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

2019
Interim Report

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Definition

In this report, unless the context otherwise requires, the following terms shall have the following meanings.

"Audit Committee"	the audit committee of the Board;
"Board" or "Board of Directors"	the board of Directors of the Company;
"China" or "PRC"	the People's Republic of China; for the purpose of this report only, references to "China" or the "PRC" do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
"CNTC"	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company;
"CNTC Group"	CNTC and its subsidiaries;
"Company"	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), stock code: 6055, a company incorporated in Hong Kong with limited liability;
"Corporate Governance Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
"CTI"	China Tobacco International Inc.* (中國煙草國際有限公司), a company incorporated with limited liability in the PRC on 6 November 1984 and the sole shareholder of CTIG and a wholly-owned subsidiary of CNTC;
"CTIG"	China Tobacco International Group Limited, the controlling shareholder of the Company. It changed its company name from "Tian Li International Company Limited (天利國際經貿有限公司)" to "China Tobacco International Group Limited (中煙國際集團有限公司)" on 16 August 2019;
"Directors"	the directors of the Company;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong" or "HK"	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;

* *is for identification only.*

Definition (Continued)

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
"Operating Entity(ies)"	various subsidiaries of CNTC Group which carried out the Relevant Businesses prior to the Reorganization;
"Prospectus"	the prospectus dated 28 May 2019 issued by the Company;
"Relevant Businesses"	the four segments of business, including (i) the Tobacco Leaf Products Import Business, (ii) the Tobacco Leaf Products Export Business, (iii) the Cigarettes Export Business, and (iv) the New Tobacco Products Export Business, which were carried out by the Operating Entities prior to the Reorganization and are currently operated by the Company;
"Reorganization"	the reorganization of businesses of the Company and other entities under CNTC, details of which are set out in the section headed "History, Corporate Structure and Reorganization – Our Corporate Structure – Reorganization" in the Prospectus;
"Reporting Period"	the six months ended 30 June 2019;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
"Shareholder(s)"	holder(s) of the Share(s);
"Shares(s)"	ordinary share(s) of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"%"	percent.

Company Profile

Name in Chinese:	中煙國際(香港)有限公司
Name in English:	China Tobacco International (HK) Company Limited
Chairman of the Board and Non-Executive Director:	SHAO Yan
Executive Directors:	ZHANG Hongshi, YANG Xuemei, WANG Chengrui
Independent Non-Executive Directors:	CHOW Siu Lui, WANG Xinhua, CHAU Kwok Keung, QIAN Yi
General Manager:	ZHANG Hongshi
Joint Company Secretaries:	WANG Chengrui, CHEUNG Kai Cheong Willie
Authorized Representatives:	ZHANG Hongshi, WANG Chengrui
Audit Committee:	CHOW Siu Lui *(Chairman)*, WANG Xinhua, CHAU Kwok Keung
Remuneration Committee:	CHOW Siu Lui *(Chairman)*, SHAO Yan, WANG Xinhua
Nomination Committee:	SHAO Yan *(Chairman)*, CHOW Siu Lui, WANG Xinhua
Connected Transactions Control Committee:	WANG Xinhua *(Chairman)*, CHAU Kwok Keung, QIAN Yi, ZHANG Hongshi
Strategic Development Committee:	SHAO Yan *(Chairman)*, ZHANG Hongshi, YANG Xuemei, CHOW Siu Lui
Headquarters, Registered Office and Principal Place of Business:	Room 1901, Greenfield Tower Concordia Plaza 1 Science Museum Road Tsim Sha Tsui East, Kowloon Hong Kong
Stock Abbreviation Name:	CTIHK
Stock Code:	6055
Legal Adviser:	Sullivan & Cromwell (Hong Kong) LLP
Compliance Adviser:	Anglo Chinese Corporate Finance, Limited
Auditor:	KPMG
Hong Kong Share Registrar:	Computershare Hong Kong Investor Services Limited
Principal Bankers:	Industrial and Commercial Bank of China (Asia) Limited Bank of China (Hong Kong) Limited
Company's Website:	www.ctihk.com.hk

Financial Highlights

Unit: Millions of HK$

Items	For the six months ended 30 June 2019 (unaudited)	For the six months ended 30 June 2018 (unaudited)
Revenue	**3,931.02**	4,048.34
Cost of sales	**(3,745.54)**	(3,803.90)
Gross profit	**185.48**	244.44
Other income, net	**5.92**	13.78
Administrative and other operating expenses	**(33.26)**	(25.09)
Profit before taxation	**158.14**	233.13
Income tax	**(27.54)**	(45.21)
Profit after taxation	**130.60**	187.92

Notes:

1. The Company did not operate any business in substance before the Reorganization and the Relevant Businesses were then carried out by other Operating Entities as business divisions or smaller business components thereof. Other Operating Entities also carried out other businesses (the "**Excluded Businesses**") which were retained by the CNTC. Upon the completion of the Reorganization, other Operating Entities ceased to carry out the Relevant Businesses except for settlement of the trade balances arisen from the Relevant Businesses conducted prior to the Reorganization and the Company commenced to carry out the Relevant Businesses since then. For further details of the Reorganization, please refer to the Prospectus.

2. The financial information for the six months ended 30 June 2018 (the "**Corresponding Period**") is prepared on the same preparation basis with that for the historical financial information for the years ended 31 December 2016, 2017 and 2018 which is included in the Prospectus. Similarly, a process has been completed to attribute assets, liabilities, revenues, expenses and cash flows of the Operating Entities to the Relevant Businesses and the Excluded Businesses in preparing the financial information for the Corresponding Period, based either on specific identification to the extent possible, or otherwise on reasonable allocation bases.

   Such basis of preparation results in the financial information for the Corresponding Period reflecting the assets and liabilities associated with the Relevant Businesses and reflecting costs and expenses associated with the functions that would be necessary to operate independently. However, as the Relevant Businesses did not operate as a stand-alone entity prior to the Reorganization, the financial information for the Corresponding Period does not necessarily reflect what its results of operations, financial position, and cash flows would have been had the Relevant Businesses operated as a separate entity during the Corresponding Period.

Management Discussion and Analysis

1. TOBACCO LEAF PRODUCTS EXPORT BUSINESS

Market environment

As a player in the traditional export market of tobacco leaf products produced in China, the Company has relatively stable sales channels and customer base in Southeast Asia. In 2019 (the "**Year**"), major tobacco leaves importing countries in Southeast Asia have a strong demand for tobacco leaf products produced in China, and domestic supply of tobacco leaf products for export is also relatively sufficient.

Operation initiatives and results

The Company exports tobacco leaf products produced in China to customers in Southeast Asia through traditional and stable sale channels. In the first half of the Year, the revenue generated from the Tobacco Leaf Products Export Business of the Company was HK$1,022.10 million, representing an increase of HK$608.69 million or 147.2% on a year-on-year basis, with a gross profit of HK$25.66 million, representing an increase of HK$13.58 million or 112.4% on a year-on-year basis. The significant increase in the revenue and gross profit on a year-on-year basis was due to: 1. strong demand from key customers of the Company for tobacco leaf products produced in China; and 2. the sufficient supply of domestic marketable tobacco leaves.

Prospects for the second half of the Year

In the second half of the Year, the Company will continue to focus on visiting key markets and key customers, so as to fully explore the potential demand of customer. Meanwhile, we will continue to explore new markets and new customers, while stabilizing and gradually increasing the market share of domestic tobacco leaves in Southeast Asia. In addition, the Company maintains sensitivity to the market by closely monitoring the political and economic situation as well as the changes of policies and regulations in Southeast Asia.

2. TOBACCO LEAF PRODUCTS IMPORT BUSINESS

Market environment

In 2019, all of the major tobacco producing regions around the world recorded an adequate yield, and the Chinese market showed a stable demand for imported quality tobacco, generally realizing balance between supply and demand. However, the Company's tobacco leaf import business was negatively impacted by the escalating trade friction with some countries where quality tobacco are produced.

Operation initiatives and results

In the first half of the Year, the revenue generated from the Company's Tobacco Leaf Products Import Business amounted to HK$2,174.25 million, representing a decrease of HK$1,311.32 million or 37.6% on a year-on-year basis, with a gross profit of HK$121.61 million, representing a decrease of HK$51.95 million or 29.9% on a year-on-year basis. The year-on-year decrease in the import volume, revenue and gross profit of tobacco leaves was mainly due to the intensifying trade friction between China and the United States, which caused the Company to suspend purchasing tobacco leaves from the United States temporarily. The revenue and gross profit contributed by tobacco leaf products imported from the United States amounted to HK$1,272.04 million and HK$57.88 million, respectively, for the Corresponding Period.

Management Discussion and Analysis (Continued)

Prospects for the second half of the Year

In the second half of the Year, the Company will constantly optimize its business process, accelerate delivery and settlement of contracted tobacco leaf procurement, and enhance the efficiency of capital turnover. Meanwhile, if the trade friction between China and the United States has not relieved, the Company will probably increase the purchase volume of high quality tobacco leaves from other importing countries in order to minimize the adverse impact of trade friction on the business development of the Company.

3. CIGARETTES EXPORT BUSINESS

Market environment

In 2019, the market of duty-free cigarettes in Singapore and Thailand dwindled, as it was affected by factors such as the enactment of the Cigarette Plain Packaging Act, the devaluation of RMB and the newly opened inbound duty-free outlets in mainland China. The duty-free cigarette markets in mainland China, Hong Kong and Macau generally remained stable.

Operation initiatives and results

In the first half of the Year, the Company focused on exploiting new market for its cigarette business. With increased efforts in cooperating with domestic duty-free operators in Shenzhen, Zhuhai and other mainland China cities, the Company became a new supplier of 12 duty-free outlets in Shenzhen and Zhuhai, which has further expanded its sales channels. Through in-depth business negotiation with West Kowloon Railway Station in Hong Kong, the Company preliminarily introduced one of the main domestic brands of cigarettes to the duty-free outlets, and has been continuously and actively preparing for introducing more brands in the second half of the Year. Meanwhile, the Company continued to communicate with the duty-free outlets at Hong Kong airport, and prepare for further business arrangement in the second half of the Year. In the first half of the Year, our revenue from the Cigarettes Export Business amounted to HK$732.79 million, representing an increase of HK$583.43 million or 390.6% on a year-on-year basis, with a gross profit of HK$38.18 million, representing a decrease of HK$20.61 million or 35.1% on a year-on-year basis. The increase in business revenue was mainly due to the addition of new brands for distribution after the Reorganization. And the decrease in gross profit was primarily attributable to: 1. a decrease in the sales of Singaporean and Thai markets with a higher gross profit margin, inflicted by the RMB devaluation and the enactment of the Cigarette Plain Packaging Act; and 2. a decrease in gross profit caused by the change of supply channels of certain types of cigarettes.

Prospects for the second half of the Year

In the second half of the Year, the Company will launch the sales of around 15 new cigarette products on duty-free markets in mainland China, Hong Kong and Macau, to optimize the structure of its products base on massive preparation work in the early stage. The Company will further expand its business in the duty-free outlets of the West Kowloon Railway Station in Hong Kong, and introduce a full range of key cigarette brands of China tobacco to sell in this market. The Company will further expand its business in the duty-free outlets at Hong Kong airport, increase its participation in sale of cigarettes and improve its profitability. The Company will further enhance the cooperation with the operators of all major duty-free outlets, so as to expand its sale coverage to about 100 duty-free outlets in mainland China, including the duty-free outlets at the airports in major cities of mainland China. The Company will enhance the maintenance and promotion of traditional markets (such as Singapore and Thailand) and strive to minimize the impact of adverse factors.

Management Discussion and Analysis (Continued)

4. NEW TOBACCO PRODUCTS EXPORT BUSINESS

Market environment

New tobacco products business has remained an emerging tobacco business in the world. Its development is confronted with varied uncertainties in such aspects as laws and regulations, regulatory policies and technology development, in addition to the rapidly evolving demands of overseas markets.

Operation initiatives and results

Since its commencement of the New Tobacco Products Export Business, the Company has been prudently controlling operational risks and initiatively coping with market challenges while actively expanding overseas markets. In the first half of the Year, the Company exported 7 million sticks of new tobacco products (heat-not-burn cartridges), recording a revenue of HK$1.88 million and a gross profit of HK$21.26 thousand. However, no such business was engaged in during the Corresponding Period.

Prospects for the second half of the Year

In the second half of the Year, the Company will actively expand overseas markets, and the export volume in the second half of the Year is expected to experience a substantial increase as compared with that of the first half of the Year.

5. CONCLUSION

For the six months ended 30 June 2019, our revenue was HK$3,931.02 million, representing a decrease of HK$117.32 million or 2.9% on a year-on-year basis; our cost of sales were HK$3,745.54 million, representing a decrease of HK$58.35 million or 1.5% on a year-on-year basis; our administrative and other operating expenses were HK$33.26 million, representing an increase of HK$8.17 million or 32.6% on a year-on-year basis; our profit after taxation was HK$130.60 million, representing a decrease of HK$57.32 million or 30.5% on a year-on-year basis. The year-on-year decrease in revenue and costs of sale was mainly due to the emergence of the trade friction between China and the United States, which was exacerbating and caused the Company to suspend purchasing tobacco from the United States (see Risk Factors in the Prospectus for details). The year-on-year increase in the administrative and other operating expenses was mainly due to the successful Listing of the Company in the first half of 2019 which resulted in an increase in Listing intermediary expenses. The decrease in profit after taxation was primarily attributable to: 1. a decrease in profits of the Tobacco Leaf Products Import Business due to the trade friction between China and the United States; 2. an impact on the profits of the Cigarettes Export Business due to the RMB devaluation, the enactment of the Plain Cigarette Packaging Act and the change of supply channels of certain types of cigarettes; and 3. in light of the basis of preparation of the financial information, the data of the Corresponding Period does not necessarily reflect what the results of operations (such as interest income) would have been had the Relevant Businesses operated as a separate entity during the Corresponding Period.

In the second half of the Year, the Company will delve into the market, reduce expenditure and improve efficiency in a multi-pronged approach, so as to tirelessly heighten its profitability. In respect of the Tobacco Leaf Products Export Business, we will continue to tap into the demand of markets, proactively arrange the supply of domestic marketable product sources and further raise its share in the Southeast Asian market. In respect of the Tobacco Leaf Products Import Business, we will expand the alternative sources of the tobacco leaves imported from the United States in due course to meet the demand of the market in mainland China for imported tobacco. In respect of the Cigarettes Export Business, we will enhance the market promotion, secure a stable share in the traditional market, take the initiative to explore emerging markets, increase the percentage of the Proprietary Business, and expand sales outlets. In respect of the New Tobacco Products Export Business, we will redouble efforts to market promotion in line with the trend of market development.

We believe that the prospects on the Company's future development are on the upbeat as a whole.

Review of Continuing Connected Transactions

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors had reviewed the Continuing Connected Transactions conducted by the Company during the Reporting Period.

1. CONTINUING CONNECTED TRANSACTIONS

CNTC, CTI and CTIG are our substantial shareholders. Under the Listing Rules, CNTC, CTI and CTIG and their respective subsidiaries are our connected persons.

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

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

We have followed the pricing policies set forth in the Exclusive Operation and Long-Term Supply Framework Agreements as well as the guidelines under the Listing Rules in determining the prices and terms of the connected transactions conducted during the Reporting Period. During the Reporting Period, the aggregate revenue amount and the total procurement of our connected transactions was HK$2,175 million and HK$1,967 million, respectively, accounting for approximately 55% and 62% of our total revenue and our total purchase, respectively, during the Reporting Period.

A. Sales Transactions in the Tobacco Leaf Products Import Business

To facilitate that sales of imported tobacco leaf products to CTI, on 3 December 2018, we and CTI entered into a Tobacco Leaf Products Import Business Exclusive Operation and Long-Term Supply Framework Agreement (the "**Tobacco Leaf Products Import Framework Agreement**"), pursuant to which we sell imported tobacco leaf products to CTI as part of the Tobacco Leaf Products Import Business.

Pricing Policies

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

$P = A \times 1.06$

Where

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

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

Review of Continuing Connected Transactions (Continued)

The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiation with (i) independent third party suppliers, or (ii) connected persons, including CTI North America, CTI Argentina and CBT, taking into consideration factors including current international market condition, relationship with the supplier, past procurement prices, product quality and annual production volume. We utilize the same pricing mechanism in transactions with both independent third parties and connected persons.

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

Transaction Amount during the Reporting Period

During the Reporting Period, the transaction amount of the Sale Transactions in the Tobacco Leaf Products Import Business was HK$2,174 million, accounting for approximately 100% of the total revenue of our Tobacco Leaf Products Import Business.

B. Procurement Transactions in the Tobacco Leaf Products Export Business

We conduct our Tobacco Leaf Products Export Business in our ordinary course of business. Connected transactions contemplated under our Tobacco Leaf Products Export Business include the procurement of tobacco leaf products from certain entities under CNTC, including the Import-Export Companies and Industrial Companies. To facilitate the above transactions, on 18 December 2018, we and each of the relevant entities under CNTC entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the "**Tobacco Leaf Products Export Framework Agreements**"), pursuant to which we procure tobacco leaf products from such connected persons.

Pricing Policies

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

P = A × (1 – applicable margin)

Where

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

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

Review of Continuing Connected Transactions (Continued)

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

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

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

Transaction Amount during the Reporting Period

During the Reporting Period, the transaction amount of the Procurement Transactions in the Tobacco Leaf Products Export Business was HK$1,033 million, accounting for approximately 100% of the total purchase of our Tobacco Leaf Products Export Business.

C. Procurement Transactions in the Cigarettes Export Business

On 18 December 2018, we and each of the relevant entities under CNTC entered into the Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the "**Cigarettes Export Framework Agreements**"), pursuant to which we procure duty-free cigarettes from our connected persons.

Pricing Policies

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

Review of Continuing Connected Transactions (Continued)

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

Twenty-six cigarette brands in our product portfolio fall under the premium and other first tier duty-free cigarette category, which include Yuxi (玉溪), Yunyan (雲煙), Chunghwa (中華) and others. Under the current pricing regime for the duty-free cigarettes established by the State Tabacco Monopoly Administration ("STMA"), the price at which any operating entity procures premium and other first tier duty-free cigarettes from entities under CNTC must be determined in compliance with the No. 250 Notice issued in September 2017.

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

(ii) Other Duty-Free Cigarettes

Fifteen cigarette brands in our product portfolio fall under the other duty-free cigarette category, which include Hongtashan (紅塔山), Haorizi (好日子), Hongshuangxi (紅雙喜), Ashima (阿詩瑪) and others. The prices at which we procure such duty-free cigarettes from CNTC Group are determined through arm's length negotiation, using the same pricing policies and taking into consideration the same factors for premium and other first tier duty-free cigarettes as described above, but the pricing for other duty-free cigarettes is not subject to any government-prescribed price floors.

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

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

Review of Continuing Connected Transactions (Continued)

Transaction Amount during the Reporting Period

During the Reporting Period, the transaction amount of the Procurement Transactions in the Cigarettes Export Business was HK$662 million, accounting for approximately 98% of the total purchase of our Cigarettes Export Business.

D. Procurement Transactions in the New Tobacco Products Export Business

On 10 April 2019, we and each of the relevant entities under CNTC entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the "**New Tobacco Products Export Framework Agreements**"), pursuant to which we procure new tobacco products from such connected persons as part of our New Tobacco Products Export Business.

Pricing Policies

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

P = A × (1 – applicable margin)

Where

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

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

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

Review of Continuing Connected Transactions (Continued)

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

Transaction Amount during the Reporting Period

During the Reporting Period, the transaction amount of the Procurement Transactions in the New Tobacco Products Export Business was HK$2 million, accounting for approximately 100% of the total purchase of our New Tobacco Products Export Business.

Procurement Transactions in the Tobacco Leaf Products Import Business

To facilitate the procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT, on 21 December 2018, we entered into Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements (the "**Offshore Supply Framework Agreements**") with each of CTI North America, CTI Argentina and CBT, being subsidiaries of CTI. Pursuant to each of the Offshore Supply Framework Agreements, CTI North America, CTI Argentina and CBT, as applicable, shall provide long-term supply of tobacco leaf products to us in accordance with the specific terms of procurement separately agreed with us through arm's length negotiation in good faith.

Pricing Policies

The Company has been basing on the same pricing policies in negotiating and determining the procurement prices as its procurement from third party suppliers and such connected party suppliers. Specifically, our procurement prices comprise: (i) suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) supplier's cost associated with exchange rate (suppliers procure tobacco leaves from local tobacco farmers with local currency but sells processed tobacco leaves to the Company in U.S. dollars). Applicable taxes, for example, export tax imposed by certain countries, are usually borne by us.

For details of the Procurement Transactions in the Tobacco Leaf Products Import Business, including but not limited to the background of the Offshore Supply Framework Agreements and the respective pricing policy of the relevant products, please refer to the Prospectus.

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the Procurement Transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK$270 million, accounting for approximately 19% of the total purchase of our Tobacco Leaf Products Import Business.

Review of Continuing Connected Transactions (Continued)

E. Agency Business in the Sales of Tobacco Leaf Products

We act as an agent in certain sale transactions of tobacco leaf products as part of our Tobacco Leaf Products Export Business, from which we record a commission of less than 1% of the contract amount as revenue in such transactions. To facilitate our agency business, on 18 December 2018, we and each of the relevant suppliers in the transactions where we acted as an agent entered into the Tobacco Leaf Products Export Agency Agreements, pursuant to which we shall act as an agent in the sales of tobacco leaf products as part of the Tobacco Leaf Products Export Business in accordance with the specific terms separately agreed with us through arm's length negotiation in good faith.

Pricing Policies

The commission rate is determined based on the resources we devote to the business and varies according to the unit price of the tobacco leaf products under such agency business. We generally charge a higher commission rate for the tobacco leaf products carrying lower unit price and vice versa to derive reasonable profit in such agency business. We provide agency services based on the same or more favourable terms as the term based on which the other market participants of the PRC tobacco industry provide such services. These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us).

For details of the Agency Business in the Sale of Tobacco Leaf Products (including the relevant pricing policies), please refer to the Prospectus.

Transaction Amount during the Reporting Period

During the Reporting Period, the transaction amount of the Agency Business in the Sales of Tobacco Leaf Products (in terms of commission) was HK$1 million, accounting for approximately 0.14% of the total revenue of our Tobacco Leaf Products Export Business.

2. REVIEW OPINIONS OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

To ensure the fairness of the Continuing Connected Transactions, the independent non-executive Directors (the "**INEDs**") have performed the following works: (i) reviewed the interim financial information to understand the Continuing Connected Transactions entered into during the six months ended 30 June 2019; (ii) reviewed various transaction documents for its compliance with the Exclusive Operation and Long-Term Supply Framework Agreements, the pricing policies and whether the contract terms are conducted on the normal commercial terms or better to the Company on the sampling basis; (iii) convened the special meetings of the Connected Transactions Control Committee to discuss the review opinions on the Continuing Connected Transactions jointly with the independent financial adviser; and (iv) convened the special meetings of the Connected Transactions Control Committee to enquire the management about its control measures and implementations in relation to the Continuing Connected Transactions.

In addition to the above works, the INEDs hereby confirmed that for the six months ended 30 June 2019, the Continuing Connected Transactions had been entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better to the Company; and (iii) according to the Exclusive Operation and Long-Term Supply Framework Agreements on terms that are fair and reasonable and in the interests of our Shareholders as a whole.

Review of Continuing Connected Transactions (Continued)

3. REVIEW OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER

The Company has engaged Somerley Capital Limited ("Somerley") as the independent financial adviser to review the Continuing Connected Transactions. The independent financial adviser has performed the following works: 1) obtained and reviewed transaction documents including, among others, price negotiation records, purchase indication records, procurement contracts and sales contracts, relevant pricing regulatory notices and the Company's internal pricing policies, in relation to each of (i) the Tobacco Leaf Products Import Business; (ii) the Tobacco Leaf Products Export Business; and (iii) the Cigarettes Export Business (together the "Business Segments", but excluding the New Tobacco Products Export Business since no transaction was conducted during the period from 12 June 2019 (being the date of Listing of the Company's Shares on the Stock Exchange) to 30 June 2019 (the "Relevant Period")), on a sampling basis, representing not less than 50% of the total transaction amount of each of these three Business Segments during the Relevant Period. Somerley has noted that the Continuing Connected Transactions in relation to the Business Segments were conducted in accordance with the relevant pricing regulatory notices and the Company's internal pricing policies; 2) discussed with the management of the Company to understand the background of the Continuing Connected Transactions in relation to the Business Segments, customer and supplier selection criteria, procurement procedures and pricing policies, in particular with respect to the Company's independence throughout the decision-making process; 3) enquired the management of the Company about the existing internal control measures so as to confirm that the Continuing Connected Transactions in relation to the Business Segments were carried out in accordance with the procedures and criteria set out by the Company in relevant internal policies and procedures; and 4) compared the margins of certain Continuing Connected Transactions in relation to the Business Segments, that are not governed by any pricing policy prescribed by the STMA of the PRC or the CNTC, and against the margins of other listed companies in Hong Kong engaged in trading business.

Based on the above, Somerley has confirmed that the Continuing Connected Transactions in relation to the Business Segments have been conducted on normal commercial terms or better, and that the terms are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Other Information

SPECIAL DIVIDEND

As disclosed in the Prospectus, CTIG, the then sole shareholder of the Company, has passed a resolution on 17 May 2019 for the Company to distribute a special cash dividend amounting to 100% of the Company's distributable reserves at 31 May 2019 (the "**Special Dividend**"). As of the date of this report, the Special Audit (as defined in the Prospectus) has been completed and the amount of the Special Dividend is determined to be HK$192,949,668 with reference to the Company's non-statutory financial statements audited by KPMG for the five months ended 31 May 2019 prepared in accordance with HKFRSs. The Special Dividend will be paid on or around 16 December 2019.

INTERIM DIVIDEND

The Board does not recommend a payment of any other interim dividends for the six months ended 30 June 2019 to Shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Total assets of the Company amounted to HK$2,243.25 million as at 30 June 2019 (31 December 2018: HK$2,138.56 million). The Company had cash and cash equivalents of HK$1,622.43 million as at 30 June 2019 (31 December 2018: HK$651.00 million). The Board is of the opinion that the Company has sufficient resources to support its operations and meet its foreseeable capital expenditures. Total liabilities of the Company amounted to HK$947.08 million as at 30 June 2019 (31 December 2018: HK$1,564.81 million).

As at 30 June 2019, the Company did not have any bank borrowing (31 December 2018: nil).

Gearing ratio was not applicable to the Company as the Company did not have any bank borrowing as at 30 June 2019. As at 30 June 2019, the Company had current ratio (being the current assets divided by the current liabilities) of 2.4 (31 December 2018: 1.4).

SIGNIFICANT INVESTMENTS

As at 30 June 2019, the Company did not hold any significant investments.

MATERIAL ACQUISITION AND DISPOSAL

The Company had not conducted any material acquisition or disposal of any subsidiary, associate or joint venture during the six months ended 30 June 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Company did not have other plans for material investments and capital assets.

FOREIGN EXCHANGE RISK

The Company was not exposed to any significant currency risks during the six months ended 30 June 2019. The Company entered into transactions in U.S. dollars and did not enter into any hedging arrangements.

PLEDGE OF ASSET

As at 30 June 2019, the Company did not pledge any assets (31 December 2018: Nil).

CONTINGENT LIABILITIES

As at 30 June 2019, the Company had no significant contingent liabilities.

Other Information (Continued)

EMPLOYEES

As at 30 June 2019, we had 28 (31 December 2018: 28) employees in Hong Kong.

We seek to remunerate our employees on a market-competitive basis and have established internal policies with respect to employee compensation for our local employees. The remuneration package of all our employees comprises basic salary, performance-related bonus and certain other employee benefits. We review the remuneration package of our employees annually, considering factors such as years of service, relevant professional experience and performance evaluations.

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

EVENTS AFTER THE REPORTING PERIOD

Save as the issue and allotment of 25,000,000 Shares on 4 July 2019 pursuant to the full exercise of the Over-allotment Option, details of which are disclosed in the announcement of the Company dated 1 July 2019, as at the date of this report, there is no major event after 30 June 2019 that is required to be disclosed by the Company.

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 Shares of the Company, the total gross proceeds of which amounted to approximately HK$813 million, and the Shares were listed on the Main Board of the Stock Exchange (the "**Listing**"). 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, 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 use of Net Proceeds during the period from the Listing Date up to 30 June 2019 is set out as follows:

Use of Net Proceeds	**Approximate percentage of total amount**	**Actual amount of Net Proceeds** (HK$ million)	**Amount utilised as at 30 June 2019** (HK$ million)	**Unutilised amount as at 30 June 2019** (HK$ million)
Making investments and acquisitions that are complementary to the Company's business	45%	406.8	–	406.8
Supporting the ongoing growth of the Company's business	20%	180.8	–	180.8
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets	20%	180.8	–	180.8
General working capital	10%	90.4	–	90.4
Improving the Company's management of purchase and sales resources and optimizing the Company's operational management	5%	45.2	–	45.2
Total	100%	904.0	–	904.0

Other Information (Continued)

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

As at 30 June 2019, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that is recorded in the register required to be kept under section 352 of the SFO or any interests otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

At no time during the six months ended 30 June 2019 was the Company, any of its holding companies, or any of its holding companies' subsidiaries a party for any arrangement to enable the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 30 June 2019, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long Positions in the Shares and Underlying Shares of the Company

		Nature of Interest	Ordinary shares held	Percentage of the total number of issued shares[2]
(i)	China Tobacco International Group Limited	Beneficial owner	500,010,000	75%
(ii)	China Tobacco International Inc.[1]*	Interest in a controlled corporation	500,010,000	75%
(iii)	China National Tobacco Corporation[1] *	Interest in a controlled corporation	500,010,000	75%

Notes:

1. In light of the fact that China National Tobacco Corporation* and China Tobacco International Inc.* directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of China Tobacco International Group Limited, in accordance with the SFO, the interests of China Tobacco International Group Limited are deemed to be, and have therefore been included in, the interests of China National Tobacco Corporation* and China Tobacco International Inc.*.

2. As at 30 June 2019, the Company had 666,680,000 Shares in issue.

3. * is for identification purpose only.

Apart from the foregoing, as at 30 June 2019, no other person (other than a Director or the chief executive of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Other Information (Continued)

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

There is no change in Directors' biography since the date of the Prospectus.

There is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CHANGE OF THE NAME OF CONTROLLING SHAREHOLDER

The Company was notified by its controlling shareholder Tian Li International Company Limited that its company name has changed from "Tian Li International Company Limited" to "China Tobacco International Group Limited" (the "**Change**") with effect from 16 August 2019.

The Change does not involve any change in the Company's controlling shareholder and its proportion of shareholding, with China Tobacco International Group Limited currently holding approximately 72.29% of the issued share capital of the Company.

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

During the six months ended 30 June 2019, the Company did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the unaudited condensed interim financial information for the six months ended 30 June 2019 and the accounting principles and practices adopted by the Company, and has discussed internal control and financial report matters.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CORPORATE GOVERNANCE CODE

For the period from the Listing Date to 30 June 2019, the Company has fully complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standard set out in the Model Code throughout the period from the Listing Date to 30 June 2019.

APPENDIX 16 TO THE LISTING RULES

According to paragraph 40 of Appendix 16 to the Listing Rules headed "Disclosure of Financial Information", save as disclosed herein, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Prospectus.

Review Report of the Independent Auditors

KPMG

Review report to the board of directors
of China Tobacco International (HK) Company Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 22 to 40 which comprises the statement of financial position of China Tobacco International (HK) Company Limited (the "Company") as of 30 June 2019 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and condensed statement of cash flows for the six-months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

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

26 August 2019

Statement of profit or loss and other comprehensive income

		Six months ended 30 June	
		2019	2018
	Note	**HK$**	HK$
Revenue	4	**3,931,019,863**	4,048,337,632
Cost of sales		**(3,745,542,563)**	(3,803,897,190)
Gross profit		**185,477,300**	244,440,442
Other income, net	5	**5,929,523**	13,776,932
Administrative and other operating expenses		**(33,262,679)**	(25,093,121)
Profit before taxation	6	**158,144,144**	233,124,253
Income tax	7	**(27,540,103)**	(45,205,112)
Profit and total comprehensive income for the period		**130,604,041**	187,919,141
Profit and total comprehensive income for the period attributable to:			
Equity shareholders of the Company		**130,604,041**	185,642,064
Non-controlling interests		**–**	2,277,077
Profit and total comprehensive income for the period		**130,604,041**	187,919,141
Earnings per share			
– Basic and diluted	9	**0.25**	0.37

The notes on pages 26 to 40 form part of this interim financial report.

Statement of financial position

	Note	At 30 June 2019 HK$	At 31 December 2018 HK$
Non-current asset			
Property, plant and equipment		**344,678**	373,240
Current assets			
Inventories	10	**411,224,224**	1,037,959,651
Trade and other receivables	11	**209,249,014**	449,233,397
Cash and cash equivalents	12	**1,622,428,625**	650,995,191
		2,242,901,863	2,138,188,239
Current liabilities			
Trade and other payables	13	**901,493,750**	1,546,763,038
Current tax payable		**45,584,120**	18,044,017
		947,077,870	1,564,807,055
Net current assets		**1,295,823,993**	573,381,184
NET ASSETS		**1,296,168,671**	573,754,424
Capital and reserves	14		
Share capital		**1,284,769,874**	500,010,000
Reserves		**11,398,797**	73,744,424
TOTAL EQUITY		**1,296,168,671**	573,754,424

The notes on pages 26 to 40 form part of this interim financial report.

Statement of changes in equity

		Attributable to equity shareholders of the Company					
	Note	Share capital HK$ (note 14(a))	(Accumulated losses)/ retained earnings HK$	Net parent investment HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
Balance at 1 January 2018		10,000	(105,805)	2,308,978,755	2,308,882,950	796,986	2,309,679,936
Changes in equity for the six months ended 30 June 2018							
Profit and total comprehensive income for the period		–	8,541	185,633,523	185,642,064	2,277,077	187,919,141
Issue of shares	14(a)	500,000,000	–	–	500,000,000	–	500,000,000
Deemed distribution	8	–	–	(723,279,010)	(723,279,010)	(4,963,850)	(728,242,860)
Net assets (distributed)/contributed in connection with the Reorganization		–	–	(1,771,333,268)	(1,771,333,268)	1,889,787	(1,769,443,481)
Balance at 30 June 2018		500,010,000	(97,264)	–	499,912,736	–	499,912,736
Balance at 1 January 2019		**500,010,000**	**73,744,424**	**–**	**573,754,424**	**–**	**573,754,424**
Changes in equity for the six months ended 30 June 2019:							
Profit and total comprehensive income for the period		**–**	**130,604,041**	**–**	**130,604,041**	**–**	**130,604,041**
Issue of shares in connection with the IPO (defined in note 1)	14	**784,759,874**	**–**	**–**	**784,759,874**	**–**	**784,759,874**
Dividend	8	**–**	**(192,949,668)**	**–**	**(192,949,668)**	**–**	**(192,949,668)**
Balance at 30 June 2019		**1,284,769,874**	**11,398,797**	**–**	**1,296,168,671**	**–**	**1,296,168,671**

The notes on pages 26 to 40 form part of this interim financial report.

Condensed statement of cash flows

		Six months ended 30 June	
		2019	2018
	Note	**HK$**	HK$
Operating activities			
Cash generated from operations	12(b)	**170,832,786**	679,376,737
Tax Paid:			
– Hong Kong Profits Tax paid		**–**	(8,509,185)
– Overseas tax paid		**–**	(24,365,055)
Net cash generated from operating activities		**170,832,786**	646,502,497
Investing activities			
Increase in time deposits (note i)		**–**	(785,061,368)
Other cash flows arising from investing activities		**5,941,514**	14,533,472
Net cash generated from/(used in) investing activities		**5,941,514**	(770,527,896)
Financing activities			
Gross proceeds from issuance of shares	14(a)	**813,349,600**	500,000,000
Payment of listing expenses		**(18,690,466)**	(549,300)
Deemed cash distribution to the CNTC Group (note ii)		**–**	(1,834,814,262)
Net cash generated from/(used in) financing activities		**794,659,134**	(1,335,363,562)
Net increase/(decrease) in cash and cash equivalents		**971,433,434**	(1,459,388,961)
Cash and cash equivalents at 1 January		**650,995,191**	1,997,206,983
Cash and cash equivalents at 30 June		**1,622,428,625**	537,818,022

Notes:

i. Increase in time deposits represents certain time deposits with maturities over three months made by one of the Operating Entities (defined in note 1) which are considered to be attributable to the Relevant Businesses (defined in note 1). Upon the completion of the Reorganization (defined in note 1), these time deposits were included in the net assets distributed in connection with the Reorganization and not transferred to the Company as detailed in the Company's prospectus dated 28 May 2019 (the "Prospectus").

ii. Deemed cash distribution to the CNTC Group represents the reconciliation between the cash flows and the changes in cash and cash equivalents that are attributable to the Relevant Businesses during the six months ended 30 June 2018. Further details of the basis of preparation of these financial statements for the Operating Entities are set out in the Prospectus.

The notes on pages 26 to 40 form part of this interim financial report.

Notes to the financial statements

1 GENERAL INFORMATION

China Tobacco International (HK) Company Limited (the "Company") was incorporated in Hong Kong on 26 February 2004 as a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") after completion of its initial public offering ("IPO") during the current period. China Tobacco International Group Limited ("CTIG", formerly known as Tian Li International Company Limited), 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 parent of the Company. The PRC government is the ultimate controlling parent of the Company.

Pursuant to a corporate reorganization (the "Reorganization"), the Company commenced the following business operations (together, the "Relevant Businesses"), which were carried out by various subsidiaries of CNTC (the "Operating Entities") as divisions or smaller business components thereof prior to the Reorganization:

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

- import of tobacco leaf products to the 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 to the duty-free outlets and distributors 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 the PRC (the "Cigarettes Export Business"); and

- export of new tobacco products from mainland China of the PRC to overseas market worldwide (the "New Tobacco Products Export Business").

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 26 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the historical financial information in the Appendix I to the Prospectus, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The financial information for the six months ended 30 June 2018 included in the interim report as comparative information is prepared in the same basis as detailed note 1.2 to the historical financial information set out in the Appendix I to the Prospectus, reflecting the assets and liabilities associated with the Relevant Businesses and costs and expenses associated with the functions that would be necessary to operate independently. However, as the Relevant Businesses did not operate as a stand-alone entity during the six months ended 30 June 2018, such comparative financial information may not necessarily reflect what the results of operations, financial position, and cash flows would have been had the Relevant Businesses operated as a separate entity from CNTC Group during the six months ended 30 June 2018.

Notes to the financial statements (Continued)

2 BASIS OF PREPARATION *(continued)*

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the historical financial information in the Accountants' Report. The condensed interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG 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. KPMG's independent review report to the Board of Directors is included on page 21.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual financial statements for that financial year. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

As the Company was a private company, it is not required to deliver its 2018 financial statements to the Registrar of Companies and has not done so.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. None of the developments have had a material effect on how the Company's result and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period. Details of the changes in accounting policies are discussed below for HKFRS 16.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentive*s, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

Notes to the financial statements (Continued)

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

The Company has initially applied HKFRS 16 as from 1 January 2019. The Company has elected to use the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under HKAS 17. As the Company only had one short-term lease as at 31 December 2018, the initial adoption of HKFRS 16 had no impact on the Company's opening balances at 1 January 2019.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. 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. The Company applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Company is concerned, there are no newly capitalised leases as a result of initial adoption of HKFRS 16.

When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. For the Company, low-value assets are typically laptops or office furniture. 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.

Notes to the financial statements (Continued)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	Six months ended 30 June	
	2019	2018
	HK$	HK$
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Export sales of tobacco leaf products	**1,020,714,015**	413,409,296
– Import sales of tobacco leaf products	**2,174,253,924**	3,485,573,941
– Export sales of cigarettes	**732,786,485**	149,354,395
– Sales of new tobacco products	**1,877,655**	–
– Others	**1,387,784**	–
	3,931,019,863	4,048,337,632

The Company recognises all its revenue point in time. The following table sets out information on the geographical locations of the Company's revenue from external customers based on the location at which the Company's products are distributed to the customers of the Company or the distributors.

	Six months ended 30 June	
	2019	2018
	HK$	HK$
The PRC	**2,770,754,716**	3,493,108,904
Republic of Indonesia ("Indonesia")	**572,828,738**	244,524,473
Hong Kong	**192,517,801**	122,658,074
Singapore	**64,814,635**	61,197,030
Thailand	**20,329,252**	25,410,009
Others	**309,774,721**	101,439,142
	3,931,019,863	4,048,337,632

Notes to the financial statements (Continued)

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting

The Company 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 Company's most senior executive management for the purposes of resource allocation and performance assessment, the Company has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Tobacco Leaf Products Export Business: this segment exports the tobacco leaf products to customers in the Southeast Asia, Hong Kong, Macau and Taiwan.

– Tobacco Leaf Products Import Business: this segment imports tobacco leaf products to mainland China of the PRC from origin countries or regions around the world except for from countries or regions currently under international sanctions.

– Cigarettes Export Business: this segment exports cigarettes to duty-free outlets in Thailand, Singapore, Hong Kong, Macau and duty-free outlets within the borders, but outside the customs area, of the mainland China of the PRC.

– New Tobacco Products Export Business: this segment exports new tobacco products from mainland China of the PRC to overseas market worldwide.

Segment results, assets and liabilities

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

Segment assets include primarily trade receivables, prepayments for goods, inventories and other receivables that are specifically attributed to individual segments. Segment liabilities include primarily trade payables and contract liabilities. The Company's all other assets and liabilities such as property, plant and equipment, cash and cash equivalents, short-term bank deposits, other receivables/payables 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 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 Company's reportable segments. Corporate income and expenses, net, mainly refers to interest income, net exchange gains/losses, administrative and other operating expenses are not considered specifically attributed to individual segments.

Notes to the financial statements (Continued)

4 REVENUE AND SEGMENT REPORTING *(continued)*

Information regarding the Company's reportable segments as provided to the Company's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Tobacco Leaf Products Export Business HK$	Tobacco Leaf Products Import Business HK$	Cigarettes Export Business HK$	New Tobacco Products Export Business HK$	Unallocated HK$	Total HK$
For the six months ended 30 June 2019						
Reportable segment revenue	1,022,101,799	2,174,253,924	732,786,485	1,877,655	–	3,931,019,863
Reportable segment gross profit	25,662,793	121,612,536	38,180,716	21,255	–	185,477,300
Interest income					5,929,523	5,929,523
Depreciation					(73,062)	(73,062)
Other corporate expenses					(33,189,617)	(33,189,617)
Profit before taxation						158,144,144
Income tax expense						(27,540,103)
Profit for the period						130,604,041
At 30 June 2019						
Reportable segment assets	124,661,057	437,181,233	57,231,800	–	1,624,172,451	2,243,246,541
Reportable segment liabilities	242,350,451	367,569,223	56,893,134	2,267,335	277,997,727	947,077,870

Notes to the financial statements (Continued)

4 REVENUE AND SEGMENT REPORTING *(continued)*

	Tobacco Leaf Products Export Business HK$	Tobacco Leaf Products Import Business HK$	Cigarettes Export Business HK$	New Tobacco Products Export Business HK$	Unallocated HK$	Total HK$
For the six months ended 30 June 2018						
Reportable segment revenue	413,409,296	3,485,573,941	149,354,395	–	–	4,048,337,632
Reportable segment gross profit	12,083,763	173,566,039	58,790,640	–	–	244,440,442
Interest income					14,797,702	14,797,702
Other corporate income					44,800	44,800
Depreciation					(2,916,143)	(2,916,143)
Other corporate expenses					(23,242,548)	(23,242,548)
Profit before taxation						233,124,253
Income tax expense						(45,205,112)
Profit for the period						187,919,141
At 31 December 2018						
Reportable segment assets	82,832,521	1,338,164,511	57,739,644	–	659,824,803	2,138,561,479
Reportable segment liabilities	172,444,429	1,320,277,179	22,219,514	3,646,500	46,219,433	1,564,807,055

5 OTHER INCOME, NET

	Six months ended 30 June	
	2019	2018
	HK$	HK$
Net exchange losses	**–**	(1,065,570)
Interest income	**5,929,523**	14,797,702
Rental income	**–**	44,800
	5,929,523	13,776,932

Notes to the financial statements (Continued)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following items:

	Six months ended 30 June	
	2019	2018
	HK$	HK$
Depreciation	**73,062**	2,916,143
Expenses related to a short-term lease	**1,950,240**	–
Cost of inventories	**3,745,542,563**	3,803,897,190
Listing expenses	**15,803,852**	1,647,900

7 INCOME TAX

	Six months ended 30 June	
	2019	2018
	HK$	HK$
Current tax		
Provision for Hong Kong Profits Tax for the period	**27,540,103**	20,717,914
Provision for PRC Corporate Income Tax for the period	**–**	24,365,055
	27,540,103	45,082,969
Deferred tax		
Origination and reversal of temporary differences (note)	**–**	122,143
Income tax expense	**27,540,103**	45,205,112

Note: The origination and reversal of temporary differences in deferred tax arose from the depreciation allowance being in excess of the related depreciation.

The provision for Hong Kong Profits Tax for the six months ended 30 June 2019 is calculated at 8.25% of the first HK$2,000,000 and 16.5% of the remaining estimated assessable profits for the period. The provision for Hong Kong Profits Tax for the Company was calculated using the same basis in the same period in 2018.

In accordance with relevant PRC rules and regulations, the PRC Corporate Income Tax rate of 25% was applicable to the Relevant Businesses that were historically carried out in the PRC prior to the Reorganization.

Notes to the financial statements (Continued)

8 DIVIDENDS AND DEEMED DISTRIBUTIONS

On 17 May 2019, CTIG, the then sole shareholder of the Company, has passed a resolution for the Company to distribute, subject to certain conditions precedent (the "Conditions Precedent"), a special cash dividend amounting to 100% of the Company's distributable reserves at 31 May 2019 to CTIG. The special cash dividend is determined to be HK$192,949,668 with reference to the Company's non-statutory financial statements for the five months ended 31 May 2019 prepared in accordance with HKFRSs, which have been audited by KPMG. The special dividend has been accounted for in the interim financial report as all the Conditions Precedent have been fulfilled as at 30 June 2019.

The Board do not recommend a payment of any other interim dividend for the six months ended 30 June 2019.

Deemed distribution represents the net amount of assets and liabilities of the Relevant Businesses distributed to or contributed from CNTC and non-controlling interests for no monetary consideration. The assets and liabilities distributed to or contributed from CNTC and the non-controlling interests during the six months ended 30 June 2018 represented certain assets and liabilities historically associated with the Relevant Businesses but were retained by CNTC and non-controlling interests.

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2019 of HK$130,604,041 (six months ended 30 June 2018: HK$185,642,064) and the weighted average of 517,602,944 ordinary shares (six months ended 30 June 2018: 500,010,000 shares) in issue during the interim period.

For the purpose of calculating the basic earnings per share for the six months ended 30 June 2018, the 500,000,000 ordinary shares issued on 26 June 2018 (note 14(a)) are considered to increase the number of shares outstanding without a corresponding change in resource of the Company. Accordingly, these ordinary shares are treated as if they had been issued since the beginning of the earliest period presented.

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

10 INVENTORIES

At 30 June 2019 and 31 December 2018, the Company's inventories comprise primarily of tobacco leaf products that were in transit in the course of sales.

Notes to the financial statements (Continued)

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2019 HK$	At 31 December 2018 HK$
Trade receivables	**110,242,346**	415,252,168
Bills receivable	**38,515,602**	2,492,006
	148,757,948	417,744,174
Deposits, prepayments and other receivables	**60,491,066**	31,489,223
	209,249,014	449,233,397

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

	At 30 June 2019 HK$	At 31 December 2018 HK$
Within 30 days	**88,251,497**	25,440,219
31 to 90 days	**43,108,137**	381,284,182
Over 90 days	**17,398,314**	11,019,773
	148,757,948	417,744,174

Trade receivables and bills receivable are normally due within 30 to 180 days from the date of billing.

Notes to the financial statements (Continued)

12 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 30 June 2019 HK$	At 31 December 2018 HK$
Cash at bank and on hand	**442,428,625**	248,159,613
Short-term bank deposits with original maturity less than three months	**1,180,000,000**	402,835,578
	1,622,428,625	650,995,191

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

		Six months ended 30 June	
	Note	2019 HK$	2018 HK$
Operating activities			
Profit before taxation		**158,144,144**	233,124,253
Adjustments for:			
Depreciation	6	**73,062**	2,916,143
Interest income	5	**(5,929,523)**	(14,797,702)
Operating profit before changes in working capital		**152,287,683**	221,242,694
Decrease in trade and other receivables		**233,257,491**	357,384,875
Decrease in inventories		**626,735,427**	602,408,637
Decrease in trade and other payables		**(841,447,815)**	(501,659,469)
Cash generated from operations		**170,832,786**	679,376,737

Notes to the financial statements (Continued)

13 TRADE AND OTHER PAYABLES

	At 30 June 2019 HK$	At 31 December 2018 HK$
Trade payables	**456,892,015**	1,486,372,646
Contract liabilities	**212,188,128**	32,214,976
Dividend payable (note 8)	**192,949,668**	–
Other payables and accruals	**39,463,939**	28,175,416
	901,493,750	1,546,763,038

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

	At 30 June 2019 HK$	At 31 December 2018 HK$
Within 30 days	**274,907,148**	728,090,410
31 to 90 days	**161,655,595**	656,215,239
Over 90 days	**20,329,272**	102,066,997
	456,892,015	1,486,372,646

Notes to the financial statements (Continued)

14 CAPITAL AND RESERVES

(a) Share capital

	Number of shares	Amount HK$
Ordinary shares, Issued and fully paid:		
At 1 January 2018	10,000	10,000
Shares issued	500,000,000	500,000,000
At 30 June 2018, 31 December 2018, and 1 January 2019	500,010,000	500,010,000
Shares issued in connection with the IPO	166,670,000	784,759,874
At 30 June 2019	666,680,000	1,284,769,874

Pursuant to section 170 of the Hong Kong Companies Ordinance, the Company approved an increase in its share capital by its members on 26 June 2018. The paid-up share capital of the Company increased by HK$500,000,000 to HK$500,010,000 following the increase in its share capital.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Ordinary shares to be issued

On 30 June 2019, the Over-Allotment Option in connection with the IPO was fully exercised, pursuant to which the Company was required to allot and issue 25,000,000 ordinary shares at HK$4.88 per share. Such shares were subsequently issued and allotted on 4 July 2019. As these shares have not been issued as at 30 June 2019, they are not recognised in this interim financial report.

(c) Capital management

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

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

The Company was not subject to any externally imposed capital requirements during the period.

Notes to the financial statements (Continued)

15 OPERATING LEASE COMMITMENTS

At 30 June 2019, the Company is the lessee in respect of certain property and office equipment under an operating lease agreement with a fellow subsidiary of the Company which will expire in June 2020. The total future minimum lease payments under such non-cancellable operating lease of HK$3,900,480 are payable within one year. The lease does not include contingent rentals.

16 MATERIAL RELATED PARTY TRANSACTIONS

CNTC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company. Related parties include the CNTC Group and its associates and joint ventures, other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over, key management personnel of the Company and the CNTC Group, their close family members and any entity, or any member of a group of which it is a part, provides key management personnel services to the Company's parent.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of material related party transactions entered into in the ordinary course of business between the Company and its related parties during the reporting period and balances arising therefrom.

(a) Transactions with the CNTC Group and its associates and joint ventures

	Six months ended 30 June	
	2019	2018
	HK$	HK$
Tobacco Leaf Products Export Business		
– Procurement of goods	**1,032,611,685**	401,325,533
– Commission income	**1,387,784**	–
Tobacco Leaf Products Import Business		
– Sales of goods	**2,174,253,924**	3,485,573,941
– Procurement of goods	**269,802,510**	546,086,819
Cigarettes Export Business		
– Procurement of goods	**661,844,073**	78,707,720
New Tobacco Product Export Business		
– Procurement of goods	**1,856,400**	–
Lease of certain property and office equipment	**1,950,240**	–

The above transactions constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

Notes to the financial statements (Continued)

16 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the CNTC Group and its associates and joint ventures *(Continued)*

As at 30 June 2019 and 31 December 2018, balances arising from the above transactions, which are unsecured and interest-free, are included in the following financial statement captions and summarised as follows:

	At 30 June 2019 HK$	At 31 December 2018 HK$
Trade receivables	**51,935,192**	371,469,774
Prepayments	**59,091,918**	21,738,051
Trade payables	**223,006,303**	789,171,121
Contract liabilities	**133,596,778**	–
Dividend payable	**192,949,668**	–

(b) Key management personnel remuneration

The remuneration of key management members, who are the Directors of the Company during the period, was as follows:

	Six months ended 30 June	
	2019 HK$	2018 HK$
Directors' fees	**540,590**	–
Salaries, allowances and benefits in kind	**2,801,121**	1,117,790
Retirement scheme contributions	**139,670**	26,545
	3,481,381	1,144,335

(c) Transactions with other state-controlled entities in the PRC

The Company has transactions with other state-controlled entities including but not limited to bank deposits. These transactions are conducted in the ordinary course of the Company's business.