



中煙國際(香港)有限公司

China Tobacco International (HK) Company Limited

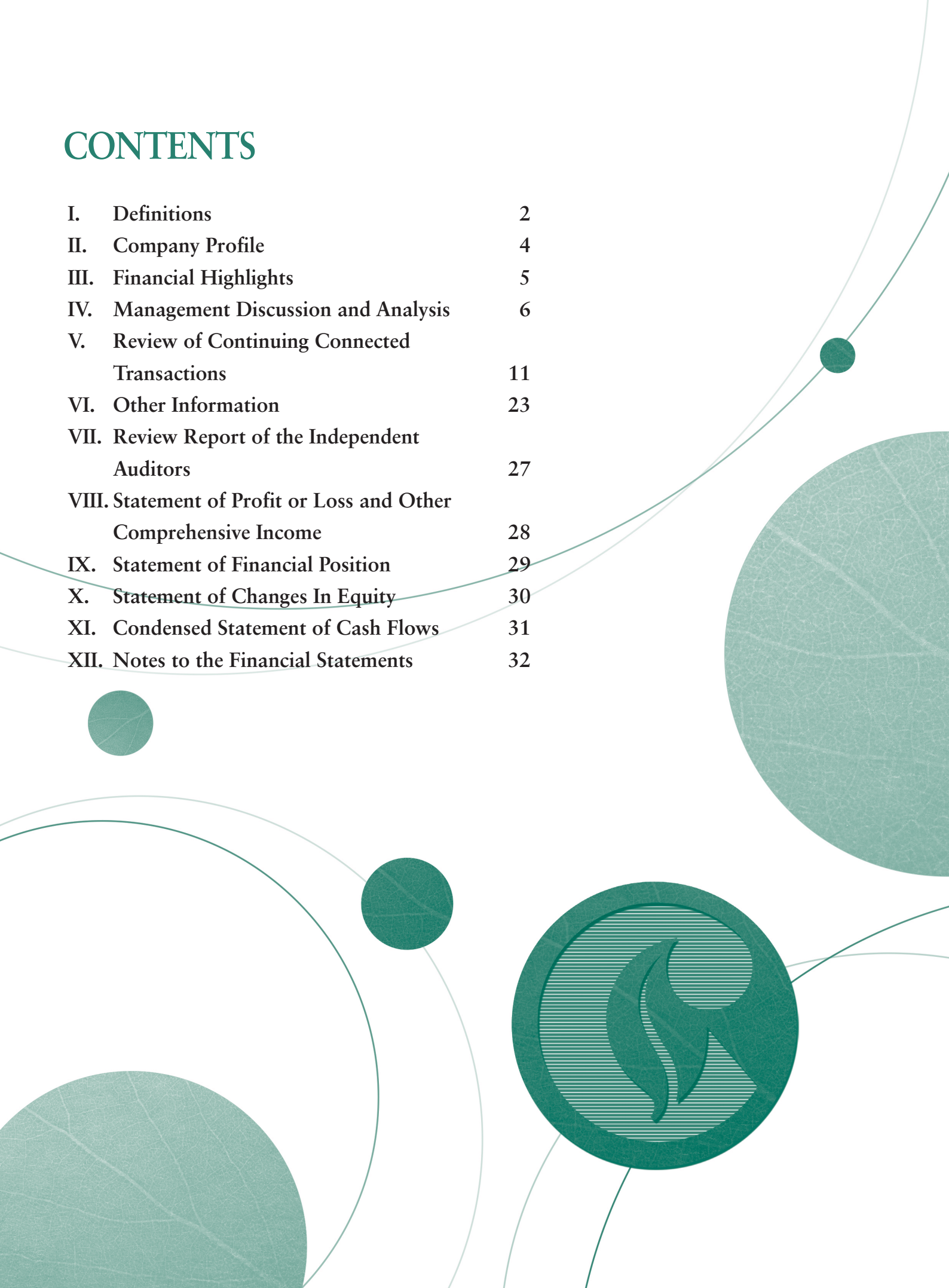
(Incorporated in Hong Kong with limited liability)

Stock code: 6055

2020
Interim Report

CONTENTS

I. Definitions	2
II. Company Profile	4
III. Financial Highlights	5
IV. Management Discussion and Analysis	6
V. Review of Continuing Connected Transactions	11
VI. Other Information	23
VII. Review Report of the Independent Auditors	27
VIII. Statement of Profit or Loss and Other Comprehensive Income	28
IX. Statement of Financial Position	29
X. Statement of Changes In Equity	30
XI. Condensed Statement of Cash Flows	31
XII. Notes to the Financial Statements	32





Definitions

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

“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 interim report only, references to “China” or the “PRC” do not include the Hong Kong, 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”, “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;
“Connected Transactions Control Committee”	the connected transactions control committee of the Board;
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“CTI”	China Tobacco International Inc.* (中國煙草國際有限公司), a company incorporated with limited liability in the PRC on 6 November 1984 and a wholly-owned subsidiary of CNTC;
“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;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong;
“Listing Date”	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;

* is for identification only.

Definitions (Continued)



“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended and supplemented or otherwise modified from time to time;
“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;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“STMA”	the State Tobacco Monopoly Administration of the PRC (國家煙草專賣局);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“U.S. dollars”	United States dollars, the lawful currency of the United States of America;
“%”	percent.



Company Profile

(as of 4 September 2020)

Name in Chinese:	中煙國際(香港)有限公司
Name in English:	China Tobacco International (HK) Company Limited
Chairman of the Board and Non-Executive Director:	SHAO Yan
Executive Directors:	YANG Xuemei, LI Yan, LIANG Deqing, WANG Chengrui
Independent Non-Executive Directors:	CHOW Siu Lui, WANG Xinhua, CHAU Kwok Keung, QIAN Yi
General Manager:	YANG Xuemei
Joint Company Secretaries:	WANG Chengrui, CHEUNG Kai Cheong Willie
Authorized Representatives:	YANG Xuemei, WANG Chengrui
Audit Committee:	CHOW Siu Lui (<i>Chairman</i>), WANG Xinhua, CHAU Kwok Keung
Remuneration Committee:	CHOW Siu Lui (<i>Chairman</i>), SHAO Yan, WANG Xinhua
Nomination Committee:	SHAO Yan (<i>Chairman</i>), CHOW Siu Lui, WANG Xinhua
Connected Transactions Control Committee:	WANG Xinhua (<i>Chairman</i>), CHAU Kwok Keung, QIAN Yi, YANG Xuemei
Strategic Development Committee:	SHAO Yan (<i>Chairman</i>), YANG Xuemei, LI Yan, CHOW Siu Lui
Headquarters, Registered Office and Principal Place of Business:	Room 1002, 10/F, Tower A, China Life Center, One Harbour Gate, 18 Hung Leun Road, Hung Hom, Kowloon, Hong Kong
Stock Abbreviation Name:	CTIHK
Stock Code:	6055
Legal Adviser:	Sullivan & Cromwell (Hong Kong) LLP
Compliance Adviser:	Anglo Chinese Corporate Finance, Limited
Auditor:	KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)
Hong Kong Share Registrar:	Computershare Hong Kong Investor Services Limited
Principal Bankers:	Industrial and Commercial Bank of China (Asia) Limited Bank of China (Hong Kong) Limited
Company's Website:	www.ctihk.com.hk

Financial Highlights



Items	Unit: HK\$	
	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited)
Revenue	1,884,554,445	3,931,019,863
Cost of sales	(1,810,295,168)	(3,745,542,563)
Gross profit	74,259,277	185,477,300
Other income, net	18,066,021	5,929,523
Administrative and other operating expenses	(26,625,182)	(33,262,679)
Finance costs	(782,933)	–
Profit before taxation	64,917,183	158,144,144
Income tax	(7,708,489)	(27,540,103)
Profit after taxation	57,208,694	130,604,041



Management Discussion and Analysis

The globally spreading COVID-19 pandemic has affected part of the business of the Company. Despite increased demand of the tobacco leaf products import business, the international supply chain was hampered under the pandemic and product delivery was delayed to varying degrees; the tobacco leaf products export business maintained stable operation due to effective organization; the duty-free cigarette business in our operating area was greatly impacted due to border closure measures that caused declined cross-border passengers; the new tobacco products export business kept growing through enhanced market expansion and product portfolio optimization.

Although the COVID-19 pandemic has caused certain short-term impacts on part of our businesses, we believe that this has neither harmed the essence of our business nor changed the fundamentals of our core business. During the first half of the year, we focused on building a forward-looking “resilient enterprise”, with all efforts and various measures to accumulate strength and fully prepare for a post-pandemic business rebound. Internally we created a stable operating mechanism amid the uncertain market environment, while externally we sought dual breakthroughs in capital operation and business innovation, pursuing “opportunities” amid “crisis”. In respect of corporate governance, aiming at building an internationalized management system, we overhauled all aspects of the whole process of the Company’s operation and management in an all-round manner to enhance our risk prevention and control ability while improving the operation efficiency. In respect of capital operation, as the exclusive overseas capital markets operation platform and international business expansion platform of CTI, facing fluctuations in the external environment including global finance, economy, trade and public health, the Company focused on the upstream and downstream of industry chain by taking active measures for resource re-allocation and systematically plan and deploy the capital operation following more prudent principles. In respect of business innovation, we took initiatives in formulating the strategy for international market expansion of China Tobacco’s Heat-Not-Burn cigarettes (HNB), improved the ability to concentrate and integrate resources in new tobacco products advance integration among research, manufacturing and sales links, striving to establish a closed-loop industry ecosystem for new tobacco products. In respect of company operation, we coped with pandemic impacts with agility and flexibility and proactively implemented various measures to “reduce costs and enhance efficiency”. In respect of undertaking social responsibilities, concerned about the economic development and employment of Hong Kong, we timely launched internship programs under the pandemic. In respect of occupational health and safety, we formulated and implemented the Company’s pandemic prevention plan, to provide epidemic prevention and psychological counseling for employees and their families; and improved the office environment, creating a comfortable and environmentally friendly office atmosphere. In respect of the career development of employees, we hired professional advisors to optimize our human resource management system, setting up a people-oriented remuneration scheme and career paths; we conducted various trainings on occupational skills and laws and regulations, to improve staff’s comprehensive competency.

The development of four major business segments of the Company are set out below.

Management Discussion and Analysis (Continued)



I. TOBACCO LEAF PRODUCTS EXPORT BUSINESS

Business Overview

In 2019, while the output of major tobacco producing regions around the world was at a relatively high level, the scale of cigarette sales continued to show an overall slight downward trend, resulting in intensified competition in the raw material market this year. Benefited from the long-term close cooperation with our major customers in Southeast Asia, this business remained stable.

Operation Initiatives

1. **Adjusting the delivery schedule flexibly to reduce pandemic impacts.** Due to the pandemic in the origin in the first quarter of 2020, logistics was less efficient. Due to our timely response, strengthened communication with customers and adjustment to the delivery schedule, the delivery volume recorded a slight increase in the first half of the year as compared with the same period of last year.
2. **Establishing online business procedures to sustain business stability.** Under the pandemic, the Company proactively adopted a combination of online business procedure management and offline order sample delivery to simplify business procedure and to improve communication efficiency, minimized the impacts of the pandemic as much as possible, thus maintained normal business operation.
3. **Consolidating key markets and establishing long-term partnerships.** Aiming at key markets such as Indonesia, Vietnam and Hong Kong and customer resources, and leveraging stable partnerships established over years, we strived to reach long-term supply agreements with customers so that we could reach a consensus with suppliers in advance based on the level and quality requirements of customers' orders, to ensure prior guarantee for the quality and price level of the goods while effectively lowering operational risks in the future.

Results of the Period

- The export volume reached 38,038 tons, representing an increase of 2,031 tons or 5.6% on a year-on-year basis.
- The operating revenue reached HK\$1,037.2 million, representing an increase of HK\$15.1 million or 1.5% on a year-on-year basis.
- The gross profit reached HK\$24.2 million, representing a decrease of HK\$1.5 million or 5.8% on a year-on-year basis.

Prospects for the second half of the year

Recently, as certain production sites in Southeast Asia gradually resumed operation and production, production and delivery are expected to further restore in the second half year. However, economic activities may continue to be adversely affected due to the uncertainty of the pandemic. Coupled with the unfavorable policy of rising cigarette tax in Indonesia, customers tend to be more conservative when procuring tobacco leaf products. The Company will continue to maintain close cooperation with key customers and actively collaborate with suppliers based on customer needs to ensure smooth supply and delivery.

Management Discussion and Analysis (Continued)

II. TOBACCO LEAF PRODUCTS IMPORT BUSINESS

Business Overview

The output of major tobacco producing countries around the world remains stable, roughly at the same level as the same period in 2019. Due to the severe pandemic in South America, the procurement and processing in some producing areas slowed down. Domestic cigarette manufacturers' demand for tobacco leaf grows.

Operation Initiatives

1. **Actively coping with the global pandemic impact by making emergency plans and adjusting business model.** Faced with the global pandemic impacts and challenges, we overcame difficulties that sampling, processing, procurement negotiation and preliminary examination could not be conducted timely on site, and developed emergency plans for procurement in different countries, to ensure steady progress of sampling and processing. We also actively negotiated with relevant regulatory departments to adjust phytosanitary process, successfully overcoming the major bottleneck in the import of tobacco leaf.
2. **Optimizing business processes to meet customer needs.** We constantly optimized business operation processes to boost efficiency in all links along the supply chain. We provided domestic users with global quality raw materials and market information and constantly expanded supply channels and categories.

Results of the Period

- The import volume reached 12,278 tons, representing a decrease of 26,837 tons or 68.6% on a year-on-year basis.
- The operating revenue reached HK\$794.5 million, representing a decrease of HK\$1,379.8 million or 63.5% on a year-on-year basis.
- The gross profit reached HK\$43.4 million, representing a decrease of HK\$78.2 million or 64.3% on a year-on-year basis.

Prospects for the second half of the year

In the second half of 2020, the Company will actively cooperate with the regulatory departments and constantly optimize the progress and efficiency of business operation, striving to ensure the delivery of more products. Affected by fluctuation in exchange rates, the supply price of flue-cured tobacco from Brazil is expected to decline, which may adversely affect the annual results of this business segment since the Company's income therefrom is multiplied by a fixed proportion based on the supply price.

As the global pandemic has not been fully contained, imported tobacco leaf products produced in countries such as Brazil, Zambia, Malawi and Tanzania are vulnerable to seasonality factors including purchase period, processing period and shipment schedule. The Company will unremittingly enhance communication and cooperation with suppliers and customers while adjusting the import pace and optimizing business process to set off the effect of seasonality factors on tobacco leaf import business.

Management Discussion and Analysis (Continued)



III. CIGARETTES EXPORT BUSINESS

Business Overview

Due to the pandemic impact, global duty-free cigarette sales significantly declined. Governments in our operating areas have successively imposed crowd restrictions and border control since the beginning of the year. The duty-free shops in Thailand, Singapore, Hong Kong and Macau as well as those within the borders but outside the customs area of China gradually closed or shortened their business hours, leading to significant decrease in both customer flow and sales volume on a year-on-year basis and severely disturbing the economy and consumption activities. Singapore's new regulation on cigarette packaging also influenced the local market.

Operation Initiatives

1. **Lowering costs and actively responding to pandemic shock.** The Company continued to lower operating costs. In 2020, purchasing costs of cigarettes decreased as compared with those of last year and profitability improved steadily, laying a solid foundation for growth in this segment upon duty-free market recovery. Meanwhile, we controlled expenditure to lower the sales costs.
2. **Unleashing potentials and vigorously exploring new channels.** The Company swiftly adjusted our cigarette operation focus to exploring new channels in our operating areas and stepped up efforts in brand and product marketing.

Results of the Period

- The export volume reached 127,045 thousand sticks, representing a decrease of 1,620,580 thousand sticks or 92.7% on a year-on-year basis.
- The operating revenue reached HK\$49.3 million, representing a decrease of HK\$683.5 million or 93.3% on a year-on-year basis.
- The gross profit reached HK\$6.7 million, representing a decrease of HK\$31.5 million or 82.6% on a year-on-year basis.

Prospects for the second half of the year

The Company will closely monitor the pandemic and changes in consumer behaviors, swiftly respond to markets in line with the local pandemic-control measures, enhance expansion of channels and markets and accelerate destocking; continue to deepen communication and cooperation with duty-free operators, formulate differentiated post-recovery market expansion and vitalization plans according to different conditions in all regions within our business areas; and mitigate the impact of the pandemic on cigarette sales and continue to build resilience for the future sustainable development of cigarettes.

Management Discussion and Analysis (Continued)

IV. NEW TOBACCO PRODUCTS EXPORT BUSINESS

Business Overview

Sales volume, revenue and gross profit of the business recorded a growth compared to the same period of last year. Currently, global demand for new tobacco products as well as production and sales volume thereof kept increasing. The Company would seize the opportunity to take full advantage of the exclusive platform to actively seek new technologies, new ideas and new markets, pursuing positive development in this business segment.

Operation Initiatives

1. **Building brand portfolio.** The Company actively promoted building of proprietary brand systems of new tobacco products, seeking to integrate upstream and downstream resources of China Tobacco's new tobacco products through brand building.
2. **Establishing platforms of empowerment.** As an exclusive platform for export of new tobacco products to overseas market worldwide, we centralized information, data, technologies, regulations and standards of the industry, removed barriers among R&D, production and markets, bridged supply and demand within and outside the country, explored new models of resource synergy, and enhanced commercialization capability, creating momentum for the platforms.

Results of the Period

- The export volume reached 15,900 thousand sticks, representing an increase of 10,000 thousand sticks or 169.5% on a year-on-year basis.
- The operating revenue reached HK\$3.6 million, representing an increase of HK\$1.8 million or 93.2% on a year-on-year basis.
- The gross profit reached HK\$43.5 thousand, representing an increase of HK\$22.2 thousand or 104.8% on a year-on-year basis.

Prospects for the second half of the year

For the second half of the year, the Company will continue to improve the basic management system of new tobacco products, expand new target markets, accelerate product upgrading, strengthen innovation on product supply side, continuously enlarge the proportions of the Company's revenue and profit generated from new tobacco products, hence optimizing the business structure and strengthening the risk resistance ability of the Company.

Review of Continuing Connected Transactions

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 six months ended 30 June 2020 (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\$796.47 million and HK\$1,052.57 million, respectively, accounting for approximately 42.26% and 62.66% 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, as of 30 June 2020, we and CTI have entered into a Tobacco Leaf Products Import Business Exclusive Operation and Long-Term Supply Framework Agreement (the “**Tobacco Leaf Products Import Framework Agreement**”), pursuant to which we sell imported tobacco leaf products to CTI as part of the Tobacco Leaf Products Import Business. The term of the Tobacco Leaf Products Import Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and CTI

Pricing Policies

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

$$P = A \times 1.06$$

Where

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

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

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 amount of the Sale Transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK\$794.49 million, accounting for approximately 100.00% 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, as of 30 June 2020, we and each of the relevant entities under CNTC have entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the “**Tobacco Leaf Products Export Framework Agreements**”), pursuant to which we procure tobacco leaf products from such connected persons. The term of each Tobacco Leaf Products Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- Shanghai Tobacco Group Co., Ltd. (上海煙草集團有限責任公司);
- Zhejiang China Tobacco Industrial Co., Ltd. (浙江中煙工業有限責任公司);
- Yunnan China Tobacco Industrial Co., Ltd. (雲南中煙工業有限責任公司);
- Fujian China Tobacco Industrial Co., Ltd. (福建中煙工業有限責任公司);
- China Tobacco Yunnan Import and Export Co., Ltd. (中國煙草雲南進出口有限公司);
- China Tobacco Sichuan Import and Export Co., Ltd. (中國煙草四川進出口有限責任公司);

Review of Continuing Connected Transactions (Continued)



- China Tobacco Shandong Import and Export Co., Ltd. (中國煙草山東進出口有限責任公司);
- China Tobacco Guangdong Import and Export Co., Ltd. (中國煙草廣東進出口有限公司);
- China Tobacco Henan Import and Export Co., Ltd. (中國煙草河南進出口有限責任公司);
- China Tobacco Hubei Import and Export Co., Ltd. (中國煙草湖北進出口有限責任公司);
- China Tobacco Hunan Import and Export Co., Ltd. (中國煙草湖南進出口有限責任公司);
- China Tobacco Fujian Import and Export Co., Ltd. (中國煙草福建進出口有限責任公司);
- China Tobacco Guizhou Import and Export Co., Ltd. (中國煙草貴州進出口有限責任公司);
- China Tobacco Liaoning Import and Export Company (中國煙草遼寧進出口公司);
- China Tobacco Heilongjiang Import and Export Co., Ltd. (中國煙草黑龍江進出口有限責任公司);
- Xinjiang Tobacco Import and Export Co., Ltd. (新疆煙草進出口有限責任公司);
- Zhejiang Tobacco Import and Export Co., Ltd. (浙江煙草進出口有限公司);
- Shenzhen Tobacco Import and Export Co., Ltd. (深圳煙草進出口有限公司); and
- Shaanxi Tobacco Import and Export Co., Ltd. (陝西煙草進出口有限責任公司).

Review of Continuing Connected Transactions (Continued)

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:

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

Where

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

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

The price at which the Company sells tobacco leaf products to third party customers is determined through arm's length negotiation between the parties. Specifically, our sales prices comprise: (i) our suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products (for example, the premium of tobacco leaf products produced in Yunnan Province is usually considered higher due to the different 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.

Review of Continuing Connected Transactions (Continued)



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 Export Business was HK\$1,012.98 million, accounting for approximately 100.00% of the total purchase of our Tobacco Leaf Products Export Business.

C. Procurement Transactions in the Cigarettes Export Business

As of 30 June 2020, we and each of the relevant entities under CNTC have entered into the Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the “Cigarettes Export Framework Agreements”), pursuant to which we procure duty-free cigarettes from our connected persons. The term of each Cigarettes Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- Sichuan China Tobacco Industrial Co., Ltd. (四川中煙工業有限責任公司);
- Anhui China Tobacco Industrial Co., Ltd. (安徽中煙工業有限責任公司);
- Jiangsu China Tobacco Industrial Co., Ltd. (江蘇中煙工業有限責任公司);
- Henan China Tobacco Industrial Co., Ltd. (河南中煙工業有限責任公司);
- Zhejiang China Tobacco Industrial Co., Ltd. (浙江中煙工業有限責任公司);
- Shenzhen Tobacco Import and Export Co., Ltd. (深圳煙草進出口有限公司);
- Hubei China Tobacco Industrial Co., Ltd. (湖北中煙工業有限責任公司);
- Hunan China Tobacco Industrial Co., Ltd. (湖南中煙工業有限責任公司);
- Guizhou China Tobacco Industrial Co., Ltd. (貴州中煙工業有限責任公司);
- Shaanxi China Tobacco Industrial Co., Ltd. (陝西中煙工業有限責任公司);
- Guangdong China Tobacco Industrial Co., Ltd. (廣東中煙工業有限責任公司);
- Hongta Liaoning Tobacco Co., Ltd. (紅塔遼寧煙草有限責任公司);
- Shanghai Tobacco Group Co., Ltd. (上海煙草集團有限責任公司);
- Shandong China Tobacco Industrial Co., Ltd. (山東中煙工業有限責任公司);

Review of Continuing Connected Transactions (Continued)

- Chongqing China Tobacco Industrial Co., Ltd. (重慶中煙工業有限責任公司);
- Yunnan China Tobacco Industrial Co., Ltd. (雲南中煙工業有限責任公司);
- Jilin China Tobacco Industrial Co., Ltd. (吉林煙草工業有限責任公司);
- Guangxi China Tobacco Industrial Co., Ltd. (廣西中煙工業有限責任公司);
- Hebei China Tobacco Industrial Co., Ltd. (河北中煙工業有限責任公司); and
- Jiangxi China Tobacco Industrial Co., Ltd. (江西中煙工業有限責任公司).

Pricing Policies

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

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

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

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

Review of Continuing Connected Transactions (Continued)



(ii) *Other Duty-Free Cigarettes*

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

Subsequently, similar as described above for premium and other first tier duty-free cigarettes, we determine sales prices of other duty-free cigarettes through arm's length negotiation with our customers in our proprietary business. With respect to customers in our Incremental Business, we currently determine sales prices by adding an applicable margin scale. In general, our current applicable margin scale per every ten thousand cigarettes is not less than 1% to procurement prices below US\$300, not less than 2% to procurement prices equal to or above US\$300 but below US\$600, and not less than 5% to procurement prices equal to or above US\$600, respectively.

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.

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the Procurement Transactions which constitute connected transactions in the Cigarettes Export Business was HK\$36.01 million, accounting for approximately 92.41% of the total purchase of our Cigarettes Export Business.

D. Procurement Transactions in the New Tobacco Products Export Business

As of 30 June 2020, we and each of the relevant entities under CNTC have entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the “**New Tobacco Products Export Framework Agreements**”), pursuant to which we procure new tobacco products from such connected persons as part of our New Tobacco Products Export Business. The term of each New Tobacco Products Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- Shandong China Tobacco Industrial Co., Ltd. (山東中煙工業有限責任公司);
- Henan China Tobacco Industrial Co., Ltd. (河南中煙工業有限責任公司);
- Heilongjiang China Tobacco Industrial Co., Ltd. (黑龍江煙草工業有限責任公司);
- Chongqing China Tobacco Industrial Co., Ltd. (重慶中煙工業有限責任公司);



Review of Continuing Connected Transactions (Continued)

- Shanghai Tobacco Group Co., Ltd. (上海煙草集團有限責任公司);
- Yunnan China Tobacco Industrial Co., Ltd. (雲南中煙工業有限責任公司);
- Guangdong China Tobacco Industrial Co., Ltd. (廣東中煙工業有限責任公司);
- Sichuan China Tobacco Industrial Co., Ltd. (四川中煙工業有限責任公司);
- Anhui China Tobacco Industrial Co., Ltd. (安徽中煙工業有限責任公司);
- Jiangsu China Tobacco Industrial Co., Ltd. (江蘇中煙工業有限責任公司);
- Zhejiang China Tobacco Industrial Co., Ltd. (浙江中煙工業有限責任公司);
- Hubei China Tobacco Industrial Co., Ltd. (湖北中煙工業有限責任公司);
- Hunan China Tobacco Industrial Co., Ltd. (湖南中煙工業有限責任公司);
- Shenzhen Tobacco Industrial Co., Ltd. (深圳煙草工業有限責任公司); and
- Jilin China Tobacco Industrial Co., Ltd. (吉林煙草工業有限責任公司).

Pricing Policies

With respect to our New Tobacco Products Export Business, (i) it is an emerging business worldwide; and (ii) since sale of heat-not-burn tobacco products is currently prohibited within the borders of China, there is no reference price on domestic sale of new tobacco products for relevant domestic suppliers. Thus, to ensure fair dealings the Company contacts potential third party customers in the international markets and 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:

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

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.

Review of Continuing Connected Transactions (Continued)



The prices at which the Company sells new tobacco products are determined through arm's length negotiation with third party customers. Specifically, our sales prices comprise: (i) our suppliers' costs associated with the manufacturing of new tobacco products, which include cost of raw material, storage expenses, research and development expenses or patent royalties, staff costs, utility cost, rent of factory premises and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium or discount in relation to product quality and the corresponding market status of a particular brand of new tobacco products; and (iv) other factors, including sales price of competitors, marketing strategies of the Company (such as offering competitive price to expand market presence), prevailing supply and demand in relevant new tobacco products market, and relationship with the relevant counterparties. New tobacco products are not subject to any export tariff. Currently, the margins 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.

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 amount of the Procurement Transactions which constitute connected transactions in the New Tobacco Products Export Business was HK\$3.58 million, accounting for approximately 100.00% of the total purchase of our New Tobacco Products Export Business.

E. Procurement Transactions in the Tobacco Leaf Products Import Business

To facilitate the procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT, as of 30 June 2020, we have entered into the 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. The term of each of the Offshore Supply Framework Agreements shall be three years. Upon expiration, the parties may negotiate to extend the term of such agreement by another three years. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation.

Parties

The Company and each of CTI North America, CTI Argentina and CBT.

Review of Continuing Connected Transactions (Continued)

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\$Nil, accounting for approximately 0.00% of the total purchase of our Tobacco Leaf Products Import Business.

F. Agency Business in the Sales of Tobacco Leaf Products

We act as an agent in certain sale transactions of tobacco leaf products as part of our Tobacco Leaf Products Export Business, from which we record a commission of less than 1% of the contract amount as revenue in most of such transactions. To facilitate our agency business, as of 30 June 2020, we and each of the relevant customers in the transactions where we acted as an agent (all of them being subsidiaries of CNTC) have entered into Tobacco Leaf Products Export Agency Agreements (the "Tobacco Leaf Products Export Agency Agreements"), pursuant to which we 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. The term of each of the Tobacco Leaf Products Export Agency Agreement shall be three years. Upon expiration, the parties may negotiate to extend the term of such agreement by another three years. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation.

Parties

The Company and each of the entities under CNTC below:

- Viniton Group Co., Ltd.;
- PT Kolang Citra Abadi;
- Bang Kang Cigarette Factory, Myanmar;
- Lao-China Hongta Good Luck Tobacco Co., Ltd.;



Review of Continuing Connected Transactions (Continued)

- Golden Leaf (Macau) Tobacco's Manufacturing Ltd.; and
- Hong Kong Hongta International Tobacco Company Limited.

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 amount of the Agency Business which constitute connected transactions in the Sales of Tobacco Leaf Products (in terms of commission) was HK\$1.01 million, accounting for approximately 0.10% of the total revenue of our Tobacco Leaf Products Export Business.

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

The independent non-executive Directors of the Company (the "INEDs") have reviewed the continuing connected transactions conducted by the Company during the Reporting Period. In particular, to ensure the fairness of the Continuing Connected Transactions, the INEDs have performed the following works: (i) reviewed the interim financial information of the Company to understand the Continuing Connected Transactions entered into during the Reporting Period; (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) reviewed the report of the independent financial adviser of continuing connected transactions of types A, B, C and D above (the "CCTs of Indefinite Term") during the Reporting Period; (iv) convened the special meetings of the Connected Transactions Control Committee to discuss the review conducted by the Connected Transactions Control Committee of the Continuing Connected Transactions during the Reporting Period (the "Review") and the review opinions on the CCTs of Indefinite Term jointly with the independent financial adviser; (v) reviewed the interim financial statements of the Company for the Reporting Period with disclosure note on related party transactions included therein; and (vi) convened the special meetings of the Connected Transactions Control Committee to enquire the management about its control measures and implementations in relation to the Continuing Connected Transactions.

The aggregate transaction amount of the CCTs of Indefinite Term which have been covered by the Review are approximately HK\$419.3 million, HK\$555.8 million, HK\$35.8 million and HK\$2.3 million, respectively, representing not less than 50% of the total transaction amount of each type of transactions during the Reporting Period.

Review of Continuing Connected Transactions (Continued)

In addition to the above works, the INEDs have confirmed that during the Reporting Period, the Continuing Connected Transactions had been entered into: (i) in the ordinary and usual course of business of the 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 the Shareholders as a whole.

REVIEW OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER

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

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

In addition, the Company has engaged Somerley to review the continuing connected transactions of type E and type F above for the Reporting Period. However, since there has been no transaction of type E above during the Reporting Period, Somerley has not conducted any review on the transaction of type E above. Somerley has confirmed that the continuing connected transactions of type F above during the Reporting Period have been entered into: 1) in the ordinary and usual course of business of the Company; 2) on normal commercial terms or better to the Company; and 3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERIM DIVIDEND

The Board does not recommend a payment of any interim dividend for the six months ended 30 June 2020 to the Shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Total assets of the Company amounted to HK\$1,987.51 million as at 30 June 2020 (as at 31 December 2019: HK\$2,869.80 million). The Company had cash and cash equivalents of HK\$1,609.25 million as at 30 June 2020. 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\$437.53 million as at 30 June 2020 (as at 31 December 2019: HK\$1,266.35 million).

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

As at 30 June 2020, the Company did not have any bank borrowing (as at 31 December 2019: Nil). Gearing ratio was not applicable to the Company as the Company did not have any bank borrowing as at 30 June 2020. As at 30 June 2020, the Company had current ratio (being the current assets divided by the current liabilities) of 4.68 (as at 31 December 2019: 2.28).

SIGNIFICANT INVESTMENTS

As at 30 June 2020, the Company did not hold any significant investments.

MATERIAL ACQUISITION AND DISPOSAL

The Company did not conduct any material acquisition or disposal of any subsidiary, associate or joint venture during the six months ended 30 June 2020.

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 2020. The Company entered into transactions in U.S. dollars and did not enter into any hedging arrangements during the six months ended 30 June 2020.

PLEDGE OF ASSET

As at 30 June 2020, the Company did not pledge any assets (31 December 2019: Nil).

CONTINGENT LIABILITIES

As at 30 June 2020, the Company did not have significant contingent liabilities.

Other Information (Continued)

EMPLOYEES

As at 30 June 2020, we had 30 (31 December 2019: 30) 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

As at the date of this interim report, there is no major event after 30 June 2020 that is required to be disclosed by the Company.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

On the Listing Date, the Company initially issued 166,670,000 Shares to the public at a price of HK\$4.88 per Share, the total gross proceeds of which amounted to approximately HK\$813 million, and the Shares were listed on the Main Board of the Stock Exchange (the "Listing"). On 4 July 2019, the Company fully exercised the Over-allotment Option (as defined in the Prospectus) and issued 25,000,000 Shares at a price of HK\$4.88 per Share, 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 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 2020 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 31 December 2019 (HK\$ million)	Amount utilised for the six months ended 30 June 2020 (HK\$ million)	Unutilised amount as at 30 June 2020 (HK\$ million)	Expected timeline
Making investments and acquisitions that are complementary to the Company's business	45%	406.8	-	0	406.8	As of the date of this interim report, the Company had no finalised or definitive negotiations for investment or acquisition.
Supporting the ongoing growth of the Company's business	20%	180.8	1.1	0.5	179.2	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	0.2	0	180.6	Remainder to be utilised by 30 June 2022.
General working capital	10%	90.4	90.4	0	0	-
Improving the Company's management of purchase and sales resources and optimizing the Company's operational management	5%	45.2	6.8	7.1	31.3	Remainder to be utilised by 30 June 2022.
Total	100%	904.0	98.5	7.6	797.9	

Other Information (Continued)



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

As at 30 June 2020, 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 2020 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 2020, 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)	CTIG	Beneficial owner	500,010,000	72.29%
(ii)	CTI ¹	Interest in a controlled corporation	500,010,000	72.29%
(iii)	CNTC ¹	Interest in a controlled corporation	500,010,000	72.29%

Notes:

- In light of the fact that CNTC and CTI directly or indirectly control one third or more of the voting rights in the shareholders' meetings of CTIG, in accordance with the SFO, the interests of CTIG are deemed to be, and have therefore been included in, the interests of CNTC and CTI.
- As at 30 June 2020, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 30 June 2020, 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

Changes in directors' biographical details since the date of the 2019 annual report of the Company are set out below:

Mr. ZHANG Hongshi (張宏實) resigned as an executive Director, the General Manager and an Authorized Representative of the Company with effect from 17 March 2020.

Ms. YANG Xuemei (楊雪梅), one of our executive Directors, was re-designated from the Vice General Manager to the General Manager and an Authorized Representative of the Company with effect from 17 March 2020.

Ms. LI Yan (李妍) was appointed as an executive Director and a Vice General Manager of the Company with effect from 17 March 2020.

Mr. LIANG Deqing (梁德清) was appointed as an executive Director and a Vice General Manager of the Company with effect from 17 March 2020.

Mr. CHAU Kwok Keung (鄒國強), one of our independent non-executive Directors, resigned as an executive director, the chief financial officer, a member of the Corporate Governance Committee of the Board of Directors and a member of the Significant Payments Committee of the Board of Directors of Comtec Solar Systems Group Limited (卡姆丹克太陽能系統集團有限公司) with effect from 31 January 2020; and resigned as an authorised representative and the company secretary of Comtec Solar Systems Group Limited with effect from 5 May 2020.

Mr. CHAU Kwok Keung became a fellow member of Australia Institute of Public Accountants (FIPA) of Institute of Public Accountants (IPA), Australia on 6 June 2020.

Save as disclosed above and in the relevant announcements of the Company dated 17 March 2020, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

During the six months ended 30 June 2020, the Company did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee reviewed the unaudited interim results of the Company for the six months ended 30 June 2020 and the accounting principles and practices adopted by the Company, and discussed internal control and financial report matters.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2020, the Company has complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standard set out in the Model Code during the six months ended 30 June 2020.

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 2019 annual report of the Company.

Review Report of the Independent Auditors



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 28 to 44 which comprises the statement of financial position of China Tobacco International (HK) Company Limited (the “Company”) as of 30 June 2020 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-month 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 2020 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

28 August 2020



Statement of profit or loss and other comprehensive income

	Note	Six months ended 30 June	
		2020 HK\$	2019 HK\$
Revenue	4	1,884,554,445	3,931,019,863
Cost of sales		(1,810,295,168)	(3,745,542,563)
Gross profit		74,259,277	185,477,300
Other income, net	5	18,066,021	5,929,523
Administrative and other operating expenses		(26,625,182)	(33,262,679)
Profit from operations		65,700,116	158,144,144
Finance costs	6(a)	(782,933)	–
Profit before taxation	6	64,917,183	158,144,144
Income tax	7	(7,708,489)	(27,540,103)
Profit and total comprehensive income for the period		57,208,694	130,604,041
Earnings per share			
– Basic and diluted	9	0.08	0.25

The notes on pages 32 to 44 form part of this interim financial report.

Statement of financial position



	Note	At 30 June 2020 HK\$	At 31 December 2019 HK\$
Non-current assets			
Property and equipment	10	46,841,736	41,010,570
Rental deposit		1,930,132	1,930,132
		48,771,868	42,940,702
Current assets			
Inventories	11	106,905,007	237,329,901
Trade and other receivables	12	222,584,855	851,545,243
Cash and cash equivalents	13	1,609,247,528	1,737,979,196
		1,938,737,390	2,826,854,340
Current liabilities			
Trade and other payables	14	355,270,347	1,153,175,011
Lease liabilities		8,086,389	7,546,348
Current tax payable		50,516,993	78,902,716
		413,873,729	1,239,624,075
Net current assets		1,524,863,661	1,587,230,265
Total assets less current liabilities		1,573,635,529	1,630,170,967
Non-current liabilities			
Lease liabilities		21,173,150	24,306,534
Provision for reinstatement costs		2,480,979	2,422,927
		23,654,129	26,729,461
NET ASSETS		1,549,981,400	1,603,441,506
Capital and reserves			
Share capital	15	1,403,721,280	1,403,721,280
Reserves		146,260,120	199,720,226
TOTAL EQUITY		1,549,981,400	1,603,441,506

The notes on pages 32 to 44 form part of this interim financial report.



Statement of changes in equity

	Note	Share capital HK\$ (note 15)	Retained earnings HK\$	Total HK\$
Balance at 1 January 2019		500,010,000	73,744,424	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
Issue of shares in connection with the initial public offering		784,759,874	–	784,759,874
Dividend	8	–	(192,949,668)	(192,949,668)
Balance at 30 June 2019		1,284,769,874	11,398,797	1,296,168,671
Balance at 1 January 2020		1,403,721,280	199,720,226	1,603,441,506
Changes in equity for the six months ended 30 June 2020:				
Profit and total comprehensive income for the period		–	57,208,694	57,208,694
Dividend	8	–	(110,668,800)	(110,668,800)
Balance at 30 June 2020		1,403,721,280	146,260,120	1,549,981,400

The notes on pages 32 to 44 form part of this interim financial report.

Condensed statement of cash flows



	Note	Six months ended 30 June	
		2020 HK\$	2019 HK\$
Operating activities			
Cash generated from operations	13(b)	28,109,910	170,832,786
Tax paid:			
– Hong Kong Profits Tax paid		(36,094,212)	–
Net cash (used in)/generated from operating activities		(7,984,302)	170,832,786
Investing activities			
Payment for purchase of property and equipment		(9,649,177)	(44,500)
Interest received		2,888,835	5,986,014
Net cash (used in)/generated from investing activities		(6,760,342)	5,941,514
Financing activities			
Gross proceeds from issuance of shares		–	813,349,600
Payment of listing expenses		–	(18,690,466)
Dividend distribution		(110,668,800)	–
Other financing activities		(3,318,224)	–
Net cash (used in)/generated from financing activities		(113,987,024)	794,659,134
Net (decrease)/increase in cash and cash equivalents		(128,731,668)	971,433,434
Cash and cash equivalents at 1 January		1,737,979,196	650,995,191
Cash and cash equivalents at 30 June		1,609,247,528	1,622,428,625

The notes on pages 32 to 44 form part of this interim financial report.



Notes to the financial statements

1 GENERAL INFORMATION

China Tobacco International (HK) Company Limited (the “Company”) is incorporated in Hong Kong as a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) after completion of its initial public offering (“IPO”) on 12 June 2019 (“the Listing Date”). 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 controlling company of the Company.

The Company is 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”); and
- export of new tobacco products 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 28 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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.

Notes to the financial statements (Continued)

2 BASIS OF PREPARATION *(continued)*

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 2019 annual financial statements. 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 27.

The financial information relating to the financial year ended 31 December 2019 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 but is derived from those financial statements. 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:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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 Company has applied the following amendment to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

The amendment to HKFRS 16 provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Company has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Company during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020. During the interim period, the Company is entitled to COVID-19-related rent concessions of HK\$100,000.

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	
	2020	2019
	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	1,036,148,312	1,020,714,015
– Import sales of tobacco leaf products	794,487,140	2,174,253,924
– Export sales of cigarettes	49,277,555	732,786,485
– Sales of new tobacco products	3,628,404	1,877,655
– Others	1,013,034	1,387,784
	1,884,554,445	3,931,019,863

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	
	2020	2019
	HK\$	HK\$
The PRC	824,043,482	2,770,754,716
Republic of Indonesia	727,458,085	572,828,738
Republic of the Philippines	129,634,574	189,163,767
Hong Kong	124,349,155	192,517,801
Socialist Republic of Vietnam	47,516,006	65,526,876
Singapore	12,768,548	64,814,635
Others	18,784,595	75,413,330
	1,884,554,445	3,931,019,863

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: 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 Products Export Business: export of new tobacco products 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 and equipment, cash and cash equivalents, 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 and finance costs that 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\$
<i>For the six months ended 30 June 2020</i>						
Reportable segment revenue	1,037,161,346	794,487,140	49,277,555	3,628,404	–	1,884,554,445
Reportable segment gross profit	24,185,116	43,372,323	6,658,314	43,524	–	74,259,277
Interest income					18,199,068	18,199,068
Depreciation					(4,968,705)	(4,968,705)
Other corporate expenses					(21,789,524)	(21,789,524)
Finance costs					(782,933)	(782,933)
Profit before taxation						64,917,183
Income tax expense						(7,708,489)
Profit for the period						57,208,694
<i>At 30 June 2020</i>						
Reportable segment assets	135,489,974	122,780,171	43,445,128	–	1,685,793,985	1,987,509,258
Reportable segment liabilities	211,765,601	124,105,700	11,427,770	5,151,588	85,077,199	437,527,858

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\$
<i>For the six months ended 30 June 2019</i>						
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
<i>At 31 December 2019</i>						
Reportable segment assets	172,710,056	799,982,942	102,413,797	–	1,794,688,247	2,869,795,042
Reportable segment liabilities	312,991,813	824,287,400	4,796,089	537,030	123,741,204	1,266,353,536

5 OTHER INCOME, NET

	Six months ended 30 June	
	2020 HK\$	2019 HK\$
Net exchange losses	(133,047)	–
Interest income	18,199,068	5,929,523
	18,066,021	5,929,523

Notes to the financial statements (Continued)

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2020	2019
	HK\$	HK\$
Interest on lease liabilities	724,881	–
Interest on provision for reinstatement costs	58,052	–
	782,933	–

(b) Other items

	Six months ended 30 June	
	2020	2019
	HK\$	HK\$
Depreciation		
– owned property and equipment	1,393,255	73,062
– right-of-use assets	3,575,450	–
	4,968,705	73,062
Expenses related to a short-term lease	650,080	1,950,240
Cost of inventories	1,810,295,168	3,745,542,563

7 INCOME TAX

Income tax for the six months ended 30 June 2020 and 2019 represents provision of Hong Kong Profits Tax for the periods.

The provision for Hong Kong Profits Tax for current reporting period is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the six months ended 30 June 2020.

Notes to the financial statements (Continued)



8 DIVIDENDS

Final dividend attributable to owners of the Company in respect of 2019 of HK\$16 cents per share amounting to a total of HK\$110,668,800 was approved by the shareholders at the Annual General Meeting on 28 May 2020 and paid during the six months ended 30 June 2020.

On 17 May 2019, CTIG, the then sole shareholder of the Company, 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 was 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. The special dividend was accounted for in the interim financial report for the six months ended 30 June 2019 as all the Conditions Precedent have been fulfilled as at that date.

The Directors do not recommend a payment of any other interim dividend for the six months ended 30 June 2020 and 2019.

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 2020 of HK\$57,208,694 (six months ended 30 June 2019: HK\$130,604,041) and the weighted average of 691,680,000 ordinary shares (six months ended 30 June 2019: 517,602,944 shares) in issue during the interim period.

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

10 PROPERTY AND EQUIPMENT

During the six months ended 30 June 2020, the Company acquired items of property and equipment with a cost of HK\$10,799,871 (six months ended 30 June 2019: HK\$44,500).

11 INVENTORIES

At 30 June 2020 and 31 December 2019, the Company’s inventories comprise mainly tobacco leaf products that were in transit in the course of sales.



Notes to the financial statements (Continued)

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2020 HK\$	At 31 December 2019 HK\$
Trade receivables	117,626,300	814,838,610
Bills receivable	46,637,626	18,524,160
	164,263,926	833,362,770
Deposits, prepayments and other receivables	58,320,929	18,182,473
	222,584,855	851,545,243

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

The carrying amounts of the Company's trade and other receivables were not materially different from their fair values as at 31 December 2019 and 30 June 2020.

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 2020 HK\$	At 31 December 2019 HK\$
Within 30 days	84,612,902	212,398,323
31 to 90 days	47,725,302	217,283,725
Over 90 days	31,925,722	403,680,722
	164,263,926	833,362,770

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

Notes to the financial statements (Continued)



13 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 30 June 2020 HK\$	At 31 December 2019 HK\$
Cash at bank and on hand	1,609,247,528	1,737,979,196

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

		Six months ended 30 June	
	Note	2020 HK\$	2019 HK\$
Operating activities			
Profit before taxation		64,917,183	158,144,144
Adjustments for:			
Depreciation	6(b)	4,968,705	73,062
Interest income	5	(18,199,068)	(5,929,523)
Finance costs	6(a)	782,933	–
Operating profit before changes in working capital		52,469,753	152,287,683
Decrease in trade and other receivables		644,270,621	233,257,491
Decrease in inventories		130,424,894	626,735,427
Decrease in trade and other payables		(799,055,358)	(841,447,815)
Cash generated from operations		28,109,910	170,832,786

Notes to the financial statements (Continued)

14 TRADE AND OTHER PAYABLES

	At 30 June 2020 HK\$	At 31 December 2019 HK\$
Trade payables	266,393,660	1,114,070,042
Contract liabilities	86,056,999	28,542,290
Other payables and accruals	2,819,688	10,562,679
	355,270,347	1,153,175,011

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 2020 HK\$	At 31 December 2019 HK\$
Within 30 days	96,794,806	243,685,927
31 to 90 days	103,707,644	343,882,360
Over 90 days	65,891,210	526,501,755
	266,393,660	1,114,070,042

15 SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares, Issued and fully paid:		
At 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
Shares issued upon the exercise of over-allotment option in connection with the IPO	25,000,000	118,951,406
At 31 December 2019, 1 January 2020 and 30 June 2020	691,680,000	1,403,721,280

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

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

Notes to the financial statements (Continued)

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 and its subsidiaries (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	
	2020	2019
	HK\$	HK\$
Tobacco Leaf Products Export Business		
– Procurement of goods	1,012,976,230	1,032,611,685
– Commission income	1,013,034	1,387,784
Tobacco Leaf Products Import Business		
– Sales of goods	794,487,140	2,174,253,924
– Procurement of goods	–	269,802,510
Cigarettes Export Business		
– Procurement of goods	36,008,162	661,844,073
New Tobacco Product Export Business		
– Sales of goods	966,966	–
– Procurement of goods	3,584,880	1,856,400
Lease of certain property and office equipment	650,080	1,950,240

During the six months ended 30 June 2020, sales of HK\$966,966 in respect of New Tobacco Product Export Business were made to a related party that is not considered as a connected person defined under Chapter 14A of the Listing Rules. Except for such sales transactions, all the related party transactions above constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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 2020 and 31 December 2019, 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 2020 HK\$	At 31 December 2019 HK\$
Trade receivables	65,833,403	635,291,889
Prepayments	30,546,340	4,414,123
Trade payables	161,151,193	441,357,779
Contract liabilities	19,395,625	482,694

(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	
	2020 HK\$	2019 HK\$
Directors' fees	960,590	540,590
Salaries, allowances and benefits in kind	3,763,100	2,801,121
Retirement scheme contributions	54,326	139,670
	4,778,016	3,481,381

(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.