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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

China Tobacco International (HK) Company Limited announces the audited consolidated financial results of the Group for the year ended 31 December 2021 together with the comparative figures for the year ended 31 December 2020 as set out below.

FINANCIAL HIGHLIGHTS

	2021 HK\$	2020 HK\$ (Restated) (Note)
Revenue	8,064,115,900	3,484,672,085
Cost of sales	(7,618,887,148)	(3,343,078,409)
Gross profit	445,228,752	141,593,676
Other (loss)/income, net	(18,014,336)	39,992,938
Share of profit of a joint venture	104,971,768	6,544,349
Gain on deemed disposal of a joint venture	405,991,184	–
Administrative and other operating expenses	(138,847,877)	(79,595,916)
Finance costs	(25,593,469)	(1,509,261)
Profit before taxation	773,736,022	107,025,786
Income tax	(56,374,178)	(905,257)
Profit after taxation	717,361,844	106,120,529

Note: the comparative information is restated under merger accounting. See note 1.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in Hong Kong dollars)

	<i>Note</i>	2021 HK\$	2020 <i>HK\$</i> (Restated) <i>(Note)</i>
Revenue	4	8,064,115,900	3,484,672,085
Cost of sales		<u>(7,618,887,148)</u>	<u>(3,343,078,409)</u>
Gross profit		445,228,752	141,593,676
Other (loss)/income, net	5	(18,014,336)	39,992,938
Administrative and other operating expenses		<u>(138,847,877)</u>	<u>(79,595,916)</u>
Profit from operations		288,366,539	101,990,698
Finance costs	6(a)	(25,593,469)	(1,509,261)
Share of profit of a joint venture		104,971,768	6,544,349
Gain on deemed disposal of a joint venture		405,991,184	–
Profit before taxation	6	773,736,022	107,025,786
Income tax	7	(56,374,178)	(905,257)
Profit for the year		<u>717,361,844</u>	<u>106,120,529</u>
Profit for the year attributable to:			
Equity shareholders of the Company		702,829,173	106,120,529
Non-controlling interests		14,532,671	–
		<u>717,361,844</u>	<u>106,120,529</u>
Earnings per share			
Basic and diluted		<u>1.02</u>	<u>0.15</u>
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements		(5,475,179)	(18,479,237)
Exchange differences recycled upon deemed disposal of a joint venture		(93,523,576)	–
Other comprehensive income for the year		<u>(98,998,755)</u>	<u>(18,479,237)</u>
Total comprehensive income for the year		<u>618,363,089</u>	<u>87,641,292</u>
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		603,830,418	87,641,292
Non-controlling interests		14,532,671	–
		<u>618,363,089</u>	<u>87,641,292</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

(Expressed in Hong Kong dollars)

	<i>Note</i>	2021 HK\$	2020 HK\$ (Restated) <i>(Note)</i>
Non-current assets			
Interest in a joint venture		–	158,003,118
Property, plant and equipment		53,680,559	41,384,193
Intangible assets		192,570,760	–
Goodwill		212,928,534	–
Trade and other receivables	<i>10</i>	17,406,046	1,930,132
Deferred tax assets	<i>7(d)</i>	11,946,848	11,332,219
		488,532,747	212,649,662
Current assets			
Inventories		1,287,736,226	1,554,434,238
Current tax recoverable	<i>7(c)</i>	–	33,122,114
Trade and other receivables	<i>10</i>	1,331,329,168	370,265,989
Cash and cash equivalents		1,658,972,197	1,634,330,674
		4,278,037,591	3,592,153,015
Current liabilities			
Trade and other payables and contract liabilities	<i>11</i>	1,322,388,606	2,030,763,273
Lease liabilities		10,511,729	7,546,348
Bank borrowings		1,291,803,591	–
Current tax payable	<i>7(c)</i>	67,989,055	–
		2,692,692,981	2,038,309,621
Net current assets		1,585,344,610	1,553,843,394
Total assets less current liabilities		2,073,877,357	1,766,493,056
Non-current liabilities			
Lease liabilities		11,695,591	17,983,165
Deferred tax liabilities	<i>7(d)</i>	76,187,420	–
Provision for reinstatement costs		2,655,129	2,539,029
		90,538,140	20,522,194
NET ASSETS		1,983,339,217	1,745,970,862

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021
(continued)

(Expressed in Hong Kong dollars)

	2021 HK\$	2020 HK\$ (Restated) <i>(Note)</i>
Capital and reserves		
Share capital	1,403,721,280	1,403,721,280
Reserves	358,552,490	342,249,582
	<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company	1,762,273,770	1,745,970,862
Non-controlling interests	221,065,447	–
	<hr/>	<hr/>
TOTAL EQUITY	<u>1,983,339,217</u>	<u>1,745,970,862</u>

Note: the comparative information is restated under merger accounting. See note 1.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

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

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

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

On 26 November 2021, the Company completed its acquisition of all the equity interest in China Tabaco Internacional do Brasil Ltda. (“CTIB”) from CTIG, the Company’s immediate holding company (the “CTIB Acquisition”) for a cash consideration of US\$63.4 million (equivalently to approximately HK\$494.6 million). CTIB therefore became a wholly owned subsidiary of the Company after the completion of the CTIB Acquisition.

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

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

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

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

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

2 BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the “Group”).

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the years ended 31 December 2021 and 2020 included in this preliminary announcement of annual results does not constitute the Company’s statutory annual consolidated financial statements for those years but such information is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and the Group will deliver the consolidated financial statements for the year ended 31 December 2021 in due course.

The Group’s auditor has reported on the consolidated financial statements of the Group for the year ended 31 December 2021 and the financial statements of the Company for the year ended 31 December 2020. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

3 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*
- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	2021 HK\$	2020 <i>HK\$</i> (Restated)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Export sales of tobacco leaf products	2,296,846,392	1,933,800,248
– Import sales of tobacco leaf products	5,177,853,318	1,350,749,968
– Export sales of cigarettes	173,152,708	158,051,298
– Sales of new tobacco products	101,580,773	38,308,054
– Brazil Operation Business	314,682,709	3,762,517
	<u>8,064,115,900</u>	<u>3,484,672,085</u>

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

During the year ended 31 December 2021, revenue of HK\$6,119,869,497 (2020: HK\$2,436,864,281) to two customers (2020: three customers) has exceeded 10% of the Group's revenue.

(b) Segment reporting

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

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

Segment results, assets and liabilities

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021 and 2020 is set out below.

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

For the year ended 31 December 2020	Tobacco Leaf Products Export Business HK\$	Tobacco Leaf Products Import Business HK\$ (restated)	Cigarettes Export Business HK\$	New Tobacco Product Export Business HK\$	Brazil Operation Business HK\$ (restated)	Unallocated HK\$ (restated)	Total HK\$ (restated)
Sale of goods	1,932,247,753	1,350,749,968	158,051,298	38,308,054	-	-	3,479,357,073
Service income	1,552,495	-	-	-	3,762,517	-	5,315,012
Reportable segment revenue	<u>1,933,800,248</u>	<u>1,350,749,968</u>	<u>158,051,298</u>	<u>38,308,054</u>	<u>3,762,517</u>	<u>-</u>	<u>3,484,672,085</u>
Reportable segment gross profit	<u>45,836,218</u>	<u>73,803,385</u>	<u>17,141,411</u>	<u>1,050,145</u>	<u>3,762,517</u>	<u>-</u>	<u>141,593,676</u>
Interest income						33,647,150	33,647,150
Share of profit of a joint venture						6,544,349	6,544,349
Other corporate income						6,345,788	6,345,788
Depreciation and amortisation						(10,758,099)	(10,758,099)
Finance costs						(1,509,261)	(1,509,261)
Other corporate expenses						(68,837,817)	(68,837,817)
Profit before taxation							107,025,786
Income tax expense							(905,257)
Profit for the year							<u>106,120,529</u>
As at 31 December 2020							
Reportable segment assets	<u>70,057,189</u>	<u>1,772,806,365</u>	<u>32,331,868</u>	<u>-</u>	<u>-</u>	<u>1,929,607,255</u>	<u>3,804,802,677</u>
Reportable segment liabilities	<u>157,155,156</u>	<u>1,840,174,420</u>	<u>405,600</u>	<u>15,235,740</u>	<u>-</u>	<u>45,860,899</u>	<u>2,058,831,815</u>

Geographical information

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

	2021 HK\$	2020 HK\$ (Restated)
The PRC, excluding the SARs	5,327,675,032	1,459,594,466
Republic of Indonesia	1,608,539,708	1,332,810,408
Hong Kong	135,988,113	135,033,307
Republic of the Philippines	105,242,513	204,605,522
Socialist Republic of Vietnam	469,908,015	247,987,121
Singapore	4,740,643	30,487,046
Thailand	-	12,340,097
Brazil	117,480,855	-
Others	294,541,021	61,814,118
	<u>8,064,115,900</u>	<u>3,484,672,085</u>

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

	2021 HK\$	2020 <i>HK\$</i> (Restated)
Hong Kong	29,983,987	41,198,108
Brazil	429,195,866	158,189,203
	<u>459,179,853</u>	<u>199,387,311</u>
5 OTHER (LOSS)/INCOME, NET		
	2021 HK\$	2020 <i>HK\$</i> (Restated)
Net exchange (losses)/gains	(30,472,368)	5,488,064
Interest income	12,421,873	33,647,150
Others	36,159	857,724
	<u>(18,014,336)</u>	<u>39,992,938</u>
6 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
(a) Finance costs		
	2021 HK\$	2020 <i>HK\$</i> (Restated)
Interest on bank borrowings	24,298,958	–
Interest on lease liabilities	1,178,411	1,393,159
Interest accrued on provision	116,100	116,102
	<u>25,593,469</u>	<u>1,509,261</u>
(b) Staff costs (including directors' emoluments)		
	2021 HK\$	2020 <i>HK\$</i> (Restated)
Salaries, wages and other benefits	76,033,457	42,952,830
Contributions to defined contribution retirement plans	2,207,038	2,011,525
	<u>78,240,495</u>	<u>44,964,355</u>

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

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

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

(c) **Other items**

	2021 HK\$	2020 HK\$ (Restated)
Depreciation		
– owned property and equipment	8,629,315	3,607,199
– right-of-use assets	8,854,713	7,150,900
	17,484,028	10,758,099
Amortisation of intangible assets (note 15)	27,072,127	–
Expense related to short-term lease (note 14(b))	409,417	649,580
Gain on disposal of property, plant and equipment and intangible assets	(2,946)	–
Impairment losses reversed on trade and other receivables	(110,518)	–
Cost of inventories#	7,618,887,148	3,343,078,409
Auditors’ remuneration		
– audit services	2,217,075	1,718,039
– tax services	439,756	216,512
– other services	2,305,000	–
	4,961,831	1,934,551

Cost of inventories includes HK\$8,360,963 (2020: HK\$nil) relating to staff costs, depreciation and amortisation expenses, which total amount is also included in the respective total amounts disclosed separately above or in note 6(c) for each of these types of expenses.

7 **INCOME TAX**

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

	2021 HK\$	2020 <i>HK\$</i> (Restated)
Current tax – Hong Kong Profits Tax		
Provision for the year	51,768,704	12,237,476
Current tax – Overseas		
Provision for the year	39,983,003	–
Deferred tax		
Origination and reversal of temporary difference (note 7(d))	<u>(35,377,529)</u>	<u>(11,332,219)</u>
	<u>56,374,178</u>	<u>905,257</u>

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year. The Group is not eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2021 as this concession has been taken elsewhere in the larger group to which the Group belongs.

The provision for Hong Kong Profits Tax for 2021 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2020/21 subject to a maximum reduction of HK\$10,000 for each business (2020: a maximum reduction of HK\$20,000 was granted for the year of assessment 2019/20 and was taken into account in calculating the provision for 2020).

Taxation for overseas subsidiaries includes corporate income tax and social contribution tax in Brazil. The applicable rates for corporate income tax and social contribution tax in Brazil are 25% and 9%, respectively during 2021 and 2020.

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

	2021 HK\$	2020 <i>HK\$</i> (Restated)
Profit before taxation	<u>773,736,022</u>	<u>107,025,786</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned	204,599,621	29,607,654
Tax effect of non-deductible expenses	3,011,141	5,272,831
Tax effect of non-taxable income	(149,732,966)	(33,637,558)
Others	<u>(1,503,618)</u>	<u>(337,670)</u>
	<u>56,374,178</u>	<u>905,257</u>

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

	2021 HK\$	2020 <i>HK\$</i> (Restated)
Provision for Hong Kong Profits Tax for the year	51,768,704	12,237,476
Provisional Hong Kong Profits Tax paid	(12,327,605)	(45,533,657)
	39,441,099	(33,296,181)
Balance of profit tax in Brazil	1,409,718	–
	40,850,817	(33,296,181)
Balance arising from the acquisition of CBT ("CBT Step Acquisition") (note 12(b))	27,044,300	–
Balance of Profits Tax provision relating to prior years	93,938	174,067
	67,989,055	(33,122,114)
Representing		
Hong Kong Profits Tax payable/(recoverable)	39,535,037	(33,122,114)
Brazil corporate income tax payable	1,078,617	–
Brazil social contribution tax payable	27,375,401	–
	67,989,055	(33,122,114)

(d) **Deferred tax assets and liabilities recognised:**

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

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

Deferred tax arising from	Unrealised profits <i>HK\$</i>	Fair value adjustments in relation to business combination <i>HK\$</i>	Others <i>HK\$</i>	Total <i>HK\$</i>
As at 1 January 2020	–	–	–	–
Credited to profit or loss (note 7(a))	<u>(11,332,219)</u>	<u>–</u>	<u>–</u>	<u>(11,332,219)</u>
As at 31 December 2020 (restated) and 1 January 2021	(11,332,219)	–	–	(11,332,219)
Arising from CBT Acquisition (note 12(b))	–	100,821,852	8,800,604	109,622,456
Charged/(credited) to profit or loss (note 7 (a))	(614,629)	(33,848,994)	(913,910)	(35,377,533)
Exchange adjustments	<u>–</u>	<u>1,327,868</u>	<u>–</u>	<u>1,327,868</u>
As at 31 December 2021	<u>(11,946,848)</u>	<u>68,300,726</u>	<u>7,886,694</u>	<u>64,240,572</u>

(ii) **Reconciliation to the consolidated statement of financial position**

	2021 HK\$	2020 <i>HK\$</i> (Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	11,946,848	11,332,219
Net deferred tax liabilities recognised in the consolidated statement of financial position	(76,187,420)	–
	<u>(64,240,572)</u>	<u>11,332,219</u>

8 DIVIDENDS

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

	2021 HK\$	2020 <i>HK\$</i>
Final dividend proposed after the end of the reporting period of HK17 cents (2020: HK4 cents) per ordinary share	<u>117,585,600</u>	<u>27,667,200</u>

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

(b) **Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year**

	2021 HK\$	2020 <i>HK\$</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4 cents per ordinary share (2020: HK16 cents)	<u>27,667,200</u>	<u>110,668,800</u>

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$702,829,173 (2020: HK\$106,120,529) and the weighted average of 691,680,000 ordinary shares in issue during year ended 31 December 2021 (2020: 691,680,000 shares).

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

10 TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$</i>	2020 <i>HK\$</i> (Restated)
Trade receivables	1,094,240,070	281,150,912
Bills receivable	<u>10,932,019</u>	<u>31,414,996</u>
	1,105,172,089	312,565,908
Deposits, prepayments and other receivables	151,030,618	22,871,301
Dividend receivables	–	36,758,912
Advances to producers	88,003,391	–
VAT recoverable	<u>4,529,116</u>	<u>–</u>
	1,348,735,214	372,196,121
Represented by:		
– Current portion	1,331,329,168	370,265,989
– Non-current portion	<u>17,406,046</u>	<u>1,930,132</u>
	<u>1,348,735,214</u>	<u>372,196,121</u>

Apart from long term rental deposit, other tax recoverable and advances to producers, all of the remaining trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Group grants short-term advances to producers in cash or agricultural inputs, which are settled through the delivery of tobacco. Additionally, it grants long-term advances to producers for the financing of the production infrastructure. The recovery of these advances may be renegotiated for future harvests due to specific situations and/or default of the producers in the settlement of their short-term debt.

As at the end of each reporting period, the ageing analysis of trade receivables and bills receivable based on the invoice date and net of loss allowance, is as follows:

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Within 30 days	60,270,811	48,722,054
31 to 90 days	468,052,294	255,099,118
Over 90 days	<u>576,848,984</u>	<u>8,744,736</u>
	<u>1,105,172,089</u>	<u>312,565,908</u>

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

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Not past due	1,068,884,646	296,495,657
Past due 1 to 30 days	22,659,503	16,070,251
Past due 31 to 90 days	5,876,442	–
Past due 91 to 180 days	7,751,498	–
	<u>1,105,172,089</u>	<u>312,565,908</u>

Trade receivables are normally due within 30 to 180 days from the date of billing. The Group generally does not hold any collateral over the balances.

11 TRADE AND OTHER PAYABLES

	2021 <i>HK\$</i>	2020 <i>HK\$</i> (Restated)
Trade payables	1,219,958,648	1,909,490,319
Contract liabilities	34,219,041	100,000,929
Dividends payables to non-controlling interests	39,609,601	–
Other payables and accruals	28,116,351	21,272,025
	<u>1,321,903,641</u>	<u>2,030,763,273</u>
Financial liabilities measured at amortised cost	484,965	–
Financial guarantees issued	<u>1,322,388,606</u>	<u>2,030,763,273</u>

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

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Within 30 days	386,282,580	681,068,703
31 to 90 days	815,813,846	1,148,955,750
Over 90 days	17,862,222	79,465,866
	<u>1,219,958,648</u>	<u>1,909,490,319</u>

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 2021, the maximum guaranteed amounted to US\$5,537,734 (equivalent to HK\$43,194,322).

The Group requires advance from certain customers when they place the purchase orders, which are recognised as contract liabilities until the control over underlying goods has been transferred. For the years ended 31 December 2021 and 2020, all the opening contract liabilities have been recognised as revenue during the year.

12 BUSINESS COMBINATIONS

(a) CTIB Acquisition

As disclosed in note 1, CTIB Acquisition was a business combination under common control. The consolidated financial statements have been prepared in accordance with the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 “*Merger Accounting for the Common Control Combinations*” issued by HKICPA and as if the current group structure had been in existence throughout the periods presented in the consolidated financial statements.

The effect of application of merger accounting on the consolidated statement of financial position as at 31 December 2020, and consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flow for year ended 31 December 2020 are summarised below:

	For the year ended 31 December 2020 as previously reported <i>HK\$</i>	Adjustments on merger accounting <i>HK\$</i>	Consolidation adjustments^{Note} <i>HK\$</i>	For the year ended 31 December 2020 as restated <i>HK\$</i>
Revenue	3,480,909,568	3,762,517	–	3,484,672,085
Cost of sales	<u>(3,343,078,409)</u>	–	–	<u>(3,343,078,409)</u>
Gross profit	137,831,159	3,762,517	–	141,593,676
Other income, net	38,137,653	1,855,285	–	39,992,938
Administrative and other operating expenses	<u>(67,030,217)</u>	<u>(12,565,699)</u>	–	<u>(79,595,916)</u>
Profit from operations	108,938,595	(6,947,897)	–	101,990,698
Share of profit of a joint venture	–	75,224,464	(68,680,115)	6,544,349
Finance costs	<u>(1,509,261)</u>	–	–	<u>(1,509,261)</u>
Profit before taxation	107,429,334	68,276,567	(68,680,115)	107,025,786
Income tax	<u>(12,237,476)</u>	–	<u>11,332,219</u>	<u>(905,257)</u>
Profit for the year	<u>95,191,858</u>	<u>68,276,567</u>	<u>(57,347,896)</u>	<u>106,120,529</u>
Other comprehensive income:				
<i>Items that may be reclassified to profit or loss:</i>				
Exchange differences on translation of financial statements	–	<u>(18,479,237)</u>	–	<u>(18,479,237)</u>
Other comprehensive income for the year	<u>95,191,858</u>	<u>(18,479,237)</u>	–	<u>(18,479,237)</u>
Profit and total comprehensive income for the year	<u><u>95,191,858</u></u>	<u><u>49,797,330</u></u>	<u><u>(57,347,896)</u></u>	<u><u>87,641,292</u></u>

Note: The consolidation adjustments represent the elimination of unrealised profit in inventories held at the year end arising from transactions between the Company and CBT.

	31 December 2020 as previously reported HK\$	Adjustments on merger accounting HK\$	Consolidation adjustments^{Note} HK\$	31 December 2020 as restated HK\$
Non-current assets				
Interest in a joint venture	–	158,003,118	–	158,003,118
Property, plant and equipment	41,198,108	186,085	–	41,384,193
Trade and other receivables	1,930,132	–	–	1,930,132
Deferred tax assets	–	–	11,332,219	11,332,219
	<u>43,128,240</u>	<u>158,189,203</u>	<u>11,332,219</u>	<u>212,649,662</u>
Current assets				
Inventories	1,623,114,353	–	(68,680,115)	1,554,434,238
Current tax recoverable	33,122,114	–	–	33,122,114
Trade and other receivables	332,176,280	38,089,709	–	370,265,989
Cash and cash equivalents	1,613,169,695	21,160,979	–	1,630,330,674
	<u>3,601,582,442</u>	<u>59,250,688</u>	<u>(68,680,115)</u>	<u>3,592,153,015</u>
Current liabilities				
Trade and other payables	2,028,677,576	2,085,697	–	2,030,763,273
Lease liabilities	7,546,348	–	–	7,546,348
	<u>2,036,223,924</u>	<u>2,085,697</u>	<u>–</u>	<u>2,038,309,621</u>
Net current assets	<u>1,565,358,518</u>	<u>57,164,991</u>	<u>(68,680,115)</u>	<u>1,553,843,394</u>
Total assets less current liabilities	<u><u>1,608,486,758</u></u>	<u><u>215,354,194</u></u>	<u><u>(57,347,896)</u></u>	<u><u>1,766,493,056</u></u>
Non-current liabilities				
Lease liabilities	17,983,165	–	–	17,983,165
Provision for reinstatement costs	2,539,029	–	–	2,539,029
	<u>20,522,194</u>	<u>–</u>	<u>–</u>	<u>20,522,194</u>
NET ASSETS	<u>1,587,964,564</u>	<u>215,354,194</u>	<u>(57,347,896)</u>	<u>1,745,970,862</u>
Capital and reserves				
Share capital	1,403,721,280	128,700,000	(128,700,000)	1,403,721,280
Reserves	184,243,284	86,654,194	71,352,104	342,249,582
TOTAL EQUITY	<u><u>1,587,964,564</u></u>	<u><u>215,354,194</u></u>	<u><u>(57,347,896)</u></u>	<u><u>1,745,970,862</u></u>

Note: The consolidation adjustments represent the elimination of unrealised profit in inventories held at the year end arising from transactions between the Company and CBT.

	For the year ended 31 December 2020 as previously reported HK\$	Adjustments on merger accounting HK\$	Consolidation adjustments ^{Note} HK\$	For the year ended 31 December 2020 as restated HK\$
Operating activities				
Profit before taxation	107,429,334	68,276,567	(68,680,115)	107,025,786
Adjustments for:				
Depreciation	10,685,897	72,202	–	10,758,099
Interest income	(32,719,005)	(928,145)	–	(33,647,150)
Finance costs	1,509,261	–	–	1,509,261
Share of profit of a joint venture	–	(75,224,464)	68,680,115	(6,544,349)
COVID-19 related rent concessions received	(318,024)	–	–	(318,024)
Operating profit before changes in working capital	86,587,463	(7,803,840)	–	78,783,623
Decrease in trade and other receivables	516,221,878	1,957,550	–	518,179,428
Increase in inventories	(1,385,784,452)	–	–	(1,385,784,452)
Increase in trade and other payables	875,502,565	3,794,820	–	879,297,385
Cash generated from operations – Hong Kong Profits Tax paid	92,527,454 (124,262,306)	(2,051,470) –	– –	90,475,984 (124,262,306)
Net cash used in operating activities	<u>(31,734,852)</u>	<u>(2,051,470)</u>	<u>–</u>	<u>(33,786,322)</u>
Investing activities				
Payment for purchase of property and equipment	(10,873,435)	(19,531)	–	(10,892,966)
Interest received	35,866,090	928,145	–	36,794,235
Dividend received	–	39,821,496	–	39,821,496
Net cash generated from investing activities	<u>24,992,655</u>	<u>40,730,110</u>	<u>–</u>	<u>65,722,765</u>
Financing activities				
Capital element of lease rental paid	(6,005,345)	–	–	(6,005,345)
Interest element of lease rental paid	(1,393,159)	–	–	(1,393,159)
Dividend distribution	(110,668,800)	(38,743,848)	–	(149,412,648)
Net cash used in financing activities	<u>(118,067,304)</u>	<u>(38,743,848)</u>	<u>–</u>	<u>(156,811,152)</u>
Net decrease in cash and cash equivalents	(124,809,501)	(65,208)	–	(124,874,709)
Cash and cash equivalents at the beginning of the year	1,737,979,196	30,479,054	–	1,768,458,250
Effect of foreign exchange rate changes	–	(9,252,867)	–	(9,252,867)
Cash and cash equivalents at the end of the year	<u><u>1,613,169,695</u></u>	<u><u>21,160,979</u></u>	<u><u>–</u></u>	<u><u>1,634,330,674</u></u>

Note: The consolidation adjustments represent the elimination of unrealised profit in inventories held at the year end arising from transactions between the Company and CBT.

(b) CBT Step Acquisition

CBT, headquartered at Rua Silveira Martins, 1,733 in Venâncio Aires – Rio Grande do Sul, Brazil, is engaged in procurement, processing, sale and export of tobacco leaves and the procurement of agricultural materials needed for 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 owned as to 51% and 49% by the CTIB and Alliance One Brasil Exportadora de Tabacos Ltda. (“AOB”), respectively. Prior to 31 March 2021, CTIB did not have control on CBT due to certain arrangements of the bylaws of CBT and a shareholder agreement between CTIB, AOB and CBT dated 21 February 2014.

On 31 March 2021, pursuant to certain amendments of bylaws of CBT, CTIB obtained control over CBT and this acquisition was accounted for as a business combination achieved in stages with no consideration transferred out, where CTIB’s equity interest in CBT was deemed to be disposed of at its fair value on 31 March 2021, with a gain on disposal of HK\$405,991,184 recognised in the consolidated statement of profit or loss and other comprehensive income. The CBT Step Acquisition was completed on 31 March 2021.

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

	31 March 2021 HK\$
Property, plant and equipment	29,006,032
Intangible assets	219,651,666
Inventories	662,736,430
Trade and other receivables	590,428,082
Cash and cash equivalents	13,123,617
Borrowings	(643,435,010)
Trade and other payables	(157,084,668)
Current tax payable	(27,044,300)
Lease liabilities	(5,006,797)
Deferred tax liabilities	(109,622,456)
	<hr/>
Fair value of identifiable net assets acquired	572,752,596
Goodwill	212,928,534
Non-controlling interests arising from the acquisition	(280,648,774)
	<hr/>
Total consideration, representing fair value of the Group’s interest in CBT upon the acquisition	505,032,356
	<hr/> <hr/>

Non-controlling interests arising from the CBT Step 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 (equivalent to HK\$13,123,617) arose from the CBT Step Acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2021, facing the complex and evolving COVID-19 pandemic, the Group proactively explored the business development and group operating models under the normalisation of the pandemic. The Group has continually improved its risk prediction and emergency handling capacity, consistently maintained its strategic direction and focus of “establishing capital market operation platform and developing innovative business”, and promoted its healthy and sustainable development. In terms of capital operation, we successfully acquired the entire issued and outstanding quotas of CTIB, consolidating the Company’s business foundation and promoting the Company’s substantial transformation and upgrading. In terms of innovative business, we fully leveraged resource concentration and platform-led advantages, improved coordination capabilities of research and development, manufacturing resources, stepped up efforts in expanding downstream channels and built an “end-to-end” rapid response mechanism between supply side and demand side. In terms of traditional business, we strived to strengthen the coordination and control capabilities of the supply chain under the pandemic, safeguarding tobacco leaves import and facilitating tobacco leaves export. While maintaining existing market advantages, we proactively explored growth opportunity for new tobacco businesses. In addition, we actively mapped out business development strategy for post-pandemic era by closely monitoring the pandemic-prevention policies and market direction of duty-free cigarettes operating channels. In respect of operation management, we continued to promote “lean management” and proactively applied information and digital Internet technology. We effectively reduced internal operating costs, ensuring “no work suspension while preventing pandemic”. In terms of social responsibility, we provided pandemic protection and care for our employees in response to the call of the government while proactively meeting the new environmental, social and corporate governance requirements of the Stock Exchange, endeavouring to improve the overall governance standard of the Group. We continuously strengthened integrity and compliance system and further raised our employees’ compliance awareness through professional trainings in respect of anti-corruption, disclosure of inside information, corporate governance, etc.

BUSINESS OPERATION REVIEW

Core Businesses

Tobacco Leaf Products Export Business

For the year ended 31 December 2021, the export volume of tobacco leaf products of the Group reached 101,663 tons, representing an increase of 19,650 tons or 24% on a year-on-year basis. The operating revenue reached HK\$2,296.8 million, representing an increase of HK\$363.0 million or 19% on a year-on-year basis. The gross profit reached HK\$62.8 million, representing an increase of HK\$16.9 million or 37% on a year-on-year basis. The growth in the Group’s results was mainly because: (1) we seized the opportunity of demand recovery for tobacco raw materials in Southeast Asia, and strengthened the promotion of marketable products to customers; (2) considering the high price sensitivity in the emerging markets, we closely cooperated with the suppliers and continued to provide tobacco leaves of high quality at favourable prices to the emerging markets; and (3) we optimized the structure of product sale by increasing the export volume of products with higher gross profit margins, thus improving the overall gross profit level of the business.

Tobacco Leaf Products Import Business

For the year ended 31 December 2021, the import volume of tobacco leaf products of the Group reached 97,248 tons, representing an increase of 74,782 tons or 333% on a year-on-year basis. The operating revenue reached HK\$5,177.9 million, representing an increase of HK\$3,827.1 million or 283% on a year-on-year basis. The gross profit reached HK\$316.0 million, representing an increase of HK\$242.2 million or 328% on a year-on-year basis. The significant increase in the results was mainly due to the fact that the Group spared no efforts to mitigate the impact of the COVID-19 pandemic on supply chain logistics by the close communication with upstream and downstream of the industry chain, enabling shipment of imported tobacco leaf products delayed in 2020 to arrive successively in the first half of 2021, and partially resuming the procurement of imported tobacco leaf products from the United States and Canada.

Cigarettes Export Business

For the year ended 31 December 2021, the export volume of cigarettes of the Group reached 463,460 thousand sticks, representing an increase of 33,606 thousand sticks or 7% on a year-on-year basis. The operating revenue reached HK\$173.2 million, representing an increase of HK\$15.1 million or 10% on a year-on-year basis. The gross profit reached HK\$11.7 million, representing a decrease of HK\$5.4 million or 32% on a year-on-year basis. The increase in the export volume and operating revenue of cigarettes was mainly due to the fact that the Group (1) actively grabbed the opportunities arising from the custom clearance of Zhuhai and Macau, which allowed partial recovery of the region's duty-free cigarettes business and (2) adopted more flexible marketing strategy, which actively promoted the sales of preceding cigarettes inventory. However, under the influence of the COVID-19 pandemic, as duty-free market has been continuously sluggish, sales channels and market terminals continued to drop, resulting in a significant decrease in gross profit.

New Tobacco Product Export Business

For the year ended 31 December 2021, the export volume of new tobacco products of the Group reached 454,770 thousand sticks, representing an increase of 289,780 thousand sticks or 176% on a year-on-year basis. The operating revenue reached HK\$101.6 million, representing an increase of HK\$63.3 million or 165% on a year-on-year basis. The gross profit reached HK\$3.4 million, representing an increase of HK\$2.4 million or 228% on a year-on-year basis. The substantial growth in sales volume, revenue and gross profit was mainly due to the fact that the Group (1) fully leveraged resource concentration and platform-led advantages, continuously improved resources coordination between upstream and downstream and built an "end-to-end" rapid response mechanism between supply side and demand side; (2) actively expanded global sales channels, established a corporate distributors management system, increased efforts in the iteration of and the investments in new products, and further developed existing markets while constantly exploring emerging markets; (3) increased its efforts in registration of the exclusive rights of new tobacco brands, product development, market investments and the maintenance of channels, which allowed us to continue to improve subsequent developments; and (4) optimised sales structure and increased the proportion of self-own, proprietary products to increase gross profit margin.

Brazil Operation Business

On 26 November 2021, the Company completed an acquisition (the “**Acquisition**”) of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG. For more information on the Acquisition, please refer to “Management Discussion and Analysis – Financial Review – Significant Investments, Acquisitions and Disposals” of this announcement as well as the Company’s announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

For the year ended 31 December 2021, the export volume of tobacco leaf products to areas outside China from CBT, a non wholly-owned subsidiary of CTIB and the Group, reached 21,994 tons. The operating revenue reached HK\$314.7 million, representing an increase of HK\$310.9 million or 8,182% on a year-on-year basis. The gross profit was HK\$51.3 million, representing an increase of HK\$47.5 million or 1,250% on a year-on-year basis. The significant increase in operating revenue and gross profit was mainly due to (1) the consolidation of CBT into the Group’s accounting after 31 March 2021; and (2) prior to the CBT Step Acquisition as described in note 12(b) to the consolidated financial results in this announcement completed on 31 March 2021, the Brazil operation solely received consultancy income from CBT.

PROSPECTS FOR 2022

In 2022, while the impact of the COVID-19 pandemic on the business development of the Group remains highly uncertain, and may affect the Group’s related business segments, the Group will continue implementing the dual wheel driving development model of “pursuing exogenous and endogenous growth”, enhancing its unique advantages, promoting innovative business development, and improving the Group operational quality. In terms of capital operation, we actively seek merger and acquisition opportunities that are in line with the strategy of the Group, carry out identification, analysis and contact of potential merger and acquisition targets, and conduct merger, acquisition and reorganization in due course. For the import and export business of tobacco leaves, we collaborate seamlessly with both suppliers and customers, so as to ensure a continuously stable supply chain and provide marketable products to the market. For the Cigarettes Export Business, we will pay close attention to the pandemic control measures, tourism policies and the state of customer traffic recovery of the duty-free market within the business scope, continuously monitor and evaluate the impact of the pandemic on the cigarettes business, and formulate agile and efficient measures accordingly. Meanwhile, the full cooperation with stakeholders across the business chain will be enhanced, so as to optimize product structure, increase market expansion efforts, and strengthen channel construction. For the new tobacco business, by increasing the investment in continuous brand establishment, we will strengthen the competitiveness and market share of the Group’s own brands in the international market. For the Brazil operation business, we will actively explore the demand for Brazil’s tobacco leaves in markets other than China in an effort to create new momentum of profit growth.

FINANCIAL REVIEW

Revenue and Cost of Sales

For the year ended 31 December 2021, the Group's revenue increased by 131% to HK\$8,064.1 million (2020: HK\$3,484.7 million) as compared with the same period in 2020 (restated hereafter), and costs increased by 128% to HK\$7,619.0 million (2020: HK\$3,343.1 million) as compared with the same period in 2020. This was due to the fact that the Group made its best efforts to mitigate the impact of the COVID-19 pandemic on supply chain logistics by close communication with upstream and downstream of the industry chain, enabling the shipment of imported tobacco leaf products delayed in 2020 to arrive successively for the year ended 31 December 2021, resulting in a significant increase in the revenue of Tobacco Leaf Products Import Business for the year ended 31 December 2021.

Gross Profit

For the year ended 31 December 2021, the Group's gross profit increased by 214% to HK\$445.2 million (2020: HK\$141.6 million) as compared with the same period in 2020, which was mainly due to the substantial increase in the amount of tobacco leaf products imported.

Other (Losses)/Income, Net

For the year ended 31 December 2021, the Group's other losses, net decreased by 322% to HK\$18.0 million (2020: other income, net of HK\$40.0 million) as compared with the same period in 2020, which was mainly due to (1) the decrease in the bank deposit interest rate, resulting in a significant decrease in interest income; and (2) a significant increase in exchange losses.

Administrative and Other Operating Expenses

For the year ended 31 December 2021, the Group's administrative and other operating expenses increased by 74% to HK\$138.8 million (2020: HK\$79.6 million) as compared with the same period in 2020. It consisted of staff cost of HK\$78.2 million, depreciation of HK\$17.5 million, amortisation of intangible assets of HK\$27.1 million and professional fees of HK\$23.4 million. The significant increase in administrative and other operating expenses was mainly due to (1) the consolidation of related expenses incurred by CBT into the Group's accounting after 31 March 2021; and (2) the related intermediary expenses of the acquisition of CTIB by the Group recognised in 2021.

Finance Costs

For the year ended 31 December 2021, the Group's finance costs increased by 1,607% to HK\$25.6 million (2020: HK\$1.5 million) as compared with the same period in 2020. The expenses were primarily interest on bank borrowings and interest on lease liabilities. The significant increase in finance costs was mainly due to the consolidation of interest expenses on bank loans incurred by CBT into the Group's accounting after 31 March 2021.

Gain on Deemed Disposal of a Joint Venture

With reference to the circular of the Company dated 29 September 2021 in relation to the Acquisition, CTIB Group completed reorganization on 31 March 2021, and recognized the gain on deemed disposal of a joint venture of HK\$406.0 million.

Share of Profit of a Joint Venture

For the year ended 31 December 2021, share of profit of a joint venture of the Group increased by 1,515% to HK\$105.0 million (2020: HK\$6.5 million) as compared to the same period in 2020, which was mainly due to significantly higher profits of CBT during the period it operated as a joint venture as compared to the same period in 2020. The item ceased to be recorded following the completion of reorganization of CTIB Group on 31 March 2021.

Profit and Total Comprehensive Income for the Year

For the year ended 31 December 2021, the Group's net profit increased by 193% to HK\$311.4 million (2020: HK\$106.1 million) as compared to the same period in 2020, after excluding gain on deemed disposal of a joint venture of HK\$406.0 million. The net profit attributable to equity shareholders of the Company increased by 180% to HK\$296.8 million (2020: HK\$106.1 million) as compared to the same period in 2020. Excluding both gain on deemed disposal of a joint venture of HK\$406.0 million and share of profit of a joint venture of HK\$105.0 million, the Group's net profit increased by 108% to HK\$206.4 million (2020: HK\$99.6 million) as compared to the same period in 2020 and the net profit attributable to equity shareholders of the Company increased by 94% to HK\$191.8 million (2020: HK\$99.6 million) as compared to the same period in 2020. The significant rise in net profit was mainly due to the fact that the shipment of imported tobacco leaf products delayed in 2020 arrived successively for the year ended 31 December 2021, contributing to a significant increase in the revenue of Tobacco Leaf Products Import Business and the share of profit of a joint venture for the year ended 31 December 2021 as compared to that in 2020.

Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Group of HK\$1.02 (2020: HK\$0.15) and the weighted average of 691,680,000 ordinary shares (2020: 691,680,000 shares) in issue during the year ended 31 December 2021. Excluding gain on deemed disposal of a joint venture of \$406.0 million, the Group's basic earnings per share is HK\$0.45 (2020: HK\$0.15). Excluding both gain on deemed disposal of a joint venture of HK\$406.0 million and share of profit of a joint venture of HK\$105.0 million, the Group's basic earnings per share is HK\$0.30 (2020: HK\$0.14).

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

Net Current Assets

As at 31 December 2021, net current assets of the Group amounted to HK\$1,585.3 million (as at 31 December 2020: HK\$1,553.8 million).

Significant Investments, Acquisitions and Disposals

On 23 September 2021, the Company entered into the Quota Purchase Agreement with CTIG, pursuant to which the Company has conditionally agreed to acquire, and CTIG has conditionally agreed to sell, subject to the terms and conditions therein, the entire issued and outstanding quotas of CTIB, free from all encumbrances and together with all rights attaching to them. 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. The total consideration for the Acquisition is US\$63.4 million, which is equivalent to the appraised value of CTIB under the independent valuation report provided by China Enterprise Appraisals Co., Ltd. and payable in cash on the closing date of the Acquisition.

On 26 November 2021, the Company completed the Acquisition pursuant to the terms and conditions of the Quota Purchase Agreement. Upon the completion of the Acquisition, CTIB has become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of CTIB Group have been consolidated into the accounts of the Company.

CTIB is principally engaged in investment holding, with CBT as its primary investment. As at the date of this announcement, CBT is owned as to 51% by CTIB and 49% by Alliance One Brasil Exportadora de Tabacos Ltda. and is principally engaged in the procurement, processing, sale and export of tobacco leaves and the procurement of agricultural materials inherent to tobacco production.

The Directors believe that the Acquisition can offer the following benefits to the Group: (a) 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) by acquiring CTIB Group, being one of the Company's supplier 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 relevant risks to its tobacco leaf products import business; (c) in line with the Company's business strategy, the Acquisition will enable the Company to concentrate and integrate the overseas resources of the CNTC Group, including tobacco supply resources such as CTIB 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 CTIB Group; and (e) upon completion of the Acquisition, the Company, through CBT, will also be able to take the benefit of distribution channels of Alliance One International, LLC and its subsidiaries (including Alliance One Brasil Exportadora de Tabacos Ltda.), and better manage its tobacco leaves stock by distributing different grades of tobacco leaves to customers with different corresponding needs through such distribution channels. The Directors (including the independent non-executive Directors) 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 the Shareholders as a whole.

The Acquisition constituted a major and connected transaction of the Company under the Listing Rules, as (i) CTIG 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, and (ii) 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%. Therefore, the Acquisition was subject to reporting, announcement, circular and independent Shareholders' approval requirements under the Listing Rules. The Quota Purchase Agreement and the transactions contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting held on 22 October 2021.

For more information on the Acquisition, please refer to "Management Discussion and Analysis – Business Operation Review – Core Businesses – Brazil Operation Business" of this announcement as well as the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

Save as disclosed in this announcement, the Group did not have any significant investments held, or any other material acquisition or disposal of any subsidiary, associate or joint venture for the year ended 31 December 2021.

Capital Expenditures

Save as disclosed in this announcement, at 31 December 2021, the Group had no plan relating to material investments and capital assets.

INDEBTEDNESS

Borrowings

As at 31 December 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 rates were 2.78% per annum (as at 31 December 2020: nil).

Exposure to Fluctuations in Exchange Rates

The Group entered into transactions primarily in U.S. dollars and Real. The functional currency of CBT is U.S. dollars. Actual payments received by CBT are made in U.S. dollars, but all other costs and expenses are paid by CBT in Real. The Group did not enter into any hedging arrangements to hedge against our exposure to foreign exchange risk but will closely monitor such risk on an ongoing basis.

Contingent Liabilities

As at 31 December 2021, the Group had no significant contingent liabilities (as at 31 December 2020: nil).

Pledge of Assets

As at 31 December 2021, the Group did not pledge any assets (as at 31 December 2020: nil).

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2021, total assets of the Group amounted to HK\$4,766.6 million (as at 31 December 2020: HK\$3,804.8 million) and cash and cash equivalents of HK\$1,659.0 million (as at 31 December 2020: HK\$1,634.3 million). The Board is of the opinion that the Group has sufficient resources to support its operations and meet its foreseeable capital expenditures. As at 31 December 2021, total liabilities of the Group amounted to HK\$2,783.2 million (as at 31 December 2020: HK\$2,058.8 million).

As at 31 December 2021, the Group had a gearing ratio (being borrowings and lease liabilities divided by shareholders' equity) of 0.66 (as at 31 December 2020: 0.01).

As at 31 December 2021, the Group had a current ratio (being current assets divided by the current liabilities) of 1.59 (as at 31 December 2020: 1.76).

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

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

The use of Net Proceeds during the period from the Listing Date up to 31 December 2021 and the expected timeline of the unutilised amount of the use of Net Proceeds are set out as follows:

Use of Net Proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK\$ million)	Unutilised amount as at 1 January 2021 (HK\$ million)	Amount utilised during the year ended 31 December 2021 (HK\$ million)	Unutilised amount as at 31 December 2021 (HK\$ million)	Expected timeline
Making investments and acquisitions that are complementary to the Group’s business	45%	406.8	400.7	319.3	81.4	Remainder to be utilised by 30 June 2022.
Supporting the ongoing growth of the Group’s business	20%	180.8	177.1	0.5	176.6	Remainder to be utilised by 30 June 2022.
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets	20%	180.8	180.6	–	180.6	Remainder to be utilised by 30 June 2022.
General working capital	10%	90.4	–	–	–	Not Applicable
Improving the Group’s management of purchase and sales resources and optimizing the Group’s operational management	5%	45.2	29.9	–	29.9	Remainder to be utilised by 30 June 2022.
Total	100%	904.0	788.3	319.8	468.5	

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

During the year ended 31 December 2021, the Group did not issue any equity securities (including securities convertible into equity securities).

EMPLOYEE

As at 31 December 2021, the Group had 30 (as at 31 December 2020: 29) employees in Hong Kong and 181 (as at 31 December 2020: nil) employees (excluding seasonal workers) in Brazil. The increase in the number of employees in Brazil was due to the completion of the Acquisition in 2021.

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

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

PROPOSED FINAL DIVIDEND

The Board recommends a final dividend of HK\$0.17 per share for the year ended 31 December 2021 (2020: HK\$0.04 per share).

OTHER INFORMATION

Annual General Meeting

The AGM will be held on Friday, 24 June 2022. A notice convening the AGM will be published on the Company's website and the Stock Exchange's website and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022, both dates inclusive, during which period no transfer of its Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 June 2022.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining high corporate governance standards. For the year ended 31 December 2021, the Company has complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 December 2021.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the Directors' securities transactions. All Directors have confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the year ended 31 December 2021.

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

During the year ended 31 December 2021, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chow Siu Lui, Mr. Wang Xinhua and Mr. Chau Kwok Keung. The chairman of the Audit Committee is Mr. Chow Siu Lui.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2021. Based on its review and discussions with management, the Audit Committee was satisfied that the annual results were prepared in accordance with applicable accounting standards and fairly present the Group's consolidated financial position and results for the year ended 31 December 2021.

SCOPE OF WORK OF INDEPENDENT AUDITOR

The financial figures in this announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Company's independent auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's independent auditor.

EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, there is no major event after 31 December 2021 that is required to be disclosed by the Company.

PUBLICATION OF 2021 ANNUAL RESULTS AND 2021 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the website of the Stock Exchange at <https://www.hkexnews.hk> and the website of the Company at <http://www.ctihk.com.hk>. The annual report of the Company for the year ended 31 December 2021 will be despatched to the Shareholders and be available on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

“AGM”	the annual general meeting of the Company;
“Audit Committee”	the audit committee of the Board;
“Board”	the board of Directors;
“CBT”	China Brasil Tabacos Exportadora S.A., a company incorporated in Brazil on 15 September 2011 with limited liability;
“China” or “PRC”	the People’s Republic of China;
“CNTC”	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company;
“CNTC Group”	CNTC and its subsidiaries;
“Company”, “we” or “our”	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司) (stock code: 6055), a company incorporated in Hong Kong with limited liability;
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“CTIB”	China Tabaco Internacional do Brasil Ltda. (中煙國際巴西有限公司), a company incorporated in Brazil on 6 June 2002 with limited liability;
“CTIB Group”	CTIB and its subsidiaries, including CBT;
“CTIG”	China Tobacco International Group Limited (中煙國際集團有限公司), the controlling shareholder of the Company;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiary;
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Date”	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;

“Macau”	the Macau Special Administrative Region of the PRC;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
“Prospectus”	the prospectus dated 28 May 2019 issued by the Company;
“Real”	Brazilian real, the lawful currency of Brazil;
“Share(s)”	the ordinary share(s) of the Company;
“Shareholder(s)”	the holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“U.S. dollars”	United States dollars, the lawful currency of the United States of America; and
“%”	percent.

In this announcement, 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.*

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

Hong Kong, 14 March 2022

As at the date of this announcement, the Board 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.