. We are of the view that, while the sizes of the tobacco markets worldwide and in China are likely to remain substantial in the coming few years, there is an uncertainty that the tobacco consumption in these markets will continue to be strong in the long-term future.

The Acquisition represents the acquisition of the entire issued and outstanding quotas of the Target Company at the Consideration of US$63.4 million (equivalent to approximately HK$494.5 million) to be settled in cash by the Company. The Consideration is equal to the Appraised Value of the Target Company according to the Valuation Report issued by the Valuer, which was primarily based on both asset-based approach and income approach involving the use of discounted future cash flow.

We have reviewed the prices of two Comparable Companies as compared to that of the Acquisition. The implied P/E Multiple of the Acquisition of approximately 4.7 times is lower than the P/E Multiples of the other two Comparable Companies of approximately 13.5 times and approximately 73.8 times. Given the limited number of the Comparable Companies available for assessing the fairness and reasonableness of the Consideration and one of them is listed in a developing country (i.e. Uganda), we have expanded our review to identify and review three Comparable Transactions. The implied P/E Multiples of the Comparable Transactions are ranged from approximately 18.0 times to 48.5 times and have an average and a median of approximately 28.4 times and 18.7 times respectively. The implied P/E Multiple of the Acquisition of approximately 4.7 times is lower than all of the implied P/E Multiples of the Comparable Transactions.

Upon Closing, the Target Company would become a wholly-owned subsidiary of the Company, the financial results, assets and liabilities of the Target Group will be consolidated into those of the Company. The financial performance and financial position of the Target Group have been generally improving during the period under review. The Acquisition will potentially bring additional earnings to the Company and broaden the Company's earnings base. It is expected that there will be a minimal impact on the NAV of the Company attributable to the Shareholders upon Closing since the Consideration is almost equal to the NAV of the Target Group attributable to its shareholders and the Merger Accounting Principle will be adopted for the Acquisition. Given the Consideration will be satisfied in cash by the internal resources of the Company, the gearing and liquidity will inevitably be worsened upon Closing. Nevertheless, both are expected to remain at healthy levels. Having considered the above, we are of the view that the financial impact of the Acquisition on the Company is, in general, favourable.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Acquisition, though not in the ordinary and usual course of business of the Company, are in the interests of the Company and the Shareholders as a whole, and that the terms of the Quota Purchase Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to approve the relevant resolutions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Danny Cheng
Director

Mr. Danny Cheng is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

FINANCIAL INFORMATION ON THE GROUP

The audited consolidated financial statements of the Group for each of the financial years ended 31 December 2018, 2019 and 2020 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2021 were disclosed in the following documents which have been published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (www.ctihk.com.hk):

(i) annual report of the Company for the year ended 31 December 2019 published on 24 April 2020 (pages 86 to 139). Please also see below the link to the 2019 annual report of the Company:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0424/2020042400643.pdf

(ii) annual report of the Company for the year ended 31 December 2020 published on 20 April 2021 (pages 94 to 143). Please also see below the link to the 2020 annual report of the Company:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0420/2021042000327.pdf

(iii) interim report of the Company for the six months ended 30 June 2021 published on 10 September 2021 (pages 26 to 42). Please also see below the link to the 2021 interim report of the Company:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0910/2021091000579.pdf

INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

At the close of business on 31 August 2021, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the publication of this circular, the total indebtedness of the Enlarged Group was as follows:

	HK$'000
Bank borrowings	1,312,740
Lease liabilities	25,597
Guarantee provided	–
	1,338,337

None of the Enlarged Group's bank borrowings are secured or guaranteed at 31 August 2021.

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, finance leases or hire purchase commitments, mortgages or charges, contingent liabilities or guarantees outstanding at the close of business on 31 August 2021.

To the best of the Directors' knowledge, having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Enlarged Group since 31 August 2021.

WORKING CAPITAL SUFFICIENCY OF THE ENLARGED GROUP

After due and careful consideration, the Directors are of the opinion that, taking into account the financial resources available to the Enlarged Group including but not limited to the existing cash and bank balances, cash flows generated from the operating activities, available facilities and the effect of the Acquisition, the Enlarged Group will have sufficient working capital for its requirements for at least 12 months from the date of this circular, in the absence of unforeseen circumstances. The Directors confirm that requirements under Rule 14.66(12) have been complied with.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Economic stability and the trading environment for the Group continues to be challenged by major domestic and international events, including trade frictions between China and the United States of America and COVID-19. There are also uncertainties as to the business needs of the Group's partners and clients, as well as the supervision and regulation of the tobacco industry in the countries and regions where the Group operates. Under this background, the Group will continue to follow its business development philosophy of "pursuing both endogenous and exogenous growth," actively seeking market opportunities and focusing on building a forward-looking "resilient enterprise". The Group will continue to implement various measures to counter the impact of COVID-19 on the Group's management and business operation and to fully prepare for a post-COVID-19 business rebound, with an aim of obtaining sustained growth and optimal value for Shareholders.

In respect of the tobacco leaf products export business, due to COVID-19, the consumption in the cigarette market in Southeast Asia dropped significantly, which in turn affected the demand for tobacco raw materials at a certain level. The Group will maintain close collaboration with clients, adjust the structure of its export grade in a timely manner, and maintain its export volume at a stable level while alleviating customers' cost pressure.

In respect of the tobacco leaf products import business, as COVID-19 has not been fully contained, in addition to seasonality factors, including purchase and processing periods, imported tobacco leaf products produced in countries such as Brazil are vulnerable to disruption in the global supply chain and reduction in logistics capacity. The Group will take into account distance procedures under the impact of COVID-19 for the import of tobacco leaf products and its experience in managing disruptions caused by COVID-19, and aims to reduce the negative impact of COVID-19 on the tobacco leaf products import business.

In respect of the cigarettes export business, strict measures in relation to cross border travel and quarantine currently remain in place for the prevention of to COVID-19 in most of the duty-free markets where the Group operates. Gradual recovery in business has only been made in Macau and in Zhuhai (a duty-free market on the border with Macau, and within the borders but outside the custom areas of the PRC), as visa processing for mainland residents to travel to Macau had resumed since August 2020. The Group will closely monitor the development of COVID-19 and changes in consumer behaviours, and swiftly respond to markets in line with local pandemic-control measures. Further, the Group will continue to expand channels, accelerate destocking and improve on the direct cooperation with duty-free operators.

In respect of the new tobacco products export business, the global sales volume of new tobacco products continues to increase. The Group will take full advantage of the opportunity and actively promote the research and development, brand-building and channels for its new tobacco products. Further, the Group aims to increase the percentage of revenue and profit generated from new tobacco products, optimizing business structure and strengthening the risk resistance ability of the Group.

The following is the text of a report set out on pages II – 1 to II – 37, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF CHINA TABACO INTERNACIONAL DO BRASIL LTDA. TO THE DIRECTORS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED

Introduction

We report on the historical financial information of China Tabaco Internacional do Brasil Ltda. (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II – 4 to II – 37, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2018, 31 December 2019, 31 December 2020 and 31 March 2021 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020 and the three months ended 31 March 2021 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information of the Target Group"). The Historical Financial Information of the Target Group set out on pages II – 4 to II – 37 forms an integral part of this report, which has been prepared for inclusion in the circular of China Tobacco International (HK) Company Limited (the "Company") dated 29 September 2021 (the "Circular") in connection with the proposed acquisition of the entire issued and outstanding quotas of the Target Company.

Directors' responsibility for Historical Financial Information of the Target Group

The directors of the Company are responsible for the preparation of Historical Financial Information of the Target Group that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of the Target Group.

The Underlying Financial Statements of the Target Group as defined on page II – 4, on which the Historical Financial Information of the Target Group is based, were prepared by the sole director of the Target Company. The sole director of the Target Company is responsible for the preparation of the Underlying Financial Statements of the Target Group that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the sole director of the Target Company determines is necessary to enable the preparation of the Underlying Financial Statements of the Target Group that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information of the Target Group and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information of the Target Group is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information of the Target Group. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information of the Target Group, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information of the Target Group that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of the Target Group in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director, as well as evaluating the overall presentation of the Historical Financial Information of the Target Group.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information of the Target Group gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2018, 31 December 2019, 31 December 2020 and 31 March 2021 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of the Target Group.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Target Group which comprises 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 three months ended 31 March 2020 and other explanatory information (the "Stub Period Corresponding Financial Information of the Target Group"). The directors of the Company are responsible for the preparation and presentation of the Stub Period

Corresponding Financial Information of the Target Group in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of the Target Group. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information of the Target Group based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information of the Target Group, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of the Target Group.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information of the Target Group, no adjustments to the Underlying Financial Statements of the Target Group as defined on page II – 4 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 September 2021

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the Historical Financial Information of the Target Group which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information of the Target Group is based, were audited by KPMG Auditores Independentes under separate terms of engagement with the Target Company in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements of the Target Group").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in United States dollars)

	Note	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Three months ended 31 March 2020 *(unaudited)*	Three months ended 31 March 2021
Revenue	*3*	510,713	631,040	482,374	158,072	128,915
Other income, net		406,931	554,100	237,857	52,015	11,486
Administrative and other operating expenses		(2,725,949)	(1,923,168)	(1,610,987)	(330,985)	(448,126)
Loss from operations		(1,808,305)	(738,028)	(890,756)	(120,898)	(307,725)
Share of profit/(loss) of joint venture	*9*	7,174,985	7,088,138	9,644,162	(739,321)	4,278,399
Gain on deemed disposal of a joint venture	*9*	–	–	–	–	52,050,152
Profit/(loss) before taxation	*4*	5,366,680	6,350,110	8,753,406	(860,219)	56,020,826
Income tax	*5*	–	–	–	–	–
Profit/(loss) for the year/period attributable to owners of the Target Company		5,366,680	6,350,110	8,753,406	(860,219)	56,020,826
Other comprehensive income net of nil tax:						
Items that may be reclassified to profit or loss:						
Exchange differences on translation of financial statements		166,461	392,945	495,055	2,727,875	(77,453)
Exchange differences recycled upon deemed disposal of a joint venture	*9*	–	–	–	–	(11,990,202)
Item that will not be reclassified to profit or loss:						
Exchange differences on translation of financial statements from functional currency to presentation currency		(2,369,535)	(2,082,862)	(2,864,188)	(4,118,533)	(293,374)
Other comprehensive income for the year/period		(2,203,074)	(1,689,917)	(2,369,133)	(1,390,658)	(12,361,029)
Total comprehensive income for the year/period attributable to owners of the Target Company		3,163,606	4,660,193	6,384,273	(2,250,877)	43,659,797

The accompanying notes form part of the Historical Financial Information of the Target Group.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in United States dollars)

	Note	At 31 December 2018	At 31 December 2019	At 31 December 2020	At 31 March 2021
Non-current assets					
Property, plant and equipment		56,065	37,239	23,857	3,738,589
Intangible assets	*20*	–	–	–	28,160,470
Goodwill	*20*	–	–	–	27,298,530
Interest in a joint venture	*9*	18,526,244	18,584,985	20,256,810	–
Trade and other receivables	*12*	–	–	–	2,517,783
		18,582,309	18,622,224	20,280,667	61,715,372
Current assets					
Inventories	*11&20*	–	–	–	84,966,209
Trade and other receivables	*12*	3,903,798	3,913,706	4,883,296	73,335,046
Cash and cash equivalents	*13(a)*	3,674,176	3,907,571	2,712,946	3,784,303
		7,577,974	7,821,277	7,596,242	162,085,558
Current liabilities					
Trade and other payables	*14*	684,897	383,397	267,397	23,823,511
Bank borrowings	*15*	–	–	–	82,491,668
Lease liabilities	*20*	–	–	–	322,686
Current tax payable	*20*	–	–	–	3,467,218
		684,897	383,397	267,397	110,105,083
Net current assets		6,893,077	7,437,880	7,328,845	51,980,475
Total assets less current liabilities		25,475,386	26,060,104	27,609,512	113,695,847
Non-current liabilities					
Lease liabilities	*20*	–	–	–	319,211
Deferred tax liabilities	*20*	–	–	–	14,054,161
		–	–	–	14,373,372
NET ASSETS		25,475,386	26,060,104	27,609,512	99,322,475
Capital and reserves	*16*				
Share capital		16,500,000	16,500,000	16,500,000	16,500,000
Reserves		8,975,386	9,560,104	11,109,512	46,841,863
Total equity attributable to equity shareholders of the Group		25,475,386	26,060,104	27,609,512	63,341,863
Non-controlling interests		–	–	–	35,980,612
TOTAL EQUITY		25,475,386	26,060,104	27,609,512	99,322,475

The accompanying notes form part of the Historical Financial Information of the Target Group.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in United States dollars)

		Attributable to equity shareholders of the Target Company						
	Note	Share capital *(note 16(a))*	Capital reserve	Exchange reserve *(note 16(b))*	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2018		16,500,000	48	1,733,947	8,738,376	26,972,371	–	26,972,371
Profit for the year		–	–	–	5,366,680	5,366,680	–	5,366,680
Other comprehensive income		–	–	(2,203,074)	–	(2,203,074)	–	(2,203,074)
Total comprehensive income for the year		–	–	(2,203,074)	5,366,680	3,163,606	–	3,163,606
Dividend	*8*	–	–	–	(4,660,591)	(4,660,591)	–	(4,660,591)
Balance at 31 December 2018		16,500,000	48	(469,127)	9,444,465	25,475,386	–	25,475,386
Balance at 1 January 2019		16,500,000	48	(469,127)	9,444,465	25,475,386	–	25,475,386
Profit for the year		–	–	–	6,350,110	6,350,110	–	6,350,110
Other comprehensive income		–	–	(1,689,917)	–	(1,689,917)	–	(1,689,917)
Total comprehensive income for the year		–	–	(1,689,917)	6,350,110	4,660,193	–	4,660,193
Dividend	*8*	–	–	–	(4,075,475)	(4,075,475)	–	(4,075,475)
Balance at 31 December 2019		16,500,000	48	(2,159,044)	11,719,100	26,060,104	–	26,060,104
Balance at 1 January 2020		16,500,000	48	(2,159,044)	11,719,100	26,060,104	–	26,060,104
Profit for the year		–	–	–	8,753,406	8,753,406	–	8,753,406
Other comprehensive income		–	–	(2,369,133)	–	(2,369,133)	–	(2,369,133)
Total comprehensive income for the year		–	–	(2,369,133)	8,753,406	6,384,273	–	6,384,273
Dividend	*8*	–	–	–	(4,834,865)	(4,834,865)	–	(4,834,865)
Balance at 31 December 2020		16,500,000	48	(4,528,177)	15,637,641	27,609,512	–	27,609,512

	Note	Attributable to equity shareholders of the Target Company Share capital *(note 16(a))*	Capital reserve	Exchange reserve *(note 16(b))*	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2021		16,500,000	48	(4,528,177)	15,637,641	27,609,512	–	27,609,512
Profit for the period		–	–	–	56,020,826	56,020,826	–	56,020,826
Other comprehensive income		–	–	(12,361,029)	–	(12,361,029)	–	(12,361,029)
Total comprehensive income for the period		–	–	(12,361,029)	56,020,826	43,659,797	–	43,659,797
Dividend	*8*	–	–	–	(7,927,446)	(7,927,446)	–	(7,927,446)
Business combination	*20*	–	–	–	–	–	35,980,612	35,980,612
Balance at 31 March 2021		16,500,000	48	(16,889,206)	63,731,021	63,341,863	35,980,612	99,322,475
(Unaudited)								
Balance at 1 January 2020		16,500,000	48	(2,159,044)	11,719,100	26,060,104	–	26,060,104
Loss for the period		–	–	–	(860,219)	(860,219)	–	(860,219)
Other comprehensive income		–	–	(1,390,658)	–	(1,390,658)	–	(1,390,658)
Total comprehensive income for the period		–	–	(1,390,658)	(860,219)	(2,250,877)	–	(2,250,877)
Balance at 31 March 2020		16,500,000	48	(3,549,702)	10,858,881	23,809,227	–	23,809,227

The accompanying notes form part of the Historical Financial Information of the Target Group.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

	Note	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Three months ended 31 March 2020 *(unaudited)*	Three months ended 31 March 2021
Operating activities						
Cash used in operations	*13(b)*	(2,069,375)	(650,496)	(263,009)	(172,703)	(405,794)
Investing activities						
Payment for purchase of property, plant and equipment		(2,186)	(2,030)	(2,504)	–	–
Proceeds from disposal of property, plant and equipment		16,945	15,732	–	–	–
Interest received		198,904	275,888	118,993	54,717	12,297
Dividend received		4,887,705	6,350,085	5,105,320	–	–
Net cash inflow from the Acquisition	*20*	–	–	–	–	1,682,515
Net cash generated from investing activities		5,101,368	6,639,675	5,221,809	54,717	1,694,812
Financing activities						
Payment of dividends	*13(c)*	(5,782,886)	(4,326,821)	(4,967,160)	–	–
Net (decrease)/increase in cash and cash equivalents		(2,750,893)	1,662,358	(8,360)	(117,986)	1,289,018
Cash and cash equivalents at the beginning of the year/period		4,462,091	3,674,176	3,907,571	3,907,571	2,712,946
Effect of foreign exchange rate changes		1,962,978	(1,428,963)	(1,186,265)	(857,616)	(217,661)
Cash and cash equivalents at the end of the year/period	*13(a)*	3,674,176	3,907,571	2,712,946	2,931,969	3,784,303

The accompanying notes form part of the Historical Financial Information of the Target Group.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1.1 General information

China Tabaco Internacional do Brasil Ltda. (the "Target Company") was established on 6 June 2002 as a limited liability company and is headquartered in the City of Santa Cruz do Sul, RS – Brazil.

The Target Company's principal activity is investment holding and it held 51% equity interest in China Brasil Tabacos Exportadora S.A. ("CBT") during the Relevant Periods (meaning for each of the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021). CBT, headquartered at Rua Silveira Martins, 1,733 in Venâncio Aires – Rio Grande do Sul, is engaged in procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production. Since its main activity is the processing and trading of tobacco leaves, CBT is subject to the seasonality applicable to its business.

Prior to 31 March 2021, although CBT was owned as to 51% and 49% by the Target Company and Alliance One Brasil Exportadora de Tabacos Ltda. ("AOB"), respectively, the Target Company did not have control of CBT due to certain arrangements of the bylaws of CBT and a shareholders' agreement between the Target Company, AOB and CBT dated 21 February 2014. Such arrangements included, among others, the quorum required to hold shareholders meetings, the percentage of affirmative votes required to approve shareholders reserved matters and board reserved matters, as well as the number of directors appointed by the Target Company and AOB respectively. These arrangements effectively required unanimous consent from both the Target Company and AOB before key operating decisions of CBT could be made. Pursuant to a shareholders meeting of CBT held on 31 March 2021 to amend the bylaws of CBT, an amendment to the shareholders' agreement was signed between the Target Company, AOB and CBT on 31 March 2021 to amend the provisions in relation to the aforementioned arrangements. As a result, key operating decisions of CBT could be made by the Target Company, or its representatives, unilaterally and therefore the Target Company obtained control over CBT, which is accounted for as a business combination achieved in stages. Upon completion of the acquisition of CBT as a subsidiary (the "Acquisition"), CBT became a non-wholly owned subsidiary of the Target Company. The Target Company and its subsidiary are together referred to as the Target Group hereafter.

1.2 Basis of preparation

The Historical Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term include all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in note 2.

As the Acquisition was only completed on 31 March 2021, the Historical Financial Information of the Target Group presented comprise the Target Company and its interest in CBT as a joint venture up to 30 March 2021 (i.e. the date immediately before the date of the Acquisition) and comprise the Target Company and CBT as a subsidiary since 31 March 2021.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing the Historical Financial Information of the Target Group, the Target Group has adopted all applicable new and revised HKFRSs that are effective during the Relevant Periods, except for any new standards or interpretation that are not yet effective for the accounting period beginning on 1 January 2021. The revised and new accounting standards or interpretations issued but not yet effective for the accounting period beginning on 1 January 2021 are set out in note 23.

The Historical Financial Information of the Target Group also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

For the purpose of preparing the Historical Financial Information of the Target Group, the accounting policies set out below have been applied consistently throughout the Relevant Periods.

The Stub Period Corresponding Financial Information of the Target Group, being the financial information for the three months ended 31 March 2020, has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information of the Target Group.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Basis of measurement and use of estimate and judgements

The measurement basis used in the preparation of the Historical Financial Information of the Target Group is the historical cost basis.

The functional currency of the Target Company is the Brazilian Reais ("R$"). The functional currency of CBT is US$. The Historical Financial Information of the Target Group is presented in United States Dollars ("US$") to enable the financial statement users to have a more accurate picture of the financial performance of CBT, being the Target Group's major operation.

(b) Use of estimate and judgements

The preparation of the Historical Financial Information of the Target Group 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 Historical Financial Information of the Target Group and major sources of estimation uncertainty are discussed in note 2(y).

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Group, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. The Target Group measures any non-controlling interests arising from business combination 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 Target Company. Non-controlling interests in the results of the Target Group are presented on the face of 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 Target Company.

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

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

In the Target Company's statement of financial position presented in note 21, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)(iii)).

(d) Joint ventures

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

An investment in a joint venture is accounted for in the Historical Financial Information of the Target Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Target Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Target Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(i)(iii)). At each reporting date, the Target Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Target Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Target Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

In the Target Company's company-level statement of financial position presented in note 21, an investment in a joint venture is stated at cost less impairment losses (see note 2(i)(iii)).

(e) Business combination and goodwill

The Target Group applies the acquisition method to account for business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Target Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9, *Financial Instruments*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of

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

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

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

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

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

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)(iii)).

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

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

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

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

(g) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)(iii)).

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

– Software	5 years
– Portfolio of producers	10 years

Both the period and method of amortisation are reviewed annually.

(h) Leased assets

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

As a lessee

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(f) and 2(i)(iii)).

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

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

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

Measurement of ECLs

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

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

Write-off policy

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

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

(ii) Credit losses from financial guarantees issued

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

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

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

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

To determine ECLs, the Target Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(i)(i) apply.

As the Target 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 Target Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iii) Impairment of other non-current assets

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

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

– intangible assets;

– goodwill; and

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(j) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Target Group recognises the related revenue (see note 2(t)). A contract liability would also be recognised if the Target Group has an unconditional right to receive consideration before the Target Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)). For a single contract with the customer, a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis.

(k) Inventories

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

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

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

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

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

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

(l) Trade and other receivables

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

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

(m) Advances to producers

The Target 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 2(i)(i).

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method. Interest expense is recognised in accordance with the Target Group's accounting policy for borrowing costs (see note 2(v)).

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(i)(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 cost.

(p) Cash and cash equivalents

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

(q) Employee benefits

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

(r) Income tax

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

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

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

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

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

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

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

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

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

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

  – the same taxable entity; or

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

(s) Provisions and contingent liabilities

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

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

(t) Revenue and other income

Income is classified by the Target Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Target Group's assets under leases in the ordinary course of the Target 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 Target 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 Target Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Target Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15, *Revenue from Contracts with Customers*, 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 Target Group's revenue and other income recognition policies are as follows:

(i) Sales of goods

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

(ii) Provision of services

The revenue from provision of services recognised as the service is rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(i)(i)).

(u) Translation of foreign currencies

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

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

The results of foreign operations are translated into the Target Company's functional currency at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired, are translated into the Target Company's functional currency at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. In translating the these financial statements into US$, the same translation procedures as those for translating foreign operations are applied.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised. Exchange differences arising from the translation of financial statements from the Target Company's functional currency to the presentation currency of these financial statements that are not related to a foreign operation will not be reclassified from equity to profit or loss subsequently.

(v) 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.

(w) Related parties

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

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

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

- (i) The entity and the Target 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 Target Group or an entity related to the Target 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 Target Group or to the Target 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.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information of the Target Group, are identified from the financial information provided regularly to the Target Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target 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.

(y) Accounting judgements and estimates

As disclosed in note 20, the Target Group completed the Acquisition on 31 March 2021 with net identified assets acquired and the consideration, being the Target Company's interest in CBT as at 31 March 2021, measured at fair value on the acquisition date. Management judgement is particularly involved in the identification of the identifiable net assets acquired and fair value measurement thereof and of the consideration. External professional qualified valuers were engaged in measuring the aforesaid fair values.

3 REVENUE AND SEGMENT REPORTING

The revenue presented in the statements of profit or loss and other comprehensive income is derived from the provision of consulting services to CBT during the Relevant Periods.

The Target Group operates in a single business segment and, accordingly, no segmental analysis is presented.

4 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Staff costs (including sole director's emoluments)

	Year ended 31 December 2018 *US$*	**Year ended 31 December 2019** *US$*	**Year ended 31 December 2020** *US$*	**Three months ended 31 March 2020** *US$* *(unaudited)*	**Three months ended 31 March 2021** *US$*
Salaries, wages and other benefits	1,118,795	812,956	994,705	144,622	369,862
Contributions to defined contribution retirement plans	14,249	13,693	10,846	2,711	3,226
	1,133,044	826,649	1,005,551	147,333	373,088

The Target Group offers a defined contribution pension plan to its employees. The Target Group has 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 Target 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.

(b) Other items

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**	**Three months ended 31 March 2020**	**Three months ended 31 March 2021**
	US$	*US$*	*US$*	*US$*	*US$*
				(unaudited)	
Depreciation of owned property, plant and equipment	16,273	15,588	9,245	2,912	1,972
Interest income	(198,904)	(275,888)	(118,993)	(54,717)	(12,297)
Gain on disposal of property, plant and equipment	–	(811)	–	–	–
Auditors' remuneration	12,156	23,883	27,758	–	–

5 INCOME TAX

Income tax in Brazil includes corporate income tax and social contribution tax. The applicable rates for corporate income tax and social contribution tax in Brazil are 25% and 9%, respectively, during the Relevant Periods.

Income tax has not been provided for as the Target Group has no assessable profit during the Relevant Periods.

6 SOLE DIRECTOR'S EMOLUMENTS

	Year ended 31 December 2018				
	Director's fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	US$	*US$*	*US$*	*US$*	*US$*
Director					
Mr. Miao Guosheng (resigned on 31 December 2018)	18,011	48,857	60,044	2,036	128,948

	Year ended 31 December 2019				
	Director's fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	US$	*US$*	*US$*	*US$*	*US$*
Director					
Mr. Zhou Xinghua (appointed on 31 December 2018)	–	49,358	61,723	1,957	113,038

	Year ended 31 December 2020				
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	US$	*US$*	*US$*	*US$*	*US$*
Director					
Mr. Zhou Xinghua	–	38,794	186,191	1,549	226,534

	Three months ended 31 March 2021				
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	US$	*US$*	*US$*	*US$*	*US$*
Director					
Mr. Zhou Xinghua	–	14,093	80,159	461	94,713

	Three months ended 31 March 2020 (unaudited)				
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	US$	*US$*	*US$*	*US$*	*US$*
Director					
Mr. Zhou Xinghua	–	8,923	35,095	387	44,405

7 INDIVIDUAL WITH HIGHEST EMOLUMENTS

One of the five individuals with the highest emoluments of the Target Group for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2020 and 2021 is the sole director whose emoluments are disclosed in note 6. The emoluments in respect of the remaining individuals other than the sole director are as follows:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Three months ended 31 March 2020	Three months ended 31 March 2021
	US$	*US$*	*US$*	*US$* *(unaudited)*	*US$*
Salaries, allowances and benefits in kind	239,857	64,057	92,184	20,809	35,767
Discretionary bonuses	129,944	129,368	346,001	80,926	152,373
Retirement scheme contributions	10,178	9,781	7,747	1,937	2,305
	379,979	203,206	445,932	103,672	190,445

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

	Year ended 31 December 2018 *Number of individuals*	Year ended 31 December 2019 *Number of individuals*	Year ended 31 December 2020 *Number of individuals*	Three months ended 31 March 2020 *Number of individuals (unaudited)*	Three months ended 31 March 2021 *Number of individuals*
HK$Nil – HK$1,000,000	3	4	3	4	4
HK$1,000,001 – HK$1,500,000	1	–	1	–	–

8 DIVIDENDS

(a) Dividends distribution to equity shareholders of the Target Company approved during the reporting period:

Dividend in respect of the previous financial year, approved during the year/period	**Year ended 31 December 2018**	**Year ended 31 December 2019**	**Year ended 31 December 2020**	**Three months ended 31 March 2020** *(unaudited)*	**Three months ended 31 March 2021**
Per share (US$ cents)	12.09	10.57	12.54	–	20.56
Amount (US$)	4,660,591	4,075,475	4,834,865	–	7,927,446

(b) Dividends distribution to equity shareholders of the Target Company in respect of the current year/period approved subsequent to the end of the reporting period:

Dividend in respect of the current year, proposed after the end of the reporting period	**Year ended 31 December 2018**	**Year ended 31 December 2019**	**Year ended 31 December 2020**	**Three months ended 31 March 2020** *(unaudited)*	**Three months ended 31 March 2021**
Per share (US$ cents)	10.57	12.54	20.56	–	–
Amount (US$)	4,075,475	4,834,865	7,927,446	–	–

The dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

9 INTEREST IN A JOINT VENTURE

	At 31 December 2018 *US$*	**At 31 December 2019** *US$*	**At 31 December 2020** *US$*
Cost of unlisted investment in a joint venture	5,232,047	5,024,198	3,896,773
Share of post-acquisition total comprehensive income, net of dividends received	13,294,197	13,560,787	16,360,037
	18,526,244	18,584,985	20,256,810

CBT was accounted for as a joint venture of the Target Company under equity accounting until it became a subsidiary of the Target Company on 31 March 2021, following certain amendments of its bylaws where upon the Target Company obtained control of CBT. The transaction is accounted for in accordance with the relevant accounting policies as set out in notes 2(c), 2(d) and 2(e), and the Target Company's interest in the joint venture was deemed disposed of at its fair value, which was determined with reference to a valuation report prepared by an external qualified valuer, as of 31 March 2021 (the acquisition date). This resulted in a gain on deemed disposal of US$52,050,152 as set out below which has been recognised in the consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2021.

	US$
Fair value of investment in CBT at acquisition date *(note 20)*	64,747,738
Carrying amount of investment in CBT immediately before the deemed disposal	(24,687,788)
Other comprehensive income recycled to profit or loss	11,990,202
Gain on deemed disposal of CBT, as a joint venture	52,050,152

Details of the Target Company's interest in CBT are set out below.

Name	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Proportion of ownership interest held by the Target Group**	**Principal activity**
China Brasil Tabacos Exportadora S.A.	Incorporated	Brazil	39,702,000 shares	51%	Procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production

Summarised information of CBT's financial position and a reconciliation to the carrying amount in the Historical Financial Information of the Target Group, are disclosed below:

	At 31 December 2018 *US$*	**At 31 December 2019** *US$*	**At 31 December 2020** *US$*
Gross amounts of CBT			
Current assets	179,162,478	94,899,020	188,422,629
Non-current assets	8,564,188	7,023,954	5,100,753
Current liabilities	(149,980,872)	(65,440,307)	(153,267,110)
Non-current liabilities	(1,419,826)	(41,520)	(537,037)
Net assets	36,325,968	36,441,147	39,719,235
Included in the above assets and liabilities:			
Cash and cash equivalents	34,100,876	26,568,666	6,370,103
Current financial liabilities (excluding trade and other payables and provisions)	137,837,257	55,462,113	133,091,879
Reconciled to the Target Company's interest in CBT			
Gross amounts of CBT's net assets	36,325,968	36,441,147	39,719,235
Company's effective interest	51%	51%	51%
Company's share of CBT's net assets	18,526,244	18,584,985	20,256,810
Carrying amount of the Target Group's interest	18,526,244	18,584,985	20,256,810

The summarised financial information of CBT's performance is disclosed below:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Three months ended 31 March 2020	Three months ended 31 March 2021
	US$	*US$*	*US$*	*US$* *(unaudited)*	*US$*
Revenue	183,651,274	190,516,877	136,239,949	11,123,970	57,272,093
Profit/(loss) and total comprehensive income for the year/period	13,843,899	13,134,026	17,792,119	(916,678)	8,688,193
Included in the above profit:					
Interest income	163,854	225,357	66,048	20,163	13,724
Depreciation and amortisation	(2,677,605)	(2,662,402)	(3,173,020)	(754,569)	(1,157,943)
Interest expense	(5,732,776)	(5,100,688)	(3,341,676)	(274,840)	(879,730)
Income tax expense	(9,487,040)	(6,755,374)	(12,761,397)	(3,675,718)	(6,023,093)

The Target Company recognised share of profit of CBT of US$7,174,985, US$7,088,138, US$9,644,162 and US$4,278,399 during the years ended 31 December 2018, 2019 and 2020 and three months ended 31 March 2021, respectively. The Target Company recognised share of loss of CBT of US$739,321 (unaudited) for the three months ended 31 March 2020.

10 INVESTMENT IN A SUBSIDIARY

CBT, which was a joint venture of the Target Company, became a subsidiary on 31 March 2021.

CBT is considered to have a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any intra-group elimination and is modified for fair value adjustments to the identifiable net assets of CBT upon business combination.

	At 31 March 2021
	US$
Amounts recognised in CBT's books	
Current assets	150,118,476
Non-current assets	6,157,078
Current liabilities	(106,420,632)
Non-current liabilities	(1,447,494)
	48,407,428
Fair value adjustments recognised upon the Acquisition	25,022,392
Net assets of CBT	73,429,820
NCI percentage	49%
Carrying amount of NCI	35,980,612

The summarised financial information of CBT's performance is disclosed in note 9. As the business combination was only completed on 31 March 2021, the fair value adjustments to the identifiable net assets of CBT upon business combination did not have an impact to CBT's performance for the three months ended 31 March 2021 and there was no profit attributable to or dividend paid to NCI. The cash flow information of CBT is further disclosed below:

	Three months ended 31 March 2021 *US$*
Cash inflows from operating activities	47,895,432
Cash outflows from investing activities	(459,105)
Cash outflows from financing activities	(52,123,915)

11 INVENTORIES

As at 31 March 2021, inventories in the consolidated statements of financial position comprised of tobacco leaf products of CBT.

12 TRADE AND OTHER RECEIVABLES

	At 31 December 2018 *US$*	**At 31 December 2019** *US$*	**At 31 December 2020** *US$*	**At 31 March 2021** *US$*
Trade receivables	–	–	–	68,073,051
Advances to producers	–	–	–	4,156,990
Value-added tax and other taxes recoverable	615,076	383,644	38,378	3,118,844
Dividend receivable	3,232,718	3,467,309	4,712,681	–
Prepaid expenses and other receivables	56,004	62,753	132,237	503,944
	3,903,798	3,913,706	4,883,296	75,852,829
Represented by:				
– Current portion	3,903,798	3,913,706	4,883,296	73,335,046
– Non-current portion	–	–	–	2,517,783
	3,903,798	3,913,706	4,883,296	75,852,829

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

	At 31 December 2018 *US$*	**At 31 December 2019** *US$*	**At 31 December 2020** *US$*	**At 31 March 2021** *US$*
Within 30 days	–	–	–	41,008
31 to 60 days	–	–	–	688,635
61 to 180 days	–	–	–	67,343,408
	–	–	–	68,073,051

Trade receivables are normally due within 4 to 6 months from the date of billing. As at 31 March 2021, none of the trade receivables were past due.

The Target Group generally does not hold any collateral over the balances. Further details on the Target Group's credit policy are set out in note 17(a).

13 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December 2018 *US$*	**At 31 December 2019** *US$*	**At 31 December 2020** *US$*	**At 31 March 2021** *US$*
Cash at bank and on hand	3,674,176	3,907,571	2,712,946	2,210,283
Bank certificates of deposits	–	–	–	1,574,020
	3,674,176	3,907,571	2,712,946	3,784,303

At 31 March 2021, bank certificates of deposits were with original maturity of less than 3 months and they were held for the purpose of meeting short-term cash commitments.

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

	Year ended 31 December 2018 *US$*	**Year ended 31 December 2019** *US$*	**Year ended 31 December 2020** *US$*	**Three months ended 31 March 2020** *US$* *(unaudited)*	**Three months ended 31 March 2021** *US$*
Profit/(loss) before taxation	5,366,680	6,350,110	8,753,406	(860,219)	56,020,826
Adjustments for:					
Depreciation	16,273	15,588	9,245	2,912	1,972
Interest income	(198,904)	(275,888)	(118,993)	(54,717)	(12,297)
Share of (profit)/loss of a joint venture	(7,174,985)	(7,088,138)	(9,644,162)	739,321	(4,278,399)
Gain on deemed disposal of a joint venture	–	–	–	–	(52,050,152)
Gain on disposal of property, plant and equipment	–	(811)	–	–	–
Operating loss before changes in working capital	(1,990,936)	(999,139)	(1,000,504)	(172,703)	(318,050)
Decrease in trade and other receivables	225,204	4,314	250,968	–	16,857
(Decrease)/increase in trade and other payables	(303,643)	344,329	486,527	–	(104,601)
Cash generated from operations	(2,069,375)	(650,496)	(263,009)	(172,703)	(405,794)

(c) Reconciliation of liabilities arising from financing activities

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

	Bank borrowings *US$*	Lease liabilities *US$*	Dividend payable *US$*	Total *US$*
At 1 January 2018	–	–	–	–
Changes from financing cash flows:				
Dividend distribution	–	–	(5,782,886)	(5,782,886)
Other changes:				
Dividend declared *(note 8)*	–	–	4,660,591	4,660,591
Exchange adjustments	–	–	1,122,295	1,122,295
Total other changes:	–	–	5,782,886	5,782,886
At 31 December 2018	–	–	–	–
At 1 January 2019	–	–	–	–
Changes from financing cash flows:				
Dividend distribution	–	–	(4,326,821)	(4,326,821)
Other changes:				
Dividend declared *(note 8)*	–	–	4,075,475	4,075,475
Exchange adjustments	–	–	251,346	251,346
Total other changes:	–	–	4,326,821	4,326,821
At 31 December 2019	–	–	–	–
At 1 January 2020	–	–	–	–
Changes from financing cash flows:				
Dividend distribution	–	–	(4,967,160)	(4,967,160)
Other changes:				
Dividend declared *(note 8)*	–	–	4,834,865	4,834,865
Exchange adjustments	–	–	132,295	132,295
Total other changes:	–	–	4,967,160	4,967,160
At 31 December 2020	–	–	–	–
At 1 January 2021	–	–	–	–
Other changes:				
Business combination *(note 20)*	82,491,668	641,897	4,195,817	87,329,382
Dividend declared *(note 8)*	–	–	7,927,446	7,927,446
Total other changes:	82,491,668	641,897	12,123,263	95,256,828
At 31 March 2021	82,491,668	641,897	12,123,263	95,256,828

	Bank borrowings *US$*	Lease liabilities *US$*	Dividend payable *US$*	Total *US$*
(unaudited)				
At 1 January 2020	–	–	–	–
Changes from financing cash flows:				
Dividend distribution	–	–	–	–
Total changes from financing cash flows	–	–	–	–
Other changes:				
Dividend declared *(note 8)*	–	–	–	–
Total other changes:	–	–	–	–
At 31 March 2020	–	–	–	–

14 TRADE AND OTHER PAYABLES

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Trade payables	–	–	–	10,657,164
Dividends payable	–	–	–	12,123,263
Other payables and accruals	684,897	383,397	267,397	950,385
Financial liabilities measured at amortised cost	684,897	383,397	267,397	23,730,812
Financial guarantees issued	–	–	–	92,699
	684,897	383,397	267,397	23,823,511

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 18(c).

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

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Within 30 days	–	–	–	7,868,668
31 to 60 days	–	–	–	12,788,496
	–	–	–	10,657,164

Certain producers of the Target Group 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). The Target Group issued guarantees to these financial institutions with respect to the financing they provided to such producers. As at 31 March 2021, the maximum guaranteed amounted to US$5,894,038.

15 BANK BORROWINGS

	At 31 December 2018	At 31 December 2019	At 31 December 2020	At 31 March 2021
	US$	*US$*	*US$*	*US$*
Advances on foreign exchange contracts ("ACC")	–	–	–	68,361,596
Export prepayments	–	–	–	7,744,664
Agricultural credit	–	–	–	6,385,408
	–	–	–	82,491,668

At 31 March 2021, 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 rate as at 31 March 2021 was 2.80% per annum.

16 CAPITAL AND RESERVES

(a) Share capital

	Number of shares	Amount	Amount
		R$	*US$*
Ordinary shares, issued and fully paid:			
At 31 December 2018, 2019 and 2020 and 31 March 2021	38,561,000	38,561,100	16,500,000

In accordance with the Target Company's bylaws, the ordinary shares of the Target Group 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 Target Group. All ordinary shares rank equally with regard to the Target Group's residual assets.

(b) 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 2(u).

(c) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target 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 Target Group defines "capital" as including all components of equity, less any unaccrued proposed dividends.

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

The Target Group was not subject to any externally imposed capital requirements during the Relevant Periods.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Target Group conducts its principal operations in Brazil and is accordingly subject to risks associated with, among others, local political, economic and legal environment and the rate or method of taxation. Other than such risks which may not be typically associated with companies that operate in Hong Kong or the mainland of People's Republic of China, exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Target Group's business.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target 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 Target Group. The Target Group's credit risk is primarily attributable to trade and other receivables.

Credit risk exposure of the Target Group was not material as at 31 December 2018, 2019 and 2020. As at 31 March 2021, no expected credit loss is considered necessary as majority of the trade and other receivables were attributable to CBT and measured at fair value upon completion of the Acquisition.

The Target Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions, for which the Target Group considers to have low credit risk.

Except for the financial guarantees given by the Target Company as set out in note 14, the Target Company does not provide any other guarantees which would expose the Target Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 14.

(b) Liquidity risk

The Target 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 Target Group's exposure to liquidity risk is considered minimal as at 31 December 2018, 2019 and 2020 as the Target Group only had limited debts as at these dates. The following tables show the remaining contractual maturities as at 31 March 2021 of the Target Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Group can be required to pay.

	Contractual undiscounted cash outflow			
At 31 March 2021	**Within 1 year or on demand**	**More than 1 year but within 2 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	US$	*US$*	*US$*	*US$*
Trade and other payables	23,730,812	–	23,730,812	23,730,812
Borrowings	84,801,435	–	84,801,435	82,491,668
Lease liabilities	396,880	343,970	740,850	641,897
	108,929,127	343,970	109,273,097	106,864,377
Financial guarantees issued:				
Maximum amount guaranteed *(note 14)*	5,894,038	–	–	92,699

(c) Interest rate risk

The Target Group's interest rate risk arises primarily from the Target Group's borrowings, which were issued at fixed rates and expose the Target Group to fair value interest rate risk. At the end of each reporting period, the fair value of the Target Group'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.

(d) Currency risk

The Target 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 R$.

(i) Exposure to currency risk

The Target Group was not exposed to significant currency risk as at 31 December 2018, 2019 and 2020. The following table details the Target Group's exposure at 31 March 2021 to currency risk, which was primarily arisen from recognised assets or liabilities of CBT denominated in R$ as the Target Company had no significant exposure to currency risks. For presentation purposes, the amounts of the exposure are shown in US$, translated using the spot rate at the end of each of the reporting period.

	Brazilian Reais
	US$
At 31 March 2021	
Trade and other receivables	5,933,453
Cash and cash equivalents	720,622
Trade and other payables	(15,452,774)
Current tax payables	(3,467,218)
Bank borrowings	(6,385,408)
	(18,651,325)

(ii) Sensitivity analysis

It is estimated that if R$ had strengthened/weakened by 10% against the US$ with all other variables held constant, this would have decreased/increased the Target Group's retained earnings at 31 March 2021 and profit for the three months then ended by approximately US$1,249,639, respectively.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Target Group which expose the Target Group to foreign currency risk at the end of the reporting period.

18 COMMITMENTS

The Target Group did not have significant commitments at the end of each reporting period.

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel is the sole director of the Target Company, and his emoluments are disclosed in note 6.

(b) Transactions with related parties

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**	**Three months ended 31 March 2020**	**Three months ended 31 March 2021**
	US$	*US$*	*US$*	*US$*	*US$*
				(unaudited)	
Management fees charged to					
CBT	510,713	631,040	482,374	158,072	128,915

(c) Balances with related parties

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Assets				
Alliance One International LLC	–	–	–	14,877,004
AOB	–	–	–	1,232,694
China Tobacco International (HK) Company Limited	–	–	–	50,891,704
	–	–	–	67,001,402
Liabilities				
AOB	–	–	–	2,741,966
China Tobacco International Group Limited	–	–	–	7,927,446
	–	–	–	10,669,412

At 31 March 2021, Alliance One International LLC is a fellow subsidiary of AOB. China Tobacco International Group Limited and China Tobacco International (HK) Company Limited are the Target Company's immediate holding company and fellow subsidiary, respectively.

20 BUSINESS COMBINATIONS

As disclosed in notes 1 and 9, the Acquisition was completed on 31 March 2021. The Acquisition was accounted for as a business combination achieved in stages with no cash consideration transferred out.

The recognised amounts of identifiable assets acquired and liabilities assumed at the date of acquisition of the subsidiary comprise the following:

	US$
Property, plant and equipment	3,718,722
Intangible assets	28,160,470
Inventories	84,966,209
Trade and other receivables	75,695,908
Cash and cash equivalents	1,682,515
Borrowings	(82,491,668)
Trade and other payables	(20,139,060)
Current tax payable	(3,467,218)
Lease liabilities	(641,897)
Deferred tax liabilities	(14,054,161)
Fair value of identifiable net assets acquired	73,429,820
Goodwill	27,298,530
Non-controlling interests arising from the Acquisition	(35,980,612)
Total consideration, representing fair value of the Target Company's interest in CBT upon the Acquisition *(note 9)*	64,747,738

Non-controlling interests arising from the Acquisition represent the fair value of AOB's share in the fair value of CBT's identifiable net assets as at 31 March 2021. As no cash consideration was paid, a net cash inflow of US$1,682,515 arose from the Acquisition.

21 COMPANY-LEVEL STATEMENTS OF FINANCIAL POSITION

	At 31 December 2018 US$	At 31 December 2019 US$	At 31 December 2020 US$	At 31 March 2021 US$
Non-current assets				
Property, plant and equipment	56,065	37,239	23,857	19,867
Investment in a subsidiary	–	–	–	3,554,342
Interest in joint venture	5,232,047	5,024,198	3,896,773	–
	5,288,112	5,061,437	3,920,630	3,574,209
Current assets				
Trade and other receivables	3,903,798	3,913,706	4,883,296	4,520,835
Cash and cash equivalents	3,674,176	3,907,571	2,712,946	2,101,788
	7,577,974	7,821,277	7,596,242	6,622,623
Current liabilities				
Trade and other payables	684,897	383,398	267,397	8,090,241
Net current assets/(liabilities)	6,893,077	7,437,879	7,328,845	(1,467,618)
NET ASSETS	12,181,189	12,499,316	11,249,475	2,106,591
Capital and reserves				
Share capital	16,500,000	16,500,000	16,500,000	16,500,000
Reserves	(4,318,811)	(4,000,684)	(5,250,525)	(14,393,409)
TOTAL EQUITY	12,181,189	12,499,316	11,249,475	2,106,591

22 SUBSEQUENT EVENTS

Up to the issue date of the Historical Financial Information of the Target Group, there is no subsequent event that has a significant impact on the Target Group.

23 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Up to the date of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2021 and which have not been adopted in the Historical Financial Information of the Target Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16, *COVID-19-Related Rent Concessions Beyond 30 June 2021*	1 April 2021
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*	1 January 2022
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Annual improvements to HKFRSs 2018-2020 cycle	1 January 2022

	Effective for accounting periods beginning on or after
Accounting Guideline 5 (revised), *Merger Accounting for Common Control Combination*	1 January 2022
HKFRS 17, *Insurance Contracts and the related Amendments*	1 January 2023
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
Hong Kong Interpretation 5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*	1 January 2023
Amendments to HKAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to HKAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to HKAS 1, *Disclosure of Accounting Policies*	1 January 2023
Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	To be determined

The Target 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 Historical Financial Information of the Target Group.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company and its subsidiary in respect of any period subsequent to 31 March 2021.

The following is the text of a report set out on pages III – 1 to III – 40, received from CBT's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF CHINA BRASIL TABACOS EXPORTADORA S.A. TO THE DIRECTORS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED

Introduction

We report on the historical financial information of China Brasil Tabacos Exportadora S.A. ("CBT") set out on pages III – 4 to III – 40, which comprises the statements of financial position of CBT as at 31 December 2018, 31 December 2019, 31 December 2020 and 31 March 2021 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020 and the three months ended 31 March 2021 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information of CBT"). The Historical Financial Information of CBT set out on pages III – 4 to III – 40 forms an integral part of this report, which has been prepared for inclusion in the circular of China Tobacco International (HK) Company Limited (the "Company") dated 29 September 2021 (the "Circular") in connection with the proposed acquisition of the entire issued and outstanding quotas of China Tabaco Internacional do Brasil Ltda..

Directors' responsibility for Historical Financial Information of CBT

The directors of the Company are responsible for the preparation of Historical Financial Information of CBT that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of CBT.

The Underlying Financial Statements of CBT as defined on page III – 4, on which the Historical Financial Information of CBT is based, were prepared by the directors of CBT. The directors of CBT are responsible for the preparation of the Underlying Financial Statements of CBT that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of CBT determine is necessary to enable the preparation of the Underlying Financial Statements of CBT that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information of CBT and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information of CBT is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information of CBT. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information of CBT, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information of CBT that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of CBT in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information of CBT.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information of CBT gives, for the purpose of the accountants' report, a true and fair view of the CBT's financial position as at 31 December 2018, 31 December 2019, 31 December 2020 and 31 March 2021 and of CBT's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of CBT.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of CBT which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the three months ended 31 March 2020 and other explanatory information (the "Stub Period Corresponding Financial Information of CBT"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information of CBT in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of CBT. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information of CBT based on our review. We conducted our review in accordance with Hong

Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information of CBT, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information of CBT.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information of CBT, no adjustments to the Underlying Financial Statements of CBT as defined on page III – 4 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 September 2021

I. HISTORICAL FINANCIAL INFORMATION OF CBT

Set out below is the Historical Financial Information of CBT which forms an integral part of this accountants' report.

The financial statements of CBT for the Relevant Periods, on which the Historical Financial Information of CBT is based, were audited by KPMG Auditores Independentes under separate terms of engagement with CBT in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements of CBT")

Statements of profit or loss and other comprehensive income
(Expressed in United States dollars)

	Note	**Year ended 31 December 2018**	**Year ended 31 December 2019**	**Year ended 31 December 2020**	**Three months ended 31 March 2020** *(unaudited)*	**Three months ended 31 March 2021**
Revenue	*3*	183,651,274	190,516,877	136,239,949	11,123,970	57,272,093
Cost of sales		(150,442,343)	(158,325,472)	(100,641,983)	(8,970,327)	(42,536,888)
Gross profit		33,208,931	32,191,405	35,597,966	2,153,643	14,735,205
Other income, net	*4*	2,870,743	202,614	3,410,647	1,931,528	2,168,183
Administrative and other operating expenses		(7,015,959)	(7,403,931)	(5,113,421)	(1,051,291)	(1,312,372)
Profit from operations		29,063,715	24,990,088	33,895,192	3,033,880	15,591,016
Finance costs	*5(a)*	(5,732,776)	(5,100,688)	(3,341,676)	(274,840)	(879,730)
Profit before taxation	*5*	23,330,939	19,889,400	30,553,516	2,759,040	14,711,286
Income tax	*6*	(9,487,040)	(6,755,374)	(12,761,397)	(3,675,718)	(6,023,093)
Profit/(loss) and total comprehensive income for the year/period		13,843,899	13,134,026	17,792,119	(916,678)	8,688,193

The accompanying notes form part of the Historical Financial Information of CBT.

Statements of financial position

(Expressed in United States dollars)

	Note	At 31 December 2018	At 31 December 2019	At 31 December 2020	At 31 March 2021
Non-current assets					
Property, plant and equipment	*10*	2,738,314	2,826,001	2,518,752	3,079,744
Intangible assets	*11*	5,022,176	3,047,288	1,063,574	559,551
Trade and other receivables	*13*	803,698	864,104	1,518,427	2,517,783
Deferred tax assets	*17(b)*	–	286,561	–	–
		8,564,188	7,023,954	5,100,753	6,157,078
Current assets					
Inventories	*12*	48,057,434	31,754,798	59,153,049	75,215,958
Trade and other receivables	*13*	97,004,168	36,575,556	122,899,477	73,220,003
Cash and cash equivalents	*14(a)*	34,100,876	26,568,666	6,370,103	1,682,515
		179,162,478	94,899,020	188,422,629	150,118,476
Current liabilities					
Trade and other payables	*15*	8,844,611	9,028,328	11,676,921	20,139,060
Bank borrowings	*16*	137,837,257	55,462,113	133,091,879	82,491,668
Lease liabilities		168,756	503,332	428,865	322,686
Current tax payable	*17(a)*	3,130,248	446,534	8,069,445	3,467,218
		149,980,872	65,440,307	153,267,110	106,420,632
Net current assets		29,181,606	29,458,713	35,155,519	43,697,844
Total assets less current liabilities		37,745,794	36,482,667	40,256,272	49,854,922
Non-current liabilities					
Lease liabilities		132,494	41,520	131,187	319,211
Deferred tax liabilities	*17(b)*	1,287,332	–	405,850	1,128,283
		1,419,826	41,520	537,037	1,447,494
NET ASSETS		36,325,968	36,441,147	39,719,235	48,407,428
Capital and reserves	*18*				
Share capital		21,173,147	21,173,147	21,173,147	21,173,147
Reserves		15,152,821	15,268,000	18,546,088	27,234,281
TOTAL EQUITY		36,325,968	36,441,147	39,719,235	48,407,428

The accompanying notes form part of the Historical Financial Information of CBT.

Statements of changes in equity

(Expressed in United States dollars)

	Note	Share capital *(note 18(a))*	Legal reserve *(note 18(b))*	Profit retention reserve *(note 18(c))*	Retained earnings	Total equity
Balance at 1 January 2018		21,173,147	1,807,974	5,668,991	5,832,739	34,482,851
Profit and total comprehensive income for the year		–	–	–	13,843,899	13,843,899
Allocation of profit for the year		–	607,812	6,331,791	(6,939,603)	–
Dividend	9	–	–	(5,668,991)	(6,331,791)	(12,000,782)
Balance at 31 December 2018		21,173,147	2,415,786	6,331,791	6,405,244	36,325,968
Balance at 1 January 2019		21,173,147	2,415,786	6,331,791	6,405,244	36,325,968
Profit and total comprehensive income for the year		–	–	–	13,134,026	13,134,026
Allocation of profit for the year		–	–	6,800,218	(6,800,218)	–
Dividend	9	–	–	(6,331,791)	(6,687,056)	(13,018,847)
Balance at 31 December 2019		21,173,147	2,415,786	6,800,218	6,051,996	36,441,147
Balance at 1 January 2020		21,173,147	2,415,786	6,800,218	6,051,996	36,441,147
Profit and total comprehensive income for the year		–	–	–	17,792,119	17,792,119
Allocation of profit for the year		–	–	9,387,855	(9,387,855)	–
Dividend	9	–	–	(6,800,218)	(7,713,813)	(14,514,031)
Balance at 31 December 2020		21,173,147	2,415,786	9,387,855	6,742,447	39,719,235
Balance at 1 January 2021		21,173,147	2,415,786	9,387,855	6,742,447	39,719,235
Profit and total comprehensive income for the period		–	–	–	8,688,193	8,688,193
Balance at 31 March 2021		21,173,147	2,415,786	9,387,855	15,430,640	48,407,428
(Unaudited)						
Balance at 1 January 2020		21,173,147	2,415,786	6,800,218	6,051,996	36,441,147
Loss and total comprehensive income for the period		–	–	–	(916,678)	(916,678)
Balance at 31 March 2020		21,173,147	2,415,786	6,800,218	5,135,318	35,524,469

The accompanying notes form part of the Historical Financial Information of CBT.

Statements of cash flows

(Expressed in United States dollars)

	Note	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Three months ended 31 March 2020 *(unaudited)*	Three months ended 31 March 2021
Operating activities						
Cash generated from/(used in) operations	*14(b)*	48,369,480	103,728,926	(79,221,239)	(2,120,506)	57,798,319
Payment of income tax		(5,350,458)	(11,012,981)	(4,446,075)	(435,176)	(9,902,887)
Net cash generated from/(used in) operating activities		43,019,022	92,715,945	(83,667,314)	(2,555,682)	47,895,432
Investing activities						
Payment for purchase of property, plant and equipment and intangible assets		(312,544)	(258,782)	(419,978)	(18,789)	(472,829)
Interest income		163,854	225,357	66,048	20,163	13,724
Net cash (used in)/generated from investing activities		(148,690)	(33,425)	(353,930)	1,374	(459,105)
Financing activities						
Proceeds from new bank borrowings	*14(c)*	163,900,000	148,100,000	141,785,821	32,850,000	54,408,087
Repayment of bank borrowings	*14(c)*	(158,557,556)	(228,178,718)	(65,538,951)	(53,838,951)	(102,488,044)
Dividend distribution	*14(c)*	(9,583,735)	(12,451,146)	(10,010,431)	–	–
Interest on bank borrowings	*14(c)*	(5,063,212)	(7,374,480)	(1,964,771)	(1,770,473)	(3,383,720)
Capital element of lease rental paid	*14(c)*	(122,929)	(287,752)	(446,879)	(316,199)	(660,238)
Interest element of lease rental paid	*14(c)*	(37,760)	(22,634)	(2,108)	(527)	–
Net cash (used in)/generated from financing activities		(9,465,192)	(100,214,730)	63,822,681	(23,076,150)	(52,123,915)
Net increase/(decrease) in cash and cash equivalents		33,405,140	(7,532,210)	(20,198,563)	(25,630,458)	(4,687,588)
Cash and cash equivalents at the beginning of the year/period		695,736	34,100,876	26,568,666	26,568,666	6,370,103
Cash and cash equivalents at the end of the year/period	*14(a)*	34,100,876	26,568,666	6,370,103	938,208	1,682,515

The accompanying notes form part of the Historical Financial Information of CBT.

II. NOTES TO THE FINANCIAL STATEMENTS

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION OF CBT

1.1 General information

China Brasil Tabacos Exportadora S.A. ("CBT"), headquartered at Rua Silveira Martins, 1,733 in Venâncio Aires – Rio Grande do Sul, is engaged in procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production. Since its main activity is the processing and trading of tobacco leaves, CBT is subject to the seasonality applicable to its business.

CBT was established on 8 September 2011 in Federative Republic of Brazil ("Brazil") as a joint venture, and its shareholders are China Tabaco Internacional do Brasil ("CTIB") (51%) and Alliance One Brasil Exportadora de Tabacos Ltda. (49%). Following certain amendments of CBT's bylaws on 31 March 2021, CBT has become a subsidiary of CTIB and China National Tobacco Corporation ("CNTC"), a company established in the People's Republic of China. Neither CTIB nor CNTC prepares financial statements available for public use.

1.2 Basis of preparation

The Historical Financial Information of CBT has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term include all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing the Historical Financial Information of CBT, CBT has adopted all applicable new and revised HKFRSs that are effective during the Relevant Periods (meaning for each of the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021), except for any new standards or interpretation that are not yet effective for the accounting period beginning on 1 January 2021. The revised and new accounting standards or interpretations issued but not yet effective for the accounting period beginning on 1 January 2021 are set out in note 23.

The Historical Financial Information of CBT also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

For the purpose of preparing the Historical Financial Information of CBT, the accounting policies set out below have been applied consistently throughout the Relevant Periods.

The Stub Period Corresponding Financial Information of CBT, being the financial information for the three months ended 31 March 2020, has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information of CBT.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Basis of measurement and use of estimate and judgements

The measurement basis used in the preparation of the Historical Financial Information of CBT is the historical cost basis.

The Historical Financial Information of CBT is presented in United States Dollars ("US$"), which is also the functional currency of CBT.

(b) Use of estimate and judgements

The preparation of the Historical Financial Information of CBT 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.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(f)(iii)).

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

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

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

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

(d) Intangible assets

Intangible assets that are acquired by CBT are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(f)(iii)).

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

– Software	5 years
– Portfolio of producers	10 years

Both the period and method of amortisation are reviewed annually.

(e) Leased assets

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

As a lessee

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(c) and 2(f)(iii)).

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

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

(f) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

Measurement of ECLs

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

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

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when CBT 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 CBT's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

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

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

To determine ECLs, CBT considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(f)(i) apply.

As CBT 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 CBT expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iii) Impairment of other non-current assets

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

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

– intangible assets.

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(g) Inventories

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

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

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

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

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

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

(h) Contract liabilities

A contract liability is recognised when the customer pays consideration before CBT recognises the related revenue (see note 2(q)). A contract liability would also be recognised if CBT has an unconditional right to receive consideration before CBT recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(i)). For a single contract with the customer, a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis.

(i) Trade and other receivables

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

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

(j) Advances to producers

CBT 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, *Financial Instruments*, and assessed for ECL in accordance with the policy set out in note 2(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 with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method. Interest expense is recognised in accordance with CBT's accounting policy for borrowing costs (see note 2(s)).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(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 cost.

(m) Cash and cash equivalents

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

(n) Employee benefits

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

(o) Income tax

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

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

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

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

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

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

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

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

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

  - the same taxable entity; or

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

(p) Provisions and contingent liabilities

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

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

(q) Revenue and other income

Income is classified by CBT as revenue when it arises from the sale of goods, the provision of services or the use by others of CBT's assets under leases in the ordinary course of CBT'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 CBT 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 CBT, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. CBT takes advantage of the practical expedient in paragraph 63 of HKFRS 15, *Revenue from Contracts with Customers*, 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 CBT's revenue and other income recognition policies are as follows:

(i) Sales of goods

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

(ii) Provision of services

The revenue from provision of services recognised as the service is rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(f)(i)).

(r) Translation of foreign currencies

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

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

(s) 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.

(t) Related parties

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

(i) has control or joint control over CBT;

(ii) has significant influence over CBT; or

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

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

(i) The entity and CBT 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 CBT or an entity related to CBT.

(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 CBT or to CBT'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.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information of CBT, are identified from the financial information provided regularly to CBT's most senior executive management for the purposes of allocating resources to, and assessing the performance of, CBT'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.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of CBT are procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production.

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

	Year ended 31 December 2018 *US$*	Year ended 31 December 2019 *US$*	Year ended 31 December 2020 *US$*	Three months ended 31 March 2020 *US$* *(unaudited)*	Three months ended 31 March 2021 *US$*
Revenue from contracts with customers within the scope of HKFRS 15					
Disaggregated by major products					
– Sales of processed tobacco	182,504,522	182,215,511	134,078,330	11,123,970	57,042,471
– Sales of raw tobacco	1,146,752	8,301,366	2,161,619	–	229,622
	183,651,274	190,516,877	136,239,949	11,123,970	57,272,093

CBT recognises all its revenue point in time.

CBT's customer base includes two customers with whom transactions have exceeded 10% of CBT's revenue for the Relevant Periods. Revenue from the below customers in relation to sales of processed and raw tobacco is set out below.

	Year ended 31 December 2018 *US$*	Year ended 31 December 2019 *US$*	Year ended 31 December 2020 *US$*	Three months ended 31 March 2020 *US$* *(unaudited)*	Three months ended 31 March 2021 *US$*
Customer A	61,976,006	65,475,435	44,456,746	8,419,590	16,382,835
Customer B	112,942,655	119,455,895	84,781,153	–	39,868,786

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

(b) Segment reporting

CBT operates in a single business segment and, accordingly, no segmental analysis is presented.

4 OTHER INCOME, NET

	Year ended 31 December 2018 US$	Year ended 31 December 2019 US$	Year ended 31 December 2020 US$	Three months ended 31 March 2020 US$ (unaudited)	Three months ended 31 March 2021 US$
Net exchange gains/(losses)	2,683,245	(563,979)	2,547,053	1,573,927	1,768,808
Interest income	163,854	225,357	66,048	20,163	13,724
Valued-added tax ("VAT") refund	–	502,394	797,602	337,452	280,292
Others	23,644	38,842	(56)	(14)	105,359
	2,870,743	202,614	3,410,647	1,931,528	2,168,183

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Year ended 31 December 2018 US$	Year ended 31 December 2019 US$	Year ended 31 December 2020 US$	Three months ended 31 March 2020 US$ (unaudited)	Three months ended 31 March 2021 US$
Interest on bank borrowings *(note 14(c))*	5,695,016	5,078,054	3,339,568	274,313	879,730
Interest on lease liabilities *(note 14(c))*	37,760	22,634	2,108	527	–
	5,732,776	5,100,688	3,341,676	274,840	879,730

(b) Staff costs (including directors' emoluments)

	Year ended 31 December 2018 US$	Year ended 31 December 2019 US$	Year ended 31 December 2020 US$	Three months ended 31 March 2020 US$ (unaudited)	Three months ended 31 March 2021 US$
Salaries, wages and other benefits	6,270,075	6,405,355	5,126,543	1,487,584	1,609,673
Contributions to defined contribution retirement plans	92,279	90,898	71,721	18,396	17,349
	6,362,354	6,496,253	5,198,264	1,505,980	1,627,022

CBT offers a defined contribution pension plan to its employees. CBT has 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. CBT'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.

(c) Other items

	Year ended 31 December 2018 *US$*	**Year ended 31 December 2019** *US$*	**Year ended 31 December 2020** *US$*	**Three months ended 31 March 2020** *US$* *(unaudited)*	**Three months ended 31 March 2021** *US$*
Depreciation					
– owned property, plant and equipment	566,276	543,620	450,777	112,236	129,147
– right-of-use assets	96,315	96,315	705,345	138,108	524,167
	662,591	639,935	1,156,122	250,344	653,314
Amortisation of intangible assets	2,015,014	2,022,467	2,016,898	504,225	504,629
Loss on disposal of property, plant and equipment	9,098	14,935	–	–	–
Auditors' remuneration	51,571	41,889	35,881	–	–
Expense related to short-term leases	201,292	199,558	131,927	32,982	28,932

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

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

	Year ended 31 December 2018 *US$*	**Year ended 31 December 2019** *US$*	**Year ended 31 December 2020** *US$*	**Three months ended 31 March 2020** *US$* *(unaudited)*	**Three months ended 31 March 2021** *US$*
Current tax					
Provision for the year/period	7,549,180	8,329,267	12,068,986	12,229	5,300,660
Deferred tax					
Origination and reversal of temporary differences *(note 17(b))*	1,937,860	(1,573,893)	692,411	3,663,489	722,433
Income tax expense	9,487,040	6,755,374	12,761,397	3,675,718	6,023,093

Income tax in Brazil includes corporate income tax and social contribution tax. The applicable rates for corporate income tax and social contribution tax in Brazil are 25% and 9%, respectively, during the Relevant Periods.

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

	Year ended 31 December 2018 *US$*	**Year ended 31 December 2019** *US$*	**Year ended 31 December 2020** *US$*	**Three months ended 31 March 2020** *US$* *(unaudited)*	**Three months ended 31 March 2021** *US$*
Profit before taxation	23,330,939	19,889,400	30,553,516	2,759,040	14,711,286
Notional tax on profit before taxation calculated at the rates applicable to profits in the jurisdiction concerned	7,932,519	6,762,396	10,388,195	938,074	5,001,837
Tax effect of non-deductible expenses	1,627,920	6,310	2,373,202	2,798,230	1,182,690
Tax effect of non-taxable income	(73,399)	(13,332)	–	(60,586)	(161,434)
	9,487,040	6,755,374	12,761,397	3,675,718	6,023,093

7 DIRECTORS' EMOLUMENTS

During the Relevant Periods, there were no emoluments, retirement benefits, payments or benefits paid or receivable in respect of a person's services as a director, and directors' other services in connection with the management of the affairs of CBT.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments of CBT for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2020 and 2021 are directors whose emoluments are disclosed in note 7. The emoluments in respect of the remaining individuals other than the directors are as follows:

	Year ended 31 December 2018 *US$*	**Year ended 31 December 2019** *US$*	**Year ended 31 December 2020** *US$*	**Three months ended 31 March 2020** *US$* *(unaudited)*	**Three months ended 31 March 2021** *US$*
Salaries, allowances and benefits in kind	487,554	459,985	399,033	91,895	85,723
Discretionary bonuses	122,334	104,517	100,314	–	–
Retirement scheme contributions	41,428	41,520	34,200	8,777	8,386
	651,316	606,022	533,547	100,672	94,109

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

	Year ended 31 December 2018 Number of individuals	Year ended 31 December 2019 Number of individuals	Year ended 31 December 2020 Number of individuals	Three months ended 31 March 2020 Number of individuals *(unaudited)*	Three months ended 31 March 2021 Number of individuals
HK$Nil – HK$1,000,000	3	3	3	5	5
HK$1,000,001 – HK$1,500,000	1	1	2	–	–
HK$1,500,001 – HK$2,000,000	1	1	–	–	–

9 DIVIDENDS

CBT did not make any dividend distributions during the three months ended 31 March 2021 and 2020. On 30 April 2021, CBT declared a dividend of US$22.74 per share, amounting to US$9,028,361 in respect of its profit for the year ended 31 December 2020. Dividends distribution during the years ended 31 December 2018, 2019 and 2020 were as follows:

(a) Dividends distribution to equity shareholders of CBT approved during the reporting period:

	Year ended 31 December 2018		Year ended 31 December 2019		Year ended 31 December 2020	
	Per share	Amount	Per share	Amount	Per share	Amount
	US$ cents	*US$*	*US$ cents*	*US$*	*US$ cents*	*US$*
Dividend in respect of the previous financial year, approved during the year and appropriated from profit retention reserve	14.28	5,668,991	15.95	6,331,791	17.13	6,800,218
Dividend in respect of the current year, declared under statutory requirement and appropriated from retained earnings *(note (i))*	15.95	6,331,791	16.84	6,687,056	19.43	7,713,813
	30.23	12,000,782	32.79	13,018,847	36.56	14,514,031

(b) Dividends distribution to equity shareholders of CBT in respect of the current year approved subsequent to the end of the reporting period:

	Year ended 31 December 2018		Year ended 31 December 2019		Year ended 31 December 2020	
	Per share	Amount	Per share	Amount	Per share	Amount
	US$ cents	*US$*	*US$ cents*	*US$*	*US$ cents*	*US$*
Dividend in respect of the current year, proposed after the end of the reporting period and to be appropriated from profit retention reserve *(note (ii))*	15.95	6,331,791	17.13	6,800,218	22.74	9,028,361

Notes:

(i) According to the Brazilian Corporate Law 6.404/76, other than the portion that is transferred to legal reserve (see note 18(b)), CBT is required to distribute at least 50% of its net profits for each year to shareholders.

(ii) The dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold improvements US$	Machinery and equipment US$	Office equipment US$	Motor vehicles US$	Construction in progress US$	Right-of-use assets US$	Total US$
Cost:							
At 1 January 2018	270,564	299,448	2,772,843	1,148,418	–	963,154	5,454,427
Additions	–	–	144,314	159,569	–	–	303,883
Disposals	–	–	(49,833)	(118,164)	–	–	(167,997)
At 31 December 2018	270,564	299,448	2,867,324	1,189,823	–	963,154	5,590,313
At 1 January 2019	270,564	299,448	2,867,324	1,189,823	–	963,154	5,590,313
Additions	566	6,613	56,354	125,794	21,876	531,354	742,557
Transfers	5,581	841	8,301	–	(14,723)	–	–
Disposals	–	–	(2,358)	(79,163)	–	–	(81,521)
At 31 December 2019	276,711	306,902	2,929,621	1,236,454	7,153	1,494,508	6,251,349
At 1 January 2020	276,711	306,902	2,929,621	1,236,454	7,153	1,494,508	6,251,349
Additions	–	2,756	286,259	14,155	83,624	462,079	848,873
Transfers	8,338	–	4,239	–	(12,577)	–	–
At 31 December 2020	285,049	309,658	3,220,119	1,250,609	78,200	1,956,587	7,100,222
At 1 January 2021	285,049	309,658	3,220,119	1,250,609	78,200	1,956,587	7,100,222
Additions	–	2,990	33,628	428,624	6,981	742,083	1,214,306
Transfers	19,010	1,376	57,815	–	(78,201)	–	–
Disposals	–	–	(11,809)	(515,637)	–	(993,434)	(1,520,880)
At 31 March 2021	304,059	314,024	3,299,753	1,163,596	6,980	1,705,236	6,793,648
Accumulated depreciation:							
At 1 January 2018	(254,368)	(167,164)	(979,143)	(686,620)	–	(261,012)	(2,348,307)
Charges for the year	(10,302)	(29,946)	(297,716)	(228,312)	–	(96,315)	(662,591)
Disposals	–	–	49,802	109,097	–	–	158,899
At 31 December 2018	(264,670)	(197,110)	(1,227,057)	(805,835)	–	(357,327)	(2,851,999)
At 1 January 2019	(264,670)	(197,110)	(1,227,057)	(805,835)	–	(357,327)	(2,851,999)
Charges for the year	(5,309)	(30,462)	(305,222)	(202,627)	–	(96,315)	(639,935)
Disposals	–	–	2,245	64,341	–	–	66,586
At 31 December 2019	(269,979)	(227,572)	(1,530,034)	(944,121)	–	(453,642)	(3,425,348)
At 1 January 2020	(269,979)	(227,572)	(1,530,034)	(944,121)	–	(453,642)	(3,425,348)
Charges for the year	(5,529)	(30,938)	(301,307)	(113,003)	–	(705,345)	(1,156,122)
Disposals	–	–	–	–	–	–	–
At 31 December 2020	(275,508)	(258,510)	(1,831,341)	(1,057,124)	–	(1,158,987)	(4,581,470)

	Leasehold improvements	Machinery and equipment	Office equipment	Motor vehicles	Construction in progress	Right-of-use assets	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
At 1 January 2021	(275,508)	(258,510)	(1,831,341)	(1,057,124)	–	(1,158,987)	(4,581,470)
Charges for the period	(2,335)	(7,826)	(82,619)	(36,367)	–	(524,167)	(653,314)
Disposals	–	–	11,809	515,637	–	993,434	1,520,880
At 31 March 2021	(277,843)	(266,336)	(1,902,151)	(577,854)	–	(689,720)	(3,713,904)
Net book value:							
At 31 December 2018	5,894	102,338	1,640,267	383,988	–	605,827	2,738,314
At 31 December 2019	6,732	79,330	1,399,587	292,333	7,153	1,040,866	2,826,001
At 31 December 2020	9,541	51,148	1,388,778	193,485	78,200	797,600	2,518,752
At 31 March 2021	26,216	47,688	1,397,602	585,742	6,980	1,015,516	3,079,744

(b) Right-of-use assets

As at 31 December 2018, 2019 and 2020 and 31 March 2021, right-of-use assets in the statements of financial position comprise the following:

	At 31 December 2018	At 31 December 2019	At 31 December 2020	At 31 March 2021
	US$	*US$*	*US$*	*US$*
Properties leased for own use, carried at depreciated cost	–	531,356	384,404	626,400
Plant, machinery and equipment, carried at depreciated cost	605,827	509,510	413,196	389,116
	605,827	1,040,866	797,600	1,015,516

The analysis of expense items in relation to leases recognised in profit or loss is as set out in note 5(a) and (c).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 14(d) and 19(b), respectively.

11 INTANGIBLE ASSETS

	Software *US$*	Portfolio of producers *US$*	Total *US$*
Cost:			
At 1 January 2018	138,405	20,000,000	20,138,405
Additions	8,661	–	8,661
At 31 December 2018	147,066	20,000,000	20,147,066
At 1 January 2019	147,066	20,000,000	20,147,066
Additions	47,579	–	47,579
At 31 December 2019	194,645	20,000,000	20,194,645
At 1 January 2020	194,645	20,000,000	20,194,645
Additions	33,184	–	33,184
At 31 December 2020	227,829	20,000,000	20,227,829
At 1 January 2021	227,829	20,000,000	20,227,829
Additions	606	–	606
At 31 March 2021	228,435	20,000,000	20,228,435
Accumulated amortisation:			
At 1 January 2018	(109,876)	(13,000,000)	(13,109,876)
Charges for the year	(15,014)	(2,000,000)	(2,015,014)
At 31 December 2018	(124,890)	(15,000,000)	(15,124,890)
At 1 January 2019	(124,890)	(15,000,000)	(15,124,890)
Charges for the year	(22,467)	(2,000,000)	(2,022,467)
At 31 December 2019	(147,357)	(17,000,000)	(17,147,357)
At 1 January 2020	(147,357)	(17,000,000)	(17,147,357)
Charges for the year	(16,898)	(2,000,000)	(2,016,898)
At 31 December 2020	(164,255)	(19,000,000)	(19,164,255)
At 1 January 2021	(164,255)	(19,000,000)	(19,164,255)
Charges for the period	(4,629)	(500,000)	(504,629)
At 31 March 2021	(168,884)	(19,500,000)	(19,668,884)
Net book value:			
At 31 December 2018	22,176	5,000,000	5,022,176
At 31 December 2019	47,288	3,000,000	3,047,288
At 31 December 2020	63,574	1,000,000	1,063,574
At 31 March 2021	59,551	500,000	559,551

On 1 January 2012, CBT acquired a portfolio of contracts with approximately 6,000 tobacco producers from Alliance One Brasil Exportadora de Tabaco Ltda., one of CBT's shareholders, at a cash consideration of US$20,000,000. The consideration was determined with reference to the estimated fair value of the contracts transferred and the balance is amortised over 10 years.

12 INVENTORIES

As at 31 December 2018, 2019 and 2020 and 31 March 2021, inventories in the statements of financial position comprised of tobacco leaf products. The analysis of the amounts of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Three months ended 31 March 2020	Three months ended 31 March 2021
	US$	*US$*	*US$*	*US$* *(unaudited)*	*US$*
Carrying amount of inventories sold	151,273,630	158,365,470	100,570,829	8,853,000	42,583,743
Write down of inventories	118,097	150,226	271,617	195,426	–
Reversal of write-down of inventories	(949,384)	(190,224)	(200,463)	(78,099)	(46,855)
	150,442,343	158,325,472	100,641,983	8,970,327	42,536,888

13 TRADE AND OTHER RECEIVABLES

	At 31 December 2018	At 31 December 2019	At 31 December 2020	At 31 March 2021
	US$	*US$*	*US$*	*US$*
Trade receivables	95,439,886	30,893,677	111,603,663	68,073,051
Advances to producers	63,585	4,384,104	9,824,224	4,156,990
VAT recoverable	692,418	796,948	1,694,658	2,710,816
Other taxes recoverable	1,049,304	877,999	754,683	370,494
Prepaid expenses and other receivables	562,673	486,932	540,676	426,435
	97,807,866	37,439,660	124,417,904	75,737,786
Represented by:				
– Current portion	97,004,168	36,575,556	122,899,477	73,220,003
– Non-current portion	803,698	864,104	1,518,427	2,517,783
	97,807,866	37,439,660	124,417,904	75,737,786

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

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Within 30 days	–	65,354	–	41,008
31 to 60 days	1,719	187,848	1,771,867	688,635
61 to 180 days	95,438,167	30,640,475	109,831,796	67,343,408
	95,439,886	30,893,677	111,603,663	68,073,051

Trade receivables are normally due within 4 to 6 months from the date of billing. As at 31 December 2018, 2019 and 2020 and 31 March 2021, none of the trade receivables were past due.

CBT generally does not hold any collateral over the balances. Further details on CBT's credit policy are set out in note 19(a).

14 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Cash at bank and on hand	32,852,442	22,956,491	75,636	108,495
Bank certificates of deposits	1,248,434	3,612,175	6,294,467	1,574,020
	34,100,876	26,568,666	6,370,103	1,682,515

At 31 December 2018, 2019 and 2020 and 31 March 2021, bank certificates of deposits were with original maturity of less than 3 months and they were held for the purpose of meeting short-term cash commitments.

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

	Year ended 31 December 2018 *US$*	Year ended 31 December 2019 *US$*	Year ended 31 December 2020 *US$*	Three months ended 31 March 2020 *US$* *(unaudited)*	Three months ended 31 March 2021 *US$*
Profit before taxation	23,330,939	19,889,400	30,553,516	2,759,040	14,711,286
Adjustments for:					
Depreciation	662,591	639,935	1,156,122	250,344	653,314
Amortisation	2,015,014	2,022,467	2,016,898	504,225	504,629
Interest income	(163,854)	(225,357)	(66,048)	(20,163)	(13,724)
Finance costs	5,732,776	5,100,688	3,341,676	274,840	879,730
Loss on sale of property, plant and equipment	9,098	14,935	–	–	–
Foreign exchange losses	(1,259,330)	(99,274)	(1,907,863)	(2,218,738)	(841,226)

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	Three months ended 31 March 2020	Three months ended 31 March 2021
	US$	*US$*	*US$*	*US$* *(unaudited)*	*US$*
Operating profit before changes in working capital	30,327,234	27,342,794	35,094,301	1,549,548	15,894,009
Decrease/(increase) in trade and other receivables	16,298,363	60,368,206	(86,978,244)	25,263,151	48,680,118
Decrease/(increase) in inventories	2,491,537	16,302,636	(27,398,251)	(34,194,775)	(16,062,909)
(Decrease)/increase in trade and other payables	(747,654)	(284,710)	60,955	5,261,570	9,287,101
Cash generated from/(used in) operations	48,369,480	103,728,926	(79,221,239)	(2,120,506)	57,798,319

(c) Reconciliation of liabilities arising from financing activities

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

	Bank borrowings *(note 16)*	Lease liabilities	Dividend payable *(note 15)*	Total
	US$	*US$*	*US$*	*US$*
At 1 January 2018	131,863,009	424,179	5,668,990	137,956,178
Changes from financing cash flows:				
Proceeds from new bank borrowings	163,900,000	–	–	163,900,000
Repayment of bank borrowings	(158,557,556)	–	–	(158,557,556)
Interest on bank borrowings	(5,063,212)	–	–	(5,063,212)
Capital element of lease rentals paid	–	(122,929)	–	(122,929)
Interest element of lease rentals paid	–	(37,760)	–	(37,760)
Dividend distribution	–	–	(9,583,735)	(9,583,735)
Total changes from financing cash flows	279,232	(160,689)	(9,583,735)	(9,465,192)
Other changes:				
Interest expenses on bank borrowings *(note 5(a))*	5,695,016	–	–	5,695,016
Interest expenses on lease liabilities	–	37,760	–	37,760
Dividend declared *(note 9)*	–	–	12,000,782	12,000,782
Exchange adjustments	–	–	(1,754,246)	(1,754,246)
Total other changes:	5,695,016	37,760	10,246,536	15,979,312
At 31 December 2018	137,837,257	301,250	6,331,791	144,470,298

	Bank borrowings *(note 16)* *US$*	Lease liabilities *US$*	Dividend payable *(note 15)* *US$*	Total *US$*
At 1 January 2019	137,837,257	301,250	6,331,791	144,470,298
Changes from financing cash flows:				
Proceeds from new bank borrowings	148,100,000	–	–	148,100,000
Repayment of bank borrowings	(228,178,718)	–	–	(228,178,718)
Interest on bank borrowings	(7,374,480)	–	–	(7,374,480)
Capital element of lease rentals paid	–	(287,752)	–	(287,752)
Interest element of lease rentals paid	–	(22,634)	–	(22,634)
Dividend distribution	–	–	(12,451,146)	(12,451,146)
Total changes from financing cash flows	(87,453,198)	(310,386)	(12,451,146)	(100,214,730)
Other changes:				
Interest expenses on bank borrowings *(note 5(a))*	5,078,054	–	–	5,078,054
Interest expenses on lease liabilities	–	22,634	–	22,634
Dividend declared *(note 9)*	–	–	13,018,847	13,018,847
New leases	–	531,354	–	531,354
Exchange adjustments	–	–	(99,274)	(99,274)
Total other changes:	5,078,054	553,988	12,919,573	18,551,615
At 31 December 2019	55,462,113	544,852	6,800,218	62,807,183
At 1 January 2020	55,462,113	544,852	6,800,218	62,807,183
Changes from financing cash flows:				
Proceeds from new bank borrowings	141,785,821	–	–	141,785,821
Repayment of bank borrowings	(65,538,951)	–	–	(65,538,951)
Interest on bank borrowings	(1,964,771)	–	–	(1,964,771)
Capital element of lease rentals paid	–	(446,879)	–	(446,879)
Interest element of lease rentals paid	–	(2,108)	–	(2,108)
Dividend distribution	–	–	(10,010,431)	(10,010,431)
Total changes from financing cash flows	74,282,099	(448,987)	(10,010,431)	63,822,681
Other changes:				
Interest expenses on bank borrowings *(note 5(a))*	3,339,568	–	–	3,339,568
Interest expenses on lease liabilities	–	2,108	–	2,108
Dividend declared *(note 9)*	–	–	14,514,031	14,514,031
New leases	–	462,079	–	462,079
Exchange adjustments	8,099	–	(1,915,962)	(1,907,863)
Total other changes:	3,347,667	464,187	12,598,069	16,409,923
At 31 December 2020	133,091,879	560,052	9,387,856	143,039,787

	Bank borrowings *(note 16)* *US$*	Lease liabilities *US$*	Dividend payable *(note 15)* *US$*	Total *US$*
At 1 January 2021	133,091,879	560,052	9,387,856	143,039,787
Changes from financing cash flows:				
Proceeds from new bank borrowings	54,408,087	–	–	54,408,087
Repayment of bank borrowings	(102,488,044)	–	–	(102,488,044)
Interest on bank borrowings	(3,383,720)	–	–	(3,383,720)
Capital element of lease rentals paid	–	(660,238)	–	(660,238)
Total changes from financing cash flows	(51,463,677)	(660,238)	–	(52,123,915)
Other changes:				
Interest expenses on bank borrowings *(note 5(a))*	879,730	–	–	879,730
New leases	–	742,083	–	742,083
Exchange adjustments	(16,264)	–	(824,962)	(841,226)
Total other changes:	863,466	742,083	(824,962)	780,587
At 31 March 2021	82,491,668	641,897	8,562,894	91,696,459
(unaudited)				
At 1 January 2020	55,462,113	544,852	6,800,218	62,807,183
Changes from financing cash flows:				
Proceeds from new bank borrowings	32,850,000	–	–	32,850,000
Repayment of bank borrowings	(53,838,951)	–	–	(53,838,951)
Interest on bank borrowings	(1,770,473)	–	–	(1,770,473)
Capital element of lease rentals paid	–	(316,199)	–	(316,199)
Interest element of lease rentals paid	–	(527)	–	(527)
Total changes from financing cash flows	(22,759,424)	(316,726)	–	(23,076,150)
Other changes:				
Interest expenses on bank borrowings *(note 5(a))*	274,313	–	–	274,313
Interest expenses on lease liabilities	–	527	–	527
Dividend declared *(note 9)*	–	–	916,678	916,678
New leases	–	462,079	–	462,079
Exchange adjustments	–	–	(1,527,992)	(1,527,992)
Total other changes:	274,313	462,606	(611,314)	125,605
At 31 March 2020	32,977,002	690,732	6,188,904	39,856,638

(d) Total cash outflows for leases

Amounts included in the statements of cash flows for leases comprise the following:

	Year ended 31 December 2018 *US$*	Year ended 31 December 2019 *US$*	Year ended 31 December 2020 *US$*	Three months ended 31 March 2020 *US$* *(unaudited)*	Three months ended 31 March 2021 *US$*
Within operating cash flows	(201,292)	(199,558)	(131,927)	(32,982)	(28,932)
Within financing cash flows	(160,689)	(310,386)	(448,987)	(316,726)	(660,238)
	(361,981)	(509,944)	(580,914)	(349,708)	(689,170)

15 TRADE AND OTHER PAYABLES

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Trade payables	1,615,877	1,799,187	2,011,505	10,695,879
Dividends payable	6,331,791	6,800,218	9,387,856	8,562,894
Other payables and accruals	596,605	228,859	176,616	787,588
Financial liabilities measured at amortised cost	8,544,273	8,828,264	11,575,977	20,046,361
Financial guarantees issued	300,338	200,064	100,944	92,699
	8,844,611	9,028,328	11,676,921	20,139,060

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 CBT's shareholders as set out in further details in note 21(c).

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

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Within 30 days	1,093,553	1,235,461	1,118,164	7,868,668
31 to 60 days	522,324	563,726	893,341	2,827,211
	1,615,877	1,799,187	2,011,505	10,695,879

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 2018, 2019 and 2020 and 31 March 2021, the maximum guaranteed amounted to US$14,806,554, US$11,225,678, US$6,418,297 and US$5,894,038, respectively.

16 BANK BORROWINGS

	At 31 December 2018 US$	At 31 December 2019 US$	At 31 December 2020 US$	At 31 March 2021 US$
Advances on foreign exchange contracts ("ACC")	76,500,710	39,091,090	85,459,781	68,361,596
Export prepayments	61,336,547	16,371,023	40,729,082	7,744,664
Agricultural credit	–	–	6,903,016	6,385,408
	137,837,257	55,462,113	133,091,879	82,491,668

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 2018, 2019 and 2020 and 31 March 2021 were 4.87%, 4.60%, 3.70% and 2.80% per annum, respectively.

17 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

(a) Current tax payable in the statements of financial position represents:

	At 31 December 2018 US$	At 31 December 2019 US$	At 31 December 2020 US$	At 31 March 2021 US$
Brazil corporate income tax payable	48,858	53,092	47,804	30,038
Brazil social contribution tax payable	3,081,390	393,442	8,021,641	3,437,180
	3,130,248	446,534	8,069,445	3,467,218

(b) Deferred tax assets and liabilities recognised:

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

The components of deferred tax assets and liabilities recognised in the statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Utilisation of advances to producers US$	Translation differences US$	Others US$	Total US$
At 1 January 2018	1,861,198	(1,870,018)	659,348	650,528
(Charged)/credited to profit or loss	(989,118)	(1,027,619)	78,877	(1,937,860)
At 31 December 2018	872,080	(2,897,637)	738,225	(1,287,332)
At 1 January 2019	872,080	(2,897,637)	738,225	(1,287,332)
Credited to profit or loss	37,888	1,425,196	110,809	1,573,893
At 31 December 2019	909,968	(1,472,441)	849,034	286,561

Deferred tax arising from:	Utilisation of advances to producers *US$*	Translation differences *US$*	Others *US$*	Total *US$*
At 1 January 2020	909,968	(1,472,441)	849,034	286,561
Credited/(charged) to profit or loss	182,213	(430,649)	(443,975)	(692,411)
At 31 December 2020	1,092,181	(1,903,090)	405,059	(405,850)
At 1 January 2021	1,092,181	(1,903,090)	405,059	(405,850)
Charged to profit or loss	(359,810)	(245,096)	(117,527)	(722,433)
At 31 March 2021	732,371	(2,148,186)	287,532	(1,128,283)

(ii) Reconciliation to the statement of financial position

The components of deferred tax assets and liabilities recognised in the statements of financial position and the movements during the Relevant Periods are as follows:

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Net deferred tax assets recognised in the statements of financial position	–	286,561	–	–
Net deferred tax liabilities recognised in the statements of financial position	(1,287,332)	–	(405,850)	(1,128,283)
	(1,287,332)	286,561	(405,850)	(1,128,283)

18 CAPITAL AND RESERVES

(a) Share capital

	Number of shares	Amount *R$*	Amount *US$*
Ordinary shares, issued and fully paid:			
At 31 December 2018, 2019 and 2020 and 31 March 2021	39,702,000	39,702,000	21,173,147

The ordinary shares of CBT 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 CBT. All ordinary shares rank equally with regard to CBT's residual assets.

(b) Legal reserve

Under the Brazilian Corporate Law 6.404/76, CBT is required to transfer at least 5% of its net profit to a legal reserve until the reserve balance reaches 20% of CBT's share capital. The transfer to legal reserve must be made before distribution of a dividend to CBT's shareholders.

For the purpose of local statutory filing, CBT's share capital and legal reserve were translated into Brazilian Reais ("R$") using the prevailing applicable historical rates and they amounted to approximately R$39,702,000 (equivalent to US$21,173,147) and R$7,940,400 (equivalent to US$2,415,786), respectively, as at 31 December 2018. As the legal reserve balance already achieved 20% of CBT's share capital as at 31 December 2018, no further transfer to such reserve was made in subsequent reporting periods.

(c) Profit retention reserve

According to the Brazilian Corporate Law 6.404/76, other than the portion that is transferred to legal reserve (see note 18(b)), CBT is required to distribute at least 50% of its net profits for each year to its shareholders. The remaining net profit for each year is then transferred to and dealt with under the profit retention reserve. Any proposed dividend out of the profit retention reserve will be accounted for after it is approved at the shareholders' general meeting in future years.

(d) Capital management

CBT's primary objectives when managing capital are to safeguard CBT'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.

CBT defines "capital" as including all components of equity, less any unaccrued proposed dividends.

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

CBT was not subject to any externally imposed capital requirements during the Relevant Periods.

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

CBT conducts its principal operations in Brazil and is accordingly subject to risks associated with, among others, local political, economic and legal environment and the rate or method of taxation. Other than such risks which may not be typically associated with companies that operate in Hong Kong or the mainland of People's Republic of China, exposure to credit, liquidity, interest rate and currency risks arises in the normal course of CBT's business.

CBT's exposure to these risks and the financial risk management policies and practices used by CBT 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 CBT. CBT's credit risk is primarily attributable to trade and other receivables. CBT's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions, for which CBT considers to have low credit risk.

Except for the financial guarantees given by CBT as set out in note 15, CBT does not provide any other guarantees which would expose CBT to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 15.

Trade receivables

Trade receivables are normally due within 4 to 6 months from the date of billing. Normally, CBT does not obtain collateral from customers.

During the Relevant Periods, majority of CBT's sales were made to its shareholders or fellow subsidiaries thereof. Significant concentrations of credit risk primarily arise from such exposure. As at 31 December 2018, 2019 and 2020 and 31 March 2021, 97%, 91%, 100% and 98% of the total trade receivables were due from CBT's shareholders or their fellow subsidiaries, respectively.

CBT has also established a credit risk management policy under which individual credit evaluations are performed on all third party customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

CBT 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 CBT's view of economic conditions over the expected lives of the receivables.

At the end of each reporting period during the Relevant Periods, CBT 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 2018, 2019 and 2020 and 31 March 2021.

Further quantitative disclosures in respect of CBT's exposure to credit risk arising from trade and other receivables are set out in notes 13 and 21(c).

Advances to producers

Individual credit risk evaluations are performed on producers to whom CBT 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. CBT 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.

	At 31 December 2018	**At 31 December 2019**	**At 31 December 2020**	**At 31 March 2021**
	US$	*US$*	*US$*	*US$*
Gross amount	894,637	5,167,146	10,483,357	4,693,905
ECL	(831,052)	(783,042)	(659,133)	(536,915)
	63,585	4,384,104	9,824,224	4,156,990

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

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**	**Three months ended 31 March 2021**
	US$	*US$*	*US$*	*US$*
Balance at beginning of year/period	1,367,984	831,052	783,042	659,133
Amounts written off	(727,859)	(88,126)	(125,016)	(190,120)
Impairment loss recognised	190,927	40,116	1,107	67,902
	831,052	783,042	659,133	536,915

(b) Liquidity risk

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

The following tables show the remaining contractual maturities at the end of the reporting period of CBT's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date CBT can be required to pay.

At 31 December 2018	Contractual undiscounted cash outflow Within 1 year or on demand *US$*	More than 1 year but within 2 years *US$*	Total *US$*	Carrying amount *US$*
Trade and other payables	8,544,273	–	8,544,273	8,544,273
Bank borrowings	144,549,931	–	144,549,931	137,837,257
Lease liabilities	191,680	124,454	316,134	301,250
	153,285,884	124,454	153,410,338	146,682,780
Financial guarantees issued: Maximum amount guaranteed *(note 15)*	14,806,554	–	–	300,338

At 31 December 2019	Contractual undiscounted cash outflow Within 1 year or on demand *US$*	More than 1 year but within 2 years *US$*	Total *US$*	Carrying amount *US$*
Trade and other payables	8,828,264	–	8,828,264	8,828,264
Bank borrowings	58,013,370	–	58,013,370	55,462,113
Lease liabilities	531,810	51,470	583,280	544,852
	67,373,444	51,470	67,424,914	64,290,377
Financial guarantees issued: Maximum amount guaranteed *(note 15)*	11,225,678	–	–	200,064

At 31 December 2020	Contractual undiscounted cash outflow Within 1 year or on demand *US$*	More than 1 year but within 2 years *US$*	Total *US$*	Carrying amount *US$*
Trade and other payables	11,575,977	–	11,575,977	11,575,977
Bank borrowings	138,016,279	–	138,016,279	133,091,879
Lease liabilities	455,130	139,221	594,351	560,052
	150,047,386	139,221	150,186,607	144,667,856
Financial guarantees issued: Maximum amount guaranteed *(note 15)*	6,418,297	–	–	100,944

At 31 March 2021	Contractual undiscounted cash outflow Within 1 year or on demand US$	More than 1 year but within 2 years US$	Total US$	Carrying amount US$
Trade and other payables	20,046,361	–	20,046,361	20,046,361
Bank borrowings	84,801,435	–	84,801,435	82,491,668
Lease liabilities	396,880	343,970	740,850	641,897
	105,244,676	343,970	105,588,646	102,538,029
Financial guarantees issued: Maximum amount guaranteed *(note 15)*	5,894,038	–	–	92,699

(c) Interest rate risk

CBT'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.

(d) Currency risk

CBT 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 R$.

(i) Exposure to currency risk

The following table details CBT's exposure at the end of each of the reporting period to currency risk arising from recognised assets or liabilities denominated in R$. For presentation purposes, the amounts of the exposure are shown in US$, translated using the spot rate at the end of each of the reporting period.

	At 31 December 2018 US$	At 31 December 2019 US$	At 31 December 2020 US$	At 31 March 2021 US$
Trade and other receivables	1,394,965	8,340,382	16,312,020	5,933,453
Cash and cash equivalents	1,111,253	919,345	1,115,898	720,622
Trade and other payables	(8,712,116)	(8,119,875)	(11,545,734)	(19,819,850)
Current tax payable	(3,130,248)	(446,534)	(8,069,445)	(3,467,218)
Bank borrowings	–	–	(6,903,016)	(6,385,408)
	(9,336,146)	693,318	(9,090,277)	(23,018,401)

(ii) Sensitivity analysis

It is estimated that if R$ had strengthened/weakened by 10% against the US$ with all other variables held constant, this would have decreased/increased CBT's retained earnings as at 31 December 2018, 31 December 2020 and 31 March 2021 and profit for the year/period then ended by approximately US$625,522, US$609,049 and US$1,542,233, respectively, and increased/decreased CBT's retained earnings as at 31 December 2019 and profit for the year then ended by approximately US$46,452.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by CBT which expose CBT to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis throughout the Relevant Periods.

20 COMMITMENTS

CBT did not have significant commitments at the end of each reporting period.

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

All members of key management personnel are directors of CBT, and their emoluments are disclosed in note 7.

(b) Transactions with related parties

CBT enters into related party transactions with its shareholders or their fellow subsidiaries in its ordinary course of business. Details of the transactions during the Relevant Periods are disclosed below:

	Year ended 31 December 2018 *US$*	Year ended 31 December 2019 *US$*	Year ended 31 December 2020 *US$*	Three months ended 31 March 2020 *US$* *(unaudited)*	Three months ended 31 March 2021 *US$*
Sales of goods to					
Alliance One International Inc	42,984,806	27,607,748	–	–	–
Alliance One International Ag.	1,524,313	–	–	–	–
Alliance One International LLC	–	18,478,005	33,303,094	5,655,126	11,002,363
Alliance One Brasil Exportadora de Tabaco Ltda	17,096,384	19,234,111	10,794,136	2,723,746	5,329,853
China Tobacco International Inc.	6,847,632	–	–	–	–
China Tobacco International (HK) Company Limited	105,527,951	119,307,395	84,585,133	–	39,868,786
China Tobacco Europe Company S.R.L.	567,072	148,500	196,020	–	–
	174,548,158	184,775,759	128,878,383	8,378,872	56,201,002
Rendering of tobacco leaves processing services from					
Alliance One Brasil Exportadora de Tabaco Ltda	12,598,496	11,863,671	10,597,868	806,823	1,945,387
Procurement of goods from					
Alliance One Brasil Exportadora de Tabaco Ltda	14,208,252	15,194,938	17,784,796	739,321	1,602,684
Management fees charged by					
China Tabaco Internacional do Brasil Ltda.	510,713	631,040	482,374	158,072	128,915

(c) Balances with related parties

	At 31 December 2018 *US$*	At 31 December 2019 *US$*	At 31 December 2020 *US$*	At 31 March 2021 *US$*
Assets				
Alliance One International Inc	11,944,085	–	–	–
Alliance One International Ag.	733,471	–	–	–
Alliance One International LLC	–	8,751,465	24,882,101	14,877,004
Alliance One Brasil Exportadora de Tabaco Ltda	–	35,354	1,946,918	1,232,694
Leaf Trading Company Ltd	68,979	–	51,440	–
China Tobacco International (HK) Company Limited	79,727,522	19,432,710	84,585,133	50,891,704
China Tobacco Europe Company S.R.L.	508,860	–	65,340	–
	92,982,917	28,219,529	111,530,932	67,001,402
Liabilities				
Alliance One Brazil Exportadora de Tabaco Ltda	519,684	508,171	845,766	2,741,966
China Tabaco Internacional do Brasil Ltda.	–	54,725	42,445	38,715
	519,684	562,896	888,211	2,780,681

22 SUBSEQUENT EVENTS

On 30 April 2021, CBT declared a dividend of US$22.74 per share, amounting to US$9,028,361 in respect of its profit for the year ended 31 December 2020. Such dividend was not accounted for in the Historical Financial Information of CBT.

23 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Up to the date of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2021 and which have not been adopted in the Historical Financial Information of CBT.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16, *COVID-19-Related Rent Concessions Beyond 30 June 2021*	1 April 2021
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*	1 January 2022
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Annual improvements to HKFRSs 2018-2020 cycle	1 January 2022
Accounting Guideline 5 (revised), *Merger Accounting for Common Control Combination*	1 January 2022
HKFRS 17, *Insurance Contracts and the related Amendments*	1 January 2023
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
Hong Kong Interpretation 5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*	1 January 2023
Amendments to HKAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

	Effective for accounting periods beginning on or after
Amendments to HKAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to HKAS 1, *Disclosure of Accounting Policies*	1 January 2023
Amendments to HKFRS 10 and HKAS 28, *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	To be determined

CBT 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 Historical Financial Information of CBT.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by CBT in respect of any period subsequent to 31 March 2021.

Set out below is the management discussion and analysis on the Target Group and CBT for the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, which is prepared based on the financial information of the Target Group as set out in Appendix II and that of CBT as set out in Appendix III to this circular.

THE TARGET GROUP

The Target Company is a company incorporated under the laws of Brazil on 6 June 2002. As at the Latest Practicable Date, the Target Company is directly, wholly owned by the Seller. For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2021, the main objective of the Target Company was to assist the delegation of CNTC to purchase tobacco from seven suppliers in Brazil and manage its passive investment in CBT.

Upon completion of the Reorganisation as at 31 March 2021, CBT became a non-wholly owned subsidiary of the Target Company and the financial results, assets and liabilities of CBT have been consolidated into the accounts of the Target Group. See "*The Acquisition – Reorganisation*" for further information.

Results of Operations of the Target Company

Revenue

For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, the Target Company had revenue of US$0.5 million, US$0.6 million and US$0.5 million, US$0.2 million and U$0.1 million, respectively.

In addition, the Target Company recognised a gain of US$52.1 million for the three months ended 31 March 2021. See "*– Gain on Deemed Disposal of a Joint Venture*" for further details.

Administrative and Other Operating Expenses

For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, the Target Company had administrative and other operating expenses of US$2.7 million, US$1.9 million and US$1.6 million, US$0.3 million and US$0.4 million, respectively, which was primarily comprised of salaries paid to the Target Company's administrative personnel.

Share of Profits/(Loss) of a Joint Venture

For the years ended 31 December 2018, 2019 and 2020, the Target Company generated share of profit of a joint venture of US$7.2 million, US$7.1 million and US$9.6 million, respectively. For the three months ended 31 March 2020 and 2021, the Target Company generated share of loss of a joint venture of US$0.7 million and share of profit of a joint venture of US$4.3 million, respectively. Share of profit of a joint venture and share of loss of a joint venture mainly reflect the Target Company's share of the results of operation of CBT. For more details on the results of operations of CBT, see "*CBT – Results of Operations of CBT*."

Gain on Deemed Disposal of a Joint Venture

The Target Company had gain on deemed disposal of a joint venture of US$52.1 million for the three months ended 31 March 2021. CBT had been accounted for as a joint venture of the Target Company under equity accounting until it became a subsidiary of the Target Company on 31 March 2021 following the Reorganisation, and the Target Company's interest in the joint venture was deemed to be disposed of at its fair value as of 31 March 2021. As a result, the Target Company recognised a gain of US$52.1 million for the three months ended 31 March 2021.

Net Profit

For the years ended 31 December 2018, 2019 and 2020, the Target Company had net profit of US$5.4 million, US$6.4 million and US$8.8 million, respectively. For the three months ended 31 March 2020 and 2021, the Target Company had net loss of US$0.9 million and net profit of US$56.0 million, respectively. Net profit and net loss are primarily attributable to the Target Company's share of the results of operation of CBT.

Foreign Exchange Risk

The businesses of the Target Company's subsidiary, CBT, is carried out mainly in U.S. dollars, and so are the businesses of the tobacco industry. However, the operating costs, including the costs of acquisition and processing tobacco are in Brazilian reais and, therefore, are subject to the effects of the fluctuations of the Brazilian reais in relation to the U.S. dollar.

Contingent Liability

As at 31 December 2018, 2019 and 2020 and 31 March 2021, the Target Company did not have any contingent liability.

Capital Commitments

As at 31 December 2018, 2019 and 2020 and 31 March 2021, the Target Company did not have any material capital commitments.

Charges on Assets

As at 31 December 2018, 2019 and 2020 and 31 March 2021, the Target Company did not have any charge over its assets.

Material Investment and Material Acquisition and Disposals

Except for the business combination achieved in stages set out in Note 20 to the Historical Financial Information included in the Accountant's Report included in Appendix II to this circular, the Target Company had no acquisitions or disposals since 1 January 2018.

Employees and Remuneration Policy

As at 31 December 2018, 2019 and 2020 and 31 March 2021, the Target Company had a total of seven, seven, seven and seven employees, respectively. For the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2020 and 2021, the staff costs of the Target Company amounted to US$1.4 million, US$1.0 million, US$1.2 million, US$0.2 million and US$0.4 million, respectively, and no equity-settled share-based compensation was provided to employees during such periods. The Target Company remunerates its employees based on salaries, wages and other benefits.

Future Plans for Material Investments

As at the Latest Practicable Date, the Target Company did not have any future plans for material investments or acquisition of capital assets.

CBT

CBT is a company incorporated under the laws of Brazil on 8 September 2011 and is principally engaged in the acquisition, processing, sale, import and export of tobacco leaves, and the sale of agricultural materials inherent to the tobacco production. Prior to the Reorganisation, although CBT had been owned as to 51% and 49% by the Target Company and Alliance One Brazil, respectively, CBT's financial results had not been consolidated into the Target Company's financial results due to certain arrangements of the bylaws of CBT and a shareholders' agreement between the Target Company, Alliance One Brazil and CBT dated 21 February 2014.

Upon completion of the Reorganisation as at 31 March 2021, CBT became a non-wholly owned subsidiary of the Target Company and the financial results, assets and liabilities of CBT have been consolidated into the accounts of the Target Group. See "*The Acquisition – Reorganisation*" for further information.

Results of Operations of CBT

Revenue

For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, the total revenue of CBT amounted to US$183.7 million, US$190.5 million and US$136.2 million, US$11.1 million and US$57.3 million, respectively, which was primarily comprised of revenue from sales of processed tobacco leaf products. Changes in CBT's revenue were mainly attributable to fluctuation at and around the end of the year as a result of different timings over revenue recognition each year. CBT generally records revenue upon shipment of tobacco. The timing of completion of the manufacturing of tobacco leaf products generally occurs between August to October each year and varies according to the crop season of tobacco leaves, which is influenced by climate and other cultivating conditions. This, together with the arrangement of shipping, may cause the shipment to happen after the year end. As a result, CBT may recognise revenue in the subsequent year when in fact the tobacco was processed in the previous year, and the different timings of revenue recognition caused year-end fluctuation in CBT's business.

The total revenue of CBT increased from US$183.7 million in 2018 to US$190.5 million in 2019, mainly because a small portion of tobacco processed in 2018 was shipped in 2019, and as a result, more revenue was recognised in 2019. The total revenue of CBT decreased from US$190.5 million in 2019 to US$136.2 million in 2020, mainly due to delay in shipment of a material volume of tobacco processed in 2020. Such delay in shipment was caused by logistics problem due to COVID-19. The total revenue of CBT increased from US$11.1 million for the three months ended 31 March 2020 to US$57.3 million for the same period in 2021, mainly due to shipment of the remaining volume of tobacco processed in 2020 in the beginning of 2021.

Cost of Sales

For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, the cost of sales of CBT amounted to US$150.4 million, US$158.3 million and US$100.6 million, US$9.0 million and US$42.5 million, respectively, which was primarily comprised of raw materials and consumables (mainly including green tobacco and packing materials). The fluctuations in the cost of sales were generally in line with changes in CBT's revenue and fluctuation of the Brazilian reais in relation to the U.S. dollars for the same periods.

Gross Profit and Gross Profit Margin

As a result of the foregoing, for the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, CBT recorded a gross profit of US$33.2 million, US$32.2 million, US$35.6 million, US$2.2 million and US$14.7 million, respectively. The gross profit margin was 18.1%, 16.9%, 26.1%, 19.4% and 25.7%, respectively, during the same periods.

The gross profit margin of CBT was 18.1% in 2018 and 16.9% in 2019, which remained relatively stable. The gross profit margin of CBT increased from 16.9% in 2019 to 26.1% in 2020, mainly due to depreciation of Brazilian reais. CBT's cost of sales, denominated in Brazilian reais, experienced a significant reduction when translating into U.S. dollars as a result of the depreciation of Brazilian reais, while CBT's revenue, denominated in U.S. dollars, did not experience a similar decrease. The gross profit margin of CBT increased from 19.4% for the three months ended 31 March 2020 to 25.7% for the same period in 2021, mainly due to a combined effect of delay in shipment of tobacco and depreciation of Brazilian reais.

Administrative and Other Operating Expenses

For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, the administrative and other operating expenses incurred by CBT amounted to US$7.0 million, US$7.4 million, US$5.1 million, US$1.0 million and US$1.3 million, respectively. The administrative and other operating expenses were US$7.0 million in 2018 and US$7.4 million in 2019, which remained relatively stable. The administrative and other operating expenses decreased from US$7.4 million in 2019 to US$5.1 million in 2020, mainly because of depreciation of Brazilian reais, which led to reduction in general and administrative expenses as translated into U.S. dollars, and a decrease in the amount of tobacco shipped for sales, which resulted in a decrease in selling expenses recognised. The administrative and other operating expenses were US$1.0 million for the three months ended 31 March 2020 and US$1.3 million for the three months ended 31 March 2021, which remained relatively stable.

Other Income (net)

For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, CBT had other income (net) of US$2.9 million, US$0.2 million, US$3.4 million, US$1.9 million and US$2.2 million, respectively. Other income (net) primarily consists of net exchange gains/(losses), which arise primarily from fluctuation of exchange rate between Brazilian reais and U.S. dollars, and value-added ("VAT") refund. CBT's other income (net) decreased from US$2.9 million in 2018 to US$0.2 million in 2019 because CBT had net exchange gains of US$2.7 million in 2018 and net exchange losses of US$0.6 million in 2019. CBT's other income (net) increased from US$0.2 million in 2019 to US$3.4 million in 2020 because CBT had net exchange gains of US$2.5 million in 2020, comparing to net exchange losses of US$0.6 million in 2019. CBT's other income (net) increased from US$1.9 million for the three months ended 31 March 2020 to US$2.2 million for the three months ended 31 March 2021 because the net exchange gains increased from US$1.6 million for the three months ended 31 March 2020 to US$1.8 million for the three months ended 31 March 2021.

Profit from Operations

As a result of the foregoing, for the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, CBT recorded a profit from operation of US$29.1 million, US$25.0 million, US$33.9 million, US$3.0 million and US$15.6 million, respectively.

Finance costs

Finance costs are mainly comprised of interest on borrowing. For the years ended 31 December 2018, 2019 and 2020 and for the three months ended 31 March 2020 and 2021, financial costs by CBT amounted to US$5.7 million, US$5.1 million, US$3.3 million, US$0.2 million and US$0.9 million, respectively. CBT's finance costs decreased from US$5.7 million in 2018 to US$5.1 million in 2019, mainly because of a decrease in prevailing interest rate and decrease in borrowing due to depreciation of Brazilian reais during the year. Finance costs decreased from US$5.1 million in 2019 to US$3.3 million in 2020, mainly because CBT experienced a decrease in prevailing interest rate. Finance costs increased from US$0.3 million for the three months ended 31 March 2020 to US$0.9 million for the same period in 2021, mainly because CBT requested longer terms with respect to its bank loans when it made the borrowing as it anticipated delays in shipments of tobacco and related payments from customers.

Net Profit/Loss

As a result of the foregoing, for the years ended 31 December 2018, 2019 and 2020, CBT recorded net profit of US$13.8 million, US$13.1 million and US$17.8 million, respectively. For the three months ended 31 March 2020 and 2021, CBT recorded net loss of US$0.9 million and net profit of US$8.7 million, respectively.

Liquidity and Financial Resources

The total assets of CBT mainly consist of trades and other receivables, inventories and cash and cash equivalents. As at 31 December 2018, 2019 and 2020 and 31 March 2021, CBT recorded total assets of US$179.2 million, US$94.9 million, US$188.4 million and US$150.1 million, respectively.

CBT's trade and other receivables decreased from US$97.0 million as at 31 December 2018 to US$36.6 million as at 31 December 2019 primarily due to early shipment of tobacco and, as a result, early collection of receivables in 2019. The trade and other receivables increased from US$36.6 million as at 31 December 2019 to US$122.9 million as at 31 December 2020 primarily due to delay in shipment of tobacco that was processed in 2020, and, as a result, delayed collection of receivables. The trade and other receivables decreased from US$122.9 million as at 31 December 2020 to US$73.2 million as at 31 March 2021 primarily due to continued collection on receivables for tobacco processed and shipped in 2020 during the three months ended 31 March 2021.

CBT's inventory decreased from US$48.1 million as at 31 December 2018 to US$31.8 million as at 31 December 2019 primarily because a small portion of tobacco processed in 2018 was shipped in 2019, while tobacco that was processed in 2019 was shipped before the end of 2019. CBT's inventory increased from US$31.8 million as at 31 December 2019 to US$59.2 million as at 31 December 2020 primarily due to delay in shipment of tobacco that was processed in 2020 as a result of logistics problem caused by COVID-19. CBT's inventory increased from US$59.2 million as at 31 December 2020 to US$75.2 million as at 31 March 2021 was primarily due to 1) seasonality of the business of CBT, as CBT generally purchases tobacco in the first half of the year, and 2) delay in shipment of tobacco that was processed in 2020.

CBT seeks to maintain a low cash balance. CBT generally pays down outstanding bank loans as cash is generated from operating activities and it pays a substantial portion of its net profit as dividends. As a result, any period-to-period fluctuation on CBT's cash and cash equivalents is because of difference on timing with respect to 1) receipt of cash payment from customers, 2) payment of outstanding bank loans and 3) distribution of dividends. As at 31 December 2018, 2019 and 2020 and 31 March 2021, CBT's cash and cash equivalents were US$34.1 million, US$26.6 million, US$6.4 million and US$1.7 million. The cash and cash equivalents of CBT as at 31 December 2020 were US$6.4 million, which were much lower than those as at 31 December 2019, primarily because most cash collected from customers were used to pay down its bank loans. As at 31 March 2021, CBT cash and cash equivalents further decreased to US$1.7 million as CBT used cash to make purchase of tobacco in the first half of 2021.

As at 31 December 2018, 2019 and 2020 and 31 March 2021, CBT had outstanding bank borrowing of US$137.8 million, US$55.5 million, US$133.1 million and US$82.5 million, respectively. The changes in CBT's outstanding bank borrowing from 31 December 2018 to 31 December 2019 and from 31 December 2019 to 31 December 2020 were caused by tobacco shipping time and the position of accounts receivables. Delay in shipments of tobacco leads to delay in receipt of payments from customers. As such, CBT increased its bank loans. The decrease in outstanding bank borrowing from US$137.8 million as at 31 December 2018 to US$55.5 million as at 31 December 2019 was because CBT was able to pay down its bank loans earlier as CBT did not experience any material delay in the shipment of tobacco in 2019. The increase in outstanding bank borrowing from US$55.5 million as at 31 December 2019 to US$133.1 million as at 31 December 2020 was due to delay in shipment of tobacco that was processed in 2020 and, as a result, delay in collection from customers, which led to increase in outstanding bank loans. CBT's outstanding bank borrowing as at 31 March 2021 was US$82.5 million, primarily because CBT has yet to collect the remaining accounts receivable from tobacco processed in 2020 and CBT has started to purchase green tobacco for the year of 2021.

Capital Management

CBT's primary objective when managing capital is to safeguard CBT's ability to continue as a going concern, so that it can continue to provide returns for equity holders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

CBT's funding needs are seasonal due to the nature of its business. For the first half of the year, CBT generally purchases green tobacco from farmers and other suppliers, and CBT generally funds such purchase through borrowing from banks. In the latter half of the year, CBT starts to ship tobacco to its customer and, after that, collects payments from its customers. Due to such seasonality, CBT determines the maturity date on its borrowing based on the expected timing of shipment of tobacco and collection of accounts receivable. In general, CBT seeks to maintain a low cash balance and pays a substantial portion of its net profit as dividends.

The directors of CBT review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital and take measures to ensure that CBT maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. In addition, CBT's management team also reviews and monitors the financial situation constantly. CBT will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

Foreign Exchange and Other Risks

CBT's businesses are carried out mainly in U.S. dollars, and so are the businesses of the tobacco industry. However, the operating costs, including the costs of acquisition and processing tobacco are in Brazilian reais and, therefore, are subject to the effects of the fluctuations of the local currency in relation to the U.S. dollars. Exchange rates, tax rates and other regulatory requirements are subject to change in future.

Segment Information

The management of CBT assesses the performance and allocates the resources of CBT as a whole, therefore no segment information is presented.

As at 31 December 2018, 2019 and 2020 and 31 March 2021, substantially all of the non-current assets of CBT were located in Brazil.

Contingent Liability

As at 31 December 2018, 2019 and 2020 and 31 March 2021, CBT did not have any contingent liability.

Capital Commitments

As at 31 December 2018, 2019 and 2020 and 31 March 2021, CBT did not have any material capital commitments.

Charges on Assets

As at 31 December 2018, 2019 and 2020 and 31 March 2021, CBT did not have any charge over its assets.

Material Investment and Material Acquisitions and Disposals

During the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, CBT did not have any other material investment or material acquisition and disposal.

Employees and Remuneration Policy

As at 31 December 2018, 2019 and 2020 and 31 March 2021, CBT had a total of 159, 158, 186 and 476 employees, respectively. For the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2020 and 2021, the staff costs of CBT amounted to US$6.4 million, US$6.5 million, US$5.2 million, US$1.5 and US$1.6 million, respectively, and no equity-settled share-based compensation was provided to employees during such periods. CBT remunerates its employees based on salaries, wages and other benefits.

Future Plans for Material Investments

As at the Latest Practicable Date, CBT did not have any future plans for material investments or acquisition of capital assets.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect on the financial position of China Tobacco International (HK) Company Limited (the "Company") as at 30 June 2021 as if the acquisition of the entire issued share capital of China Tabaco Internacional do Brasil Ltda. and its subsidiaries (the "Target Group", together with the Company "the Enlarged Group") by the Company (the "Acquisition") had been completed on 30 June 2021.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the assets and liabilities of the Enlarged Group had the Acquisition been completed on 30 June 2021 or any future date.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited statement of financial position of the Company as at 30 June 2021, which has been extracted from the published 2021 interim report of the Company, after giving effect to the unaudited pro forma adjustments that are (i) directly attributable to the Acquisition and not relating to other future events or decisions and (ii) factually supportable, as described in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Company and other financial information included elsewhere in this circular.

		Pro-forma adjustment				Unaudited pro forma consolidated financial information of the Enlarged Group as at 30 June 2021
	The Company at 30 June 2021	The Target Group at 31 March 2021	Other adjustments			
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Non-current assets						
Property and equipment	35,476,761	29,160,994				64,637,755
Intangible assets	–	219,651,666				219,651,666
Goodwill	–	212,928,534				212,928,534
Trade and others receivables	1,930,132	19,638,707				21,568,839
	37,406,893	481,379,901				518,786,794

			Pro-forma adjustment			Unaudited pro forma consolidated financial information of the Enlarged Group as at 30 June 2021
	The Company at 30 June 2021	The Target Group at 31 March 2021	Other adjustments			
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Current assets						
Inventories	117,926,119	662,736,430				780,662,549
Current tax recoverable	23,694,215	–				23,694,215
Trade and other receivables	485,450,042	572,013,359			(96,338,946)	961,124,455
Cash and cash equivalents	1,818,585,335	29,517,563	(494,520,000)	(15,264,600)		1,338,318,298
	2,445,655,711	1,264,267,352				3,103,799,517
Current liabilities						
Trade and other payables	768,211,778	185,823,386			(96,338,946)	857,696,218
Bank borrowings	–	643,435,010				643,435,010
Lease liabilities	7,603,243	2,516,951				10,120,194
Current tax payable	–	27,044,300				27,044,300
	775,815,021	858,819,647				1,538,295,722
Net current assets	1,669,840,690	405,447,705				1,565,503,795
Total assets less current liabilities	1,707,247,583	886,827,606				2,084,290,589
Non-current liabilities						
Lease liabilities	14,674,704	2,489,846				17,164,550
Deferred tax liabilities	–	109,622,456				109,622,456
Provision for reinstatement costs	2,597,079	–				2,597,079
	17,271,783	112,112,302				129,384,085
NET ASSETS	1,689,975,800	774,715,304				1,954,906,504

Notes to the unaudited pro forma statement

1. The amounts are extracted from the statement of financial position of the Company as at 30 June 2021 as set out in the interim report of the Company for the six months ended 30 June 2021.

2. The amounts are translated from those extracted from the Accountants' Report on the Target Group as set out on Appendix II to this Circular. For the purposes of this Unaudited Pro Forma Financial Information, the unadjusted consolidated statement of financial position of the Target Group as at 31 March 2021 is translated from United States dollars ("US$") into Hong Kong dollars ("HK$") using an exchange rate of US$1 to HK$7.8000. No representation is made that US$ denominated amounts have been, could have been or could be converted to HK$, or vice versa, at the rates applied or at any other rates or at all.

3. The adjustment represents the cash consideration of US$63,400,000 (equivalent to approximately HK$494,520,000 for the purpose of this Unaudited Pro Forma Financial Information, translated at the exchange rate of US$1 to HK$7.8000) paid in connection with the Acquisition.

4. For the purpose of the Unaudited Pro Forma Financial Information, the transaction costs, such as professional services fees, that are directly attributable to the Acquisition, are estimated by the Directors to be HK$15,264,600 and are charged to profit or loss and settled by cash as if the Acquisition had been completed on 30 June 2021.

5. This adjustment represents the elimination of inter-company balances between the Company and the Target Group had the Acquisition been completed on 30 June 2021. For the purpose of the Unaudited Pro Forma Financial Information, the accounting periods of the Company's and the Target Group's financial information are not conterminous. As a result, an inter-company receivable of HK$300,616,345 on the Target Group's books as at 31 March 2021 remained uneliminated.

6. The Company and the Target Group are under the common control of China National Tobacco Corporation ("CNTC") before and after the Acquisition and the control is not transitory. There has been a continuation of risks and benefits to CNTC that exists prior to the Acquisition. Consequently, the Acquisition is considered as a business combination involving entities under common control. The directors of the Company elect to account for the Acquisition in the Company's annual financial statements for the year ending 31 December 2021 using the merger accounting principle in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the Hong Kong Institute of Certified Public Accountants. As a result, the assets and liabilities of the Target Group will be recorded using the existing book values from the perspective of CNTC (which are the same as those amounts shown in the Target Group's financial statements) and will not be revaluated to their respective fair values. Furthermore, no goodwill will arise from the Acquisition.

7. No adjustment has been made to reflect any trading results or other transactions of the Company and the Target Group entered into subsequent to 30 June 2021 and 31 March 2021 respectively.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Company's pro forma financial information for the purpose of incorporation in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of China Tobacco International (HK) Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Tobacco International (HK) Company Limited (the "Company") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2021 and related notes as set out in Part A of Appendix V to the circular dated 29 September 2021 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix V to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued and outstanding quotas of China Tabaco Internacional do Brasil Ltda. (the "Target Company") (the "Acquisition") on the Company's financial position as at 30 June 2021 as if the Acquisition had taken place at 30 June 2021. As part of this process, information about the Company's financial position as at 30 June 2021 has been extracted by the Directors from the published interim report of the Company for the six months ended 30 June 2021, on which a review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
29 September 2021

The following is the Content Summary of Valuation Report of CHINA TABACO INTERNACIONAL DO BRASIL LTDA.'s total shareholder equity issued by China Enterprise Appraisals Co., Ltd.

The Valuation Report and Content Summary are prepared in Chinese, and the English summary is translated by Chinese version. In case of any discrepancy, the Chinese version shall prevail.

I. ECONOMIC BEHAVIOR

China Tobacco International (HK) Company Limited intends to acquire 100% equity of China Tabaco Internacional do Brasil Ltda., a subsidiary of China Tobacco International Group Limited.

II. THE PURPOSE OF VALUATION

China Tobacco International (HK) Company Limited intends to acquire 100% equity of China Tabaco Internacional do Brasil Ltda., a subsidiary of China Tobacco International Group Limited. The market value of shareholders' equity of CHINA TABACO INTERNACIONAL DO BRASIL LTDA. is valuated to provide a value reference for the above-mentioned transaction.

III. THE VALUATION OBJECT AND THE SCOPE OF VALUATION

i. The valuation object

The valuation object is all shareholders' equity of CHINA TABACO INTERNACIONAL DO BRASIL LTDA.

ii. Scope of valuation

Scope of valuation is all assets and liabilities of the valuation object.

Assets include current assets, long-term equity investments, fixed assets, etc., and liabilities include current liabilities.

IV. THE BASIS OF VALUE

Market value.

V. THE VALUATION BASE DATE

31-Mar-2021

VI. THE VALUATION REFERENCES

i. Economic behavior references

1. Resolution of the interim meeting of China Tobacco International Group Limited 2021.

2. Memorandum of Directors of China Tobacco International (HK) Company Limited.

ii. Laws and regulations references

1. "The Assets Valuation Law of the People's Republic of China" (adopted at the 21st meeting of the Standing Committee of the 12th National People's Congress on July 2, 2016);

2. "Law of the People's Republic of China on State-owned Assets of Enterprises" (adopted at the fifth meeting of the Standing Committee of the Eleventh National People's Congress on October 28, 2008);

3. "Measures for the Financial Supervision and Administration of the Asset Valuation Industry" (issued by Order No. 86 of the Ministry of Finance of the People's Republic of China, revised by Order No. 97 of the Ministry of Finance);

4. "Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises" (Order No. 378 of the State Council, Amendment No. 709 of the State Council);

5. "Interim Measures for the Valuation and Administration of State-owned Assets of Enterprises" (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

6. "Notice on Strengthening the Management of State-owned Assets of Enterprises" (State-owned Assets Supervision and Administration Commission Property Rights [2006] No. 274);

7. "Measures for the Supervision and Administration of State-owned Equity in Listed Companies" (State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission Order No. 36);

8. "Notice on Matters Concerning the Review of State-owned Assets Valuation Reports of Enterprises" (Guo Assets Quan [2009] No. 941);

9. "Guidelines for the Approval of Asset Appraisal Projects of Central Enterprises" (Guozifa Property Rights [2010] No. 71);

10. "Guidelines for the Filing of State-owned Assets Valuation Projects of Enterprises" (Guozifa Property Rights [2013] No. 64);

11. "Interim Measures for the Administration of Overseas State-owned Property Rights of Central Enterprises" (Order No. 27 of the State-owned Assets Supervision and Administration Commission of the State Council);

12. "Notice on Further Strengthening the Management of Overseas State-owned Property Rights of Central Enterprises" (Guozifa Property Rights Regulations [2020] No. 70);

13. "Measures for the Supervision and Administration of State-owned Assets Transactions in Enterprises" (Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance);

14. Other relevant laws and regulations, notification file.

iii. References of valuation standards

1. "Basic Standards for Asset Valuation" (Cai Zi [2017] No. 43);
2. "Professional Code of Ethics for Asset Valuation" (Zhong Ping Xie [2017] No. 30);
3. "Asset Appraisal Practice Standards – Valuation report" (Zhong Ping Xie [2018] No. 35);
4. "Asset Appraisal Practice Standards – Asset Appraisal Procedures" (Zhong Ping Xie [2018] No. 36);
5. "Asset Appraisal Practice Standards – Asset Appraisal Entrust Contract" (Zhong Ping Xie [2017] No. 33);
6. "Asset Appraisal Practice Standards – Asset Appraisal Archives" (Zhong Ping Xie [2018] No. 37);
7. "Asset Appraisal Practice Guidelines – Using Expert Work and Related Reports" (Zhong Ping Xie [2017] No. 35);
8. "Asset Appraisal Practice Standards – Enterprise Value" (Zhong Ping Xie [2018] No. 38);
9. "Asset Valuation Practice Standards – Intangible Assets" (Zhong Ping Xie [2017] No. 37);
10. "Guidelines for Enterprise State-owned Assets Valuation Reports" (Zhong Ping Xie [2017] No. 42);
11. "Guidelines for Business Quality Control of Asset Valuation Institutions" (Zhong Ping Xie [2017] No. 46);
12. "Guiding Opinions on Asset Appraisal Value Types" (Zhong Ping Xie [2017] No. 47);
13. "Guiding Opinions on the Legal Ownership of Asset Appraisal Objects" (Zhong Ping Xie [2017] No. 48);
14. "Asset Appraisal Practice Standards – Asset Appraisal Approaches" (Zhong Ping Xie [2019] No. 35);
15. "Asset Appraisal Expert Guidelines No. 8 – Inspection and Verification in Asset Appraisal" (Zhong Ping Xie [2019] No. 39);
16. "Asset Appraisal Expert Guidelines No. 10 – Properly Perform Asset Appraisal Procedures During the New Coronary Pneumonia Epidemic Period" (Zhong Ping Xie [2020] No. 6);
17. "Asset Appraisal Standard Terminology 2020" (Zhong Ping Xie [2020] No. 31).

iv. References of property ownership

1. Vehicle license;

2. Other relevant certificates of property rights.

v. References of price determination

1. Bank deposit and loan benchmark interest rates and foreign exchange rates on the valuation base date;

2. The audit reports and financial statements of previous years provided by CTIB;

3. The future annual business plan provided by the company;

4. The current and future annual market forecast data of the main products provided by the company;

5. Public information materials of the industry in which the company is located;

6. Wind information financial terminal;

7. Bloomberg terminal;

8. Other information related to this appraisal.

vi. Other referred information

1. The asset list and asset declaration form provided by the valuation target;

2. Audit report issued by KPMG accounting firm;

3. Information database of CEA.

VII. THE VALUATION APPROACHES

Combined with the appraisal purpose, CEA analyzes the applicability of three basic methods, income approach, market approach and asset-based approach (AKA cost approach) according to appraisal object, value type, data collection, etc., to select the valuation approach.

After analyzing the financial status, asset management information, operating status and development plan of CTIB, CEA adopts the asset-based approach as the evaluation conclusion.

Summary of asset-based approach

The asset-based approach refers to a valuation approach to determine the value of various assets and liabilities on and off the balance sheet based on the balance sheet of the valuation object on the valuation base date. The main assets and liabilities are valuated as follows:

1. Current assets

(1) Cash and cash equivalents include bank deposits. Through verification of bank statements, the verified value is used to determine the appraisal value. Among them, foreign currencies are converted into U.S. dollars to determine their value based on the central bank of Brazil's announcement on the benchmark date.

(2) For accounts receivable and other receivables, the appraiser shall determine the estimated value based on the amount of each receivable that may be recovered on the basis of verifying that the receivables are correct. Other receivables are dividends receivable, and the appraiser should understand the reasons for the formation of dividends receivable from the valuation target, and verify the resolutions of the relevant board of directors or other dividend distribution plans. For those with good reason to believe that all can be recovered, the estimated value is calculated based on the total amount of receivables; for those that are likely to be unable to recover part of the amount, when it is difficult to determine the amount of unrecoverable accounts, use historical data and surveys to understand and analyze the amount, time and reason for arrears, payment recovery, debtor's funds, credit, current management status, etc., according to the aging analysis method, estimate this part of the amount that may not be recovered, and deduct it as a risk loss. After that, the valuation value is calculated; if there is a solid basis to indicate that it cannot be recovered, it is calculated as zero; the "bad debt provision" item on the book is calculated as zero.

(3) Prepay the account. The appraiser consults the relevant material purchase contract or supply agreement to understand the services and goods received during the period from the base date to the valuation verification. If the supplier is not found to be bankrupt, cancelled, or unable to provide goods or services on time as stipulated in the contract, the verified book value shall be used as the assessed value. For those prepayments that have a solid basis to show that the corresponding goods cannot be recovered, and the corresponding assets or equity cannot be formed, the estimated value is zero.

2. Long-term equity investment

For the overall valuation of wholly-owned and holding long-term equity investments, first valuate the value of all shareholders' equity of the invested unit, and then multiply it by the proportion of equity held to calculate the partial equity value of shareholders.

3. Equipment type fixed assets

Check according to the detailed list of machinery and equipment provided by the enterprise to ensure that the accounts are consistent. At the same time, the ownership is confirmed by reviewing and verifying the relevant contracts, legal ownership certificates and accounting vouchers.

According to the characteristics of various types of equipment, types of valuation values, data collection and other related conditions, the cost approach is mainly used for valuation; for the old equipment that is idle to be processed, the market approach is used for valuation.

The calculation formula of cost approach is as follows:

Equipment valuation value = reset full price x comprehensive renewal rate

(1) Determination of the full price of vehicle replacement

The vehicle replacement price consists of three parts: the purchase price of the vehicle, the vehicle tax and the cost of the new vehicle license plate. The calculation formula of the replacement price is as follows:

Replacement price = replacement price + vehicle tax + new vehicle license plate cost

(2) Determination of the full cost of electronic equipment replacement

The electronic equipment mainly adopts the national consumer price index adjustment method to determine.

Electronic equipment reset full price = original book value of equipment x price index adjustment coefficient

Price index adjustment coefficient = price index of valuation base date/price index of valuation object's original purchase time

The price index is obtained by consulting Bloomberg.

For the old electronic equipment actively traded in the market, the price of second-hand equipment shall be determined directly.

(3) Determination of comprehensive renewal rate

1) For vehicles, the theoretical renewal rate is determined according to the principle of the lowest by using the two methods of vehicle mileage and service life. Calculation formula is as follows:

Mileage renewal rate = (specified mileage – traveled mileage)/specified mileage ×100%

Age limit renewal rate = still usable years/(Still usable years + Already used years)×100%

Comprehensive renewal rate =MIN (Age limit renewal rate, Mileage renewal rate)

2) For electronic equipment, air conditioning equipment and other small equipment, mainly according to its economic life to determine its comprehensive renewal rate; For large electronic equipment, it also refers to its working environment and the running status of the equipment to determine its comprehensive renewal rate.

The calculation formula is as follows:

Age limit renewal rate = (economic life years – used life years)/economic life years ×100%

Comprehensive renewal rate = new rate of fixed number of years × adjustment coefficient

(4) Determination of valuation value

Valuation value = replacement full price × comprehensive renewal rate

(5) Market approach

For some electronic equipment, office furniture and waste equipment purchased earlier, the market approach is adopted to valuate them according to the second-hand market price or waste product price on the valuation base date.

4. Liabilities

The liabilities on the base date include accounts payable, employee compensation payable, taxes payable, and other payables. The appraiser first checked the consistency between the subsidiary ledger and the general ledger, and checked the detailed items. At the same time, they randomly checked the relevant accounting vouchers of the payment and confirmed whether the book amount of the debt was true based on the vouchers' spot checks. The subsequent book value determines the appraisal value.

VIII. VALUATION CONCLUSION

As of the valuation base date, as for CHINA TABACO INTERNACIONAL DO BRASIL LTDA. the book value of total assets is US$31,330.28 thousand, the appraised value is US$71,504.80 thousand, the value-added amount is US$40,174.52 thousand, and the appreciation rate is 128.23%; the book value of total liabilities is US$8,090.24 thousand, the appraised value is US$8,090.24 thousand, and the value-added amount is US$0.00 thousand. The appreciation rate is 0.00%; the book value of the net assets is US$23,240.04 thousand, the appraised value is US$63,414.56 thousand, the value-added is US$40,174.52 thousand, and the appreciation rate is 172.87%.

Summary of asset-based method results

Valuation base date: March 31, 2021 unit: '000 US dollars

Project		**Book Value A**	**Appraised Value B**	**Value-added amount C=B-A**	**Appreciation rate D=C/A×100%**
Current assets	1	6,622.62	6,622.62	0.00	0.00
Non-Current assets	2	24,707.66	64,882.18	40,174.52	162.60
Among: long-term equity	3	24,687.79	64,827.80	40,140.01	162.59
Investment real estate	4	0.00	0.00	0.00	
Fixed assets	5	19.87	54.38	34.51	173.68
Projects under construction	6	0.00	0.00	0.00	
Intangible assets	7	0.00	0.00	0.00	
Among: land use right	8	0.00	0.00	0.00	
Other non-current assets	9	0.00	0.00	0.00	
Total Assets	10	31,330.28	71,504.80	40,174.52	128.23
Current liabilities	11	8,090.24	8,090.24	0.00	0.00
Non-current liabilities	12	0.00	0.00	0.00	
Total Liabilities	13	8,090.24	8,090.24	0.00	0.00
Net Assets	14	23,240.04	63,414.56	40,174.52	172.87

The RMB result settlement by the central parity rate of USD/RMB published by China foreign exchange trade center on the base date of the appraisal (1: 6.5713), the total shareholder equity value of the valuated entity is RMB416,6716,100. Details are as below:

Summary of asset-based method results

Valuation base date: March 31, 2021 unit: RMB10,000 yuan

Project		**Book Value A**	**Appraised Value B**	**Value-added amount C=B-A**	**Appreciation rate D=C/A×100%**
Current assets	1	4,351.92	4,351.92	0.00	0.00
Non-Current assets	2	16,236.14	42,636.03	26,399.88	162.60
Among: long-term equity	3	16,223.09	42,600.29	26,377.20	162.59
Investment real estate	4	0.00	0.00	0.00	
Fixed assets	5	13.06	35.73	22.68	173.68
Projects under construction	6	0.00	0.00	0.00	
Intangible assets	7	0.00	0.00	0.00	
Among: land use right	8	0.00	0.00	0.00	
Other non-current assets	9	0.00	0.00	0.00	
Total Assets	10	20,588.07	46,987.95	26,399.88	128.23
Current liabilities	11	5,316.34	5,316.34	0.00	0.00
Non-current liabilities	12	0.00	0.00	0.00	
Total Liabilities	13	5,316.34	5,316.34	0.00	0.00
Net Assets	14	15,271.73	41,671.61	26,399.88	172.87

IX. VALUATION ASSUMPTIONS

The following assumptions have been adopted for analysis and estimation in this valuation report:

1. General Principles

(1) Assuming that all valuation targets are already in the process of trading, valuation professionals conduct valuations based on the simulated market such as the trading conditions of the valued assets;

(2) Assuming that assets traded on the market or assets to be traded on the market, both parties to the asset transaction have equal status with each other, each has the opportunity and time to obtain sufficient market information, and the transaction behavior is voluntary, rational, and both able to make sensible judgments on the functions, uses and transaction prices of assets;

(3) It is assumed that the assessed asset is continuously used in accordance with the current purpose and method of use;

2. Specific assumptions

(1) It is assumed that there are no major changes in the country's current relevant laws, regulations and policies, and the country's macroeconomic situation, and there are no major changes in the political, economic and social environment of the region where the parties to the transaction are located;

(2) In view of the actual condition of assets on the base date of valuation, assume that the enterprise continues to operate;

(3) It is assumed that the interest rate, exchange rate, tax base and tax rate, and policy collection fees related to the valuation target will not undergo major changes except for the known changes and fluctuations on the date of issuance of the report;

(4) It is assumed that the management of the valuation target after the valuation base date is responsible, stable, and capable of performing its duties;

(5) Unless otherwise stated, it is assumed that the company fully complies with all relevant laws and regulations;

(6) It is assumed that there will be no force majeure and unforeseen factors that will cause significant adverse effects on the valuation target after the valuation base date;

(7) It is assumed that the accounting policies adopted by the appraisal unit after the appraisal base date and the accounting policies adopted in the preparation of this valuation report are consistent in important respects;

(8) It is assumed that the valuation target will maintain the same business scope and method as the current one based on the current management method and management level after the valuation benchmark date;

(9) Assuming that the cash inflow of the valuation target after the valuation base date is an average inflow, and the cash outflow is an average outflow;

(10) This valuation assumes that the basic information and financial information provided by the valuation target are true, accurate and complete.

The valuation conclusion of this Valuation Report is valid on the valuation base date with the aforementioned hypotheses. If the aforementioned hypotheses undergo significant changes, signing appraisers with China Enterprise Appraisal Co., Ltd. will not be responsible for a different conclusion caused by changed hypotheses.

The following is the Content Summary of valuation process by China Enterprise Appraisals Co., Ltd., introduction of CHINA BRASIL TABACOS EXPORTADORA S.A., the long-term equity investment of China Tobacco International Group Limited.

The Valuation Report and Content Summary are prepared in Chinese, and the English summary is translated by Chinese version. In case of any discrepancy, the Chinese version shall prevail.

I. ECONOMIC BEHAVIOR

China Tobacco International (HK) Company Limited intends to acquire 100% equity of China Tabaco Internacional do Brasil Ltda., a subsidiary of China Tobacco International Group Limited.

II. THE PURPOSE OF VALUATION

China Tobacco International (HK) Company Limited intends to acquire 100% equity of China Tabaco Internacional do Brasil Ltda., a subsidiary of China Tobacco International Group Limited. The market value of shareholders' equity of CHINA TABACO INTERNACIONAL DO BRASIL LTDA. is valuated to provide a value reference for the above-mentioned transaction.

CHINA BRASIL TABACOS EXPORTADORA S.A. is the important subsidiaries of CHINA TABACO INTERNACIONAL DO BRASIL LTDA., they are valuated separately.

III. THE VALUATION OBJECT AND THE SCOPE OF VALUATION

i. The valuation object

Shareholders' equity of CHINA BRASIL TABACOS EXPORTADORA S.A.

ii. Scope of valuation

All assets and liabilities of the valuation object.

Assets within the scope of valuation include current assets, long-term receivables, fixed assets, intangible assets, right of use assets, other non-current assets, etc. Liabilities include current liabilities and non-current liabilities.

IV. THE BASIS OF VALUE

Market value.

V. THE VALUATION BASE DATE

31-Mar-2021

VI. THE VALUATION REFERENCES

i. Economic behavior references

1. Resolution of the interim meeting of China Tobacco International Group Limited 2021.

2. Memorandum of Directors of China Tobacco International (HK) Company Limited.

ii. Laws and regulations references

1. "The Assets Valuation Law of the People's Republic of China" (adopted at the 21st meeting of the Standing Committee of the 12th National People's Congress on July 2, 2016);

2. "Law of the People's Republic of China on State-owned Assets of Enterprises" (adopted at the fifth meeting of the Standing Committee of the Eleventh National People's Congress on October 28, 2008);

3. "Measures for the Financial Supervision and Administration of the Asset Valuation Industry" (issued by Order No. 86 of the Ministry of Finance of the People's Republic of China, revised by Order No. 97 of the Ministry of Finance);

4. "Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises" (Order No. 378 of the State Council, Amendment No. 709 of the State Council);

5. "Interim Measures for the Valuation and Administration of State-owned Assets of Enterprises" (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

6. "Notice on Strengthening the Management of State-owned Assets of Enterprises" (State-owned Assets Supervision and Administration Commission Property Rights [2006] No. 274);

7. "Measures for the Supervision and Administration of State-owned Equity in Listed Companies" (State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission Order No. 36);

8. "Notice on Matters Concerning the Review of State-owned Assets Valuation Reports of Enterprises" (Guo Assets Quan [2009] No. 941);

9. "Guidelines for the Approval of Asset Appraisal Projects of Central Enterprises" (Guozifa Property Rights [2010] No. 71);

10. "Guidelines for the Filing of State-owned Assets Valuation Projects of Enterprises" (Guozifa Property Rights [2013] No. 64);

11. "Interim Measures for the Administration of Overseas State-owned Property Rights of Central Enterprises" (Order No. 27 of the State-owned Assets Supervision and Administration Commission of the State Council);

12. "Notice on Further Strengthening the Management of Overseas State-owned Property Rights of Central Enterprises" (Guozifa Property Rights Regulations [2020] No. 70);

13. "Measures for the Supervision and Administration of State-owned Assets Transactions in Enterprises" (Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance);

14. Other relevant laws and regulations, notification file.

iii. References of valuation standards

1. "Basic Standards for Asset Valuation" (Cai Zi [2017] No. 43);
2. "Professional Code of Ethics for Asset Valuation" (Zhong Ping Xie [2017] No. 30);
3. "Asset Appraisal Practice Standards – Valuation report" (Zhong Ping Xie [2018] No. 35);
4. "Asset Appraisal Practice Standards – Asset Appraisal Procedures" (Zhong Ping Xie [2018] No. 36);
5. "Asset Appraisal Practice Standards – Asset Appraisal Entrust Contract" (Zhong Ping Xie [2017] No. 33);
6. "Asset Appraisal Practice Standards – Asset Appraisal Archives" (Zhong Ping Xie [2018] No. 37);
7. "Asset Appraisal Practice Guidelines – Using Expert Work and Related Reports" (Zhong Ping Xie [2017] No. 35);
8. "Asset Appraisal Practice Standards – Enterprise Value" (Zhong Ping Xie [2018] No. 38);
9. "Asset Valuation Practice Standards – Intangible Assets" (Zhong Ping Xie [2017] No. 37);
10. "Guidelines for Enterprise State-owned Assets Valuation Reports" (Zhong Ping Xie [2017] No. 42);
11. "Guidelines for Business Quality Control of Asset Valuation Institutions" (Zhong Ping Xie [2017] No. 46);
12. "Guiding Opinions on Asset Appraisal Value Types" (Zhong Ping Xie [2017] No. 47);
13. "Guiding Opinions on the Legal Ownership of Asset Appraisal Objects" (Zhong Ping Xie [2017] No. 48);
14. "Asset Appraisal Practice Standards – Asset Appraisal Approaches" (Zhong Ping Xie [2019] No. 35);
15. "Asset Appraisal Expert Guidelines No. 8 – Inspection and Verification in Asset Appraisal" (Zhong Ping Xie [2019] No. 39);
16. "Asset Appraisal Expert Guidelines No. 10 – Properly Perform Asset Appraisal Procedures During the New Coronary Pneumonia Epidemic Period" (Zhong Ping Xie [2020] No. 6);
17. "Asset Appraisal Standard Terminology 2020" (Zhong Ping Xie [2020] No. 31).

iv. References of property ownership

1. Vehicle license;

2. Other relevant certificates of property rights.

v. References of price determination

1. Bank deposit and loan benchmark interest rates and foreign exchange rates on the valuation base date;

2. The audit reports and financial statements of previous years provided by CTIB;

3. The future annual business plan provided by the company;

4. The current and future annual market forecast data of the main products provided by the company;

5. Public information materials of the industry in which the enterprise is located;

6. Wind information financial terminal;

7. Bloomberg terminal;

8. Other information related to this appraisal.

vi. Other referred information

1. The asset list and asset declaration form provided by the valuation target;

2. Audit report issued by KPMG accounting firm;

3. Information database of CEA.

VII. THE VALUATION APPROACHES

Combined with the appraisal purpose, CEA analyzes the applicability of three basic methods, income approach, market approach and asset-based approach(AKA cost approach) according to appraisal object, value type, data collection, etc., select the valuation approach.

After analyzing the financial status, asset management information, operating status and development plan of CBT, CEA adopts the income approach as the valuation conclusion.

Summary of income approach

The operating assets value is determined by free cash flow to firm model which discount and added up the business free cash flow in future several year. The calculation model is as follows:

Entire shareholders' equity = Overall enterprise value – Value of interest bearing liabilities

1. Overall enterprise value

Overall value of an enterprise consists of the value of operational assets generated in daily business activities and the value of assets unrelated to daily business activities. The asset value unrelated to daily business activities includes the value of surplus assets, the value of non-operational assets and the value of long-term equity investment independently evaluated. The calculation of the overall business value is derived using the following equation:

Overall enterprise value = operating assets value + surplus assets + value of non-operating assets and liabilities + long-term equity investment value

(1) Value of operating assets

Operating assets refer to the assets and liabilities involved in the enterprise free cash flow forecast after the valuation base date related to the production and operation of the valuated entity. The enterprise free cash flow discount model is used to determine the value of operating assets, that is, the enterprise free cash flow in the future several years is taken as the basis, and the appropriate discount rate is discounted and then summed up. The calculation formula for the value of operating assets is as follows:

$$P = \sum_{i=1}^{n} \frac{F_i}{(1+r)^i} \times \frac{F_n \times (1+g)}{(r-g) \times (1+r)^n}$$

Among: P: Total operating assets value of the company on the valuation base date;

F_i: The expected free cash flow of the company in the (i) th year after the valuation base date;

F_n: The expected free cash flow of the company in the last-year of forecast period;

r: Discount rate (here it refers to 'weighted average cost of capital' or 'WACC');

n: Forecast period;

i: The (i) th year in the forecast period;

g: Growth rate in the sustainable period. The calculation equation of free cash flow is: Free cash flow = net profit before interest and after tax + depreciation and amortization – capital expenditures – added amount of working capital.

The calculation formula of discount rate (WACC) is as follows:

$$WACC = K_e \times \frac{E}{(E+D)} + K_d \times (1-t) \times \frac{D}{(E+D)}$$

Among: K_e: Cost of equity;

K_d: Cost of interest-bearing liabilities;

E: Market value of equity;

D: Market value of interest-bearing liabilities;

t: Income tax rate.

The cost of equity capital K_e is calculated using the capital asset pricing model (CAPM). The calculation formula is as follows:

$$K_e = r_f + MRP \times \beta_L + r_c$$

Among: K_e: Risk-free interest rate;

MRP: Market risk premium;

β_L: Systematic risk coefficient of equity;

r_c: Adjustment coefficient of enterprise specific risk.

(2) Surplus Assets

Surplus assets refer to the assets that exceed the need of certain operation activities, and exclude from the operating discounted cash flows after the valuation base date. Surplus assets are evaluated by asset-based method.

(3) Non-operating assets and liabilities

Non-operating assets and liabilities refer to assets and liabilities that not contribute to certain operation activities and exclude from the operating discounted cash flows after the valuation base date. Non-operating assets and liabilities are evaluated by asset-based method.

(4) Long-term equity investment

Long-term equity investment refers to equity investments not included in the free cash flow forecast. Long-term equity investment is evaluated by asset-based method.

2. Interest-bearing debts

Interest-bearing debts refer to debts subject to interest payments. For the valued entity, it mainly includes short-term loans. Interest-bearing debts is evaluated by asset-based method.

VIII. VALUATION CONCLUSION

As of the valuation base date, as for CHINA TABACO INTERNACIONAL DO BRASIL LTDA. the book value of total assets is US$156,275.55 thousand, the book value of total liabilities is US$107,868.13 thousand, the book value of the net assets is US$48,407.43 thousand.

According to the income method, the total value of shareholders' equity is US$127,113.33 thousand, the value-added is US$78,705.90 thousand, and the appreciation rate is 162.59%.

IX. VALUATION ASSUMPTIONS

The following assumptions have been adopted for analysis and estimation in this valuation report:

1. General Principles

(1) Assuming that all valuation targets are already in the process of trading, valuation professionals conduct valuations based on the simulated market such as the trading conditions of the valued assets;

(2) Assuming that assets traded on the market or assets to be traded on the market, both parties to the asset transaction have equal status with each other, each has the opportunity and time to obtain sufficient market information, and the transaction behavior is voluntary, rational, and both able to make sensible judgments on the functions, uses and transaction prices of assets;

(3) It is assumed that the assessed asset is continuously used in accordance with the current purpose and method of use;

2. Specific assumptions

(1) It is assumed that there are no major changes in the country's current relevant laws, regulations and policies, and the country's macroeconomic situation, and there are no major changes in the political, economic and social environment of the region where the parties to the transaction are located;

(2) In view of the actual condition of assets on the base date of valuation, assume that the enterprise continues to operate;

(3) It is assumed that the interest rate, exchange rate, tax base and tax rate, and policy collection fees related to the valuation target will not undergo major changes except for the known changes and fluctuations on the date of issuance of the report;

(4) It is assumed that the management of the valuation target after the valuation base date is responsible, stable, and capable of performing its duties;

(5) Unless otherwise stated, it is assumed that the company fully complies with all relevant laws and regulations;

(6) It is assumed that there will be no force majeure and unforeseen factors that will cause significant adverse effects on the valuation target after the valuation base date;

(7) It is assumed that the accounting policies adopted by the appraisal unit after the appraisal base date and the accounting policies adopted in the preparation of this valuation report are consistent in important respects;

(8) It is assumed that the valuation target will maintain the same business scope and method as the current one based on the current management method and management level after the valuation benchmark date;

(9) Assuming that the cash inflow of the valuation target after the valuation base date is an average inflow, and the cash outflow is an average outflow;

(10) This valuation assumes that the basic information and financial information provided by the valuation target are true, accurate and complete.

The valuation conclusion of this Valuation Report is valid on the valuation base date with the aforementioned hypotheses. If the aforementioned hypotheses undergo significant changes, signing appraisers with China Enterprise Appraisal Co., Ltd. will not be responsible for a different conclusion caused by changed hypotheses.

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this circular.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY INTEREST IN CHINA TABACO INTERNACIONAL DO BRASIL LTDA.

To the Board of Directors of China Tobacco International (HK) Company Limited

We refer to the discounted future cash flows on which the valuation ("the Valuation") dated 14 August 2021 prepared by China Enterprise Appraisals Co., Ltd. (中企華資產評估有限責任公司) in respect of the appraisal of the market value of 100% equity interest in China Tabaco Internacional do Brasil Ltda. (the "Target Company") as at 31 March 2021 is based. The Valuation is prepared in part based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Responsibilities

The directors of China Tobacco International (HK) Company Limited (the "Directors") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relate to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
23 September 2021

LETTER FROM CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

As the Valuation Report is partly based on discounted cashflow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from China International Capital Corporation Hong Kong Securities Limited, the financial adviser to the Company, on such valuation for the purpose of incorporation in this circular.

CICC 中金公司

China International Capital Corporation Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

The Board of Directors
China Tobacco International (HK) Company Limited
Room 1002, 10/F, Tower A
China Life Center
One Harbour Gate
18 Hung Luen Road
Hung Hom, Kowloon
Hong Kong

29 September 2021

Dear Sirs,

We refer to the valuation report dated 14 August 2021 (the "Valuation Report") in respect of the valuation of the shareholders' equity of China Tabaco Internacional do Brasil Ltda. (中煙國際巴西有限公司*, the "Target Company") as at 31 March 2021, prepared by China Enterprise Appraisal Co., Ltd. ("CEA"). The Target Company is in control of China Brasil Tabacos Exportadora S.A. (中巴煙草出口股份有限公司*, "CBT") and focuses on the management of CBT and assisting China Tobacco in the procurement of tobacco leaves in Brazil. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as defined in the circular of China Tobacco International (HK) Company Limited (the "Company") dated 29 September 2021 in connection with, among others, (1) major and connected transaction in relation to the proposed acquisition of the entire issued and outstanding quotas of the Target Company and (2) continuing connected transactions in relation to (a) the sale of tobacco transactions and (b) the purchase of agricultural materials, tobacco and service transactions (the "Circular").

We understand that the Valuation Report has been provided to you in connection with the Company's proposed acquisition of the entire issued and outstanding quotas of the Target Company.

We note that the Valuation Report has been prepared partly based on, among other things, the income approach, an appraisal approach to identify the value of the target of evaluation by discounted cash flows, and is therefore regarded as profit forecast under Rule 14.61 of the Listing Rules (the "Forecast").

We are not reporting on the arithmetical calculations of the Forecast and the adoption of the accounting policies thereof, and our work does not constitute any valuation or fairness opinion of the shareholders' equity of the Target Company. We have assumed, without independent verification, the accuracy of the parameters stated in the Valuation Report.

We have reviewed the Forecast of CBT included in the Valuation Report, for which you as the Directors are solely responsible. We have attended discussions involving the management of the Target Company and CBT, where (i) the historical performance of CBT, (ii) the calculations of the Forecast, and (iii) the qualifications, bases and assumptions set out in the Valuation Report were discussed. We have also considered the report to the Directors from KPMG as set out in Appendix VII to the Circular on the calculations of the discounted cash flows on which the Forecast is based. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of CBT may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by CEA, for which CEA and the Company are responsible, we are satisfied that the Forecast included in the Valuation Report and disclosed in the Circular, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

The work undertaken by us in giving the above view has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
For and on behalf of
China International Capital Corporation
Hong Kong Securities Limited
CHAN Wing Hing Barry
Managing Director

* *For identification purposes only.*

1 RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2 DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO); (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders and other persons

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors and the chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares of the Company (i) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (ii) which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the Shares as at the Latest Practicable Date

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding
CTIG	Beneficial owner	500,010,000	72.29%
CNTC*	Interest in a controlled corporation	500,010,000	72.29%

* *CNTC directly holds 100% of the equity interest of CTIG.*

Saved as disclosed above, so far as was known to the Directors, as at the Latest Practicable Date, no person had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company (i) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (ii) which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or was a substantial shareholder of the Company.

So far as was known to the Directors, as at the Latest Practicable Date, save for Mr. Shao Yan, a non-executive Director and chairman of the Board, who also concurrently holds executive positions at the Seller, none of the Directors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3 DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Enlarged Group which does not expire or is not terminable by the relevant member of the Enlarged Group within one year without payment of compensation, other than statutory compensation.

4 DIRECTORS' INTEREST IN ASSETS, CONTRACTS AND OTHER INTERESTS

(a) Interest in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Group were made up.

(b) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

(c) Interests in competing business

As at the Latest Practicable Date, save for Mr. Shao Yan, a non-executive Director and chairman of the Board, who also concurrently holds executive positions at the Seller, a wholly-owned subsidiary of CNTC, none of the Directors nor any of their respective close associates was interested in any business, apart from the Enlarged Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

5 MATERIAL CONTRACTS

Save for the Quota Purchase Agreement, no other contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Enlarged Group within the two years immediately preceding the issue of this circular and are or may be material.

6 LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group that would have a material adverse effect on the results of operations or financial conditions of the Enlarged Group.

7 EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
KPMG	Certified public accountants
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Somerley Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
China Enterprise Appraisals Co., Ltd.	Independent valuer

As at the Latest Practicable Date, each of the above experts:

(i) had no direct or indirect shareholdings in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(ii) had no interests, direct or indirect, in any assets which had been, since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any of member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any of member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter, report or opinion (as the case may be) and reference to its name in the form and context in which they respectively appear.

8 GENERAL

(i) The registered office, headquarters and principal place of business of the Company is at Room 1002, 10/F, Tower A, China Life Centre, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong.

(ii) The joint company secretaries of the Company are Mr. Wang Chengrui and Mr. Cheung Kai Cheong Willie. Mr. Cheung Kai Cheong Willie is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

(iii) The authorised representatives of the Company are Ms. Yang Xuemei and Mr. Wang Chengrui.

(iv) The compliance officer of the Company is Anglo Chinese Corporate Finance, Limited.

(v) The Company's share registrar and transfer office is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(vi) This circular has been printed in English and Chinese; in the event of inconsistency, the English version shall prevail.

9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Room 1002, 10/F, Tower A, China Life Centre, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong during normal business hours from 9:00am to 5:00pm on any weekday (except public holidays) for a period of 14 days from the date of this Circular:

(i) the memorandum and articles of association of the Company;

(ii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in "*Letter from the Independent Board Committee*" in this circular;

(iii) the letter from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out in "*Letter from Somerley*" in this circular;

(iv) the annual reports of the Group for the financial years ended 31 December 2019 and 2020;

(v) the accountants' report on the Target Group, the text of which is set out in Appendix II to this circular;

(vi) the accountants' report on CBT, the text of which is set out in Appendix III to this circular;

(vii) the report on the unaudited pro forma financial information of the Enlarged Group issued by the Reporting Accountants, the text of which is set out in Appendix V to this circular;

(viii) the valuation report of the Target Group issued by the Valuer, a summary of which is set out in Appendix VI of this circular;

(ix) the report issued by the Reporting Accountants on the discounted cash flows used in the valuation, the text of which is set out in Appendix VII of this circular;

(x) the report issued by the Financial Adviser on the valuation report, the text of which is set out in Appendix VIII of this circular;

(xi) the material contracts referred to in the paragraph headed "*Material Contracts*" above in this Appendix IX;

(xii) the written consents referred to in the paragraph headed "*Experts' Qualifications and Consents*" above in this Appendix IX;

(xiii) the Connected Transactions Agreements; and

(xiv) this circular.

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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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of China Tobacco International (HK) Company Limited (the "**Company**") will be held at 17/F, Tower A, China Life Tower, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong on Friday, 22 October 2021 at 3:00 pm for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution.

Unless otherwise indicated, capitalised terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 29 September 2021 (the "**Circular**") of which this notice forms part.

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the Quota Purchase Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (b) Ms. Yang Xuemei, executive director of the Company, be and is hereby authorised to sign, execute, perfect and deliver all such documents and do all such acts and things as she may in her absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Quota Purchase Agreement and all transactions and other matters contemplated thereunder or ancillary thereto."

By order of the Board
China Tobacco International (HK) Company Limited
SHAO Yan
Chairman

29 September 2021

Notes:

1. For ascertaining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 20 October 2021 to 22 October 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 pm on 19 October 2021.

2. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he/she holds two or more shares, more person(s) as his/her proxy or proxies to attend and vote instead of him/her. A proxy needs not be a member of the Company. Completion and return of the form of proxy will not preclude the members of the Company from attending and voting in person at the EGM or any adjourned meeting should they so wish.

3. The form of proxy for use at the EGM is enclosed with the circular of the Company to its shareholders dated 29 September 2021. The form of proxy can also be downloaded from the website of the Company at www.ctihk.com.hk and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. To be valid, the form of proxy must be completed, signed and deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be).

As at the date of this notice, the board of directors of the Company comprises Mr. Shao Yan, as chairman and non-executive director, Ms. Yang Xuemei, Ms. Li Yan, Mr. Liang Deqing and Mr. Wang Chengrui as executive directors, and Mr. Chow Siu Lui, Mr. Wang Xinhua, Mr. Chau Kwok Keung and Mr. Qian Yi as independent non-executive directors.