



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



2021
Interim Report

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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;
“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;
“Latest Practicable Date”	6 September 2021, being the latest practicable date prior to the bulk printing and publication of this interim report;
“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 the Latest Practicable Date)

Name in Chinese:	中煙國際(香港)有限公司
Name in English:	China Tobacco International (HK) Company Limited
Chairman of the Board and Non-Executive Director:	SHAO Yan
Executive Directors:	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
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 2021 (unaudited)	For the six months ended 30 June 2020 (unaudited)
Revenue	3,694,278,067	1,884,554,445
Cost of sales	(3,519,799,129)	(1,810,295,168)
Gross profit	174,478,938	74,259,277
Other income, net	5,858,251	18,066,021
Administrative and other operating expenses	(25,425,114)	(26,625,182)
Finance costs	(627,854)	(782,933)
Profit before taxation	154,284,221	64,917,183
Income tax	(24,605,785)	(7,708,489)
Profit after taxation	129,678,436	57,208,694



Management Discussion and Analysis

In the first half of 2021, the Company proactively explored the business development and operational models under the normalisation of the pandemic when facing the complex and evolving COVID-19 pandemic. The Company has continually improved its risk prediction and emergency handling capacity, consistently maintained its strategic focus, and promoted its healthy and continuous development. In respect of corporate governance, we strived to establish a process-oriented self-sustaining management system and risk prevention and control system, building a forward-looking “resilient enterprise”. In respect of capital operation, we conducted project selection and implementation in line with the established target and direction, strived to promote the substantial transformation of operation throughout industrial chain. In respect of innovative business, we continued to improve our abilities to carry out research and development, branding, and channel resource integration of new tobacco business. We also strengthened market expansion, optimised business structure and diversified business risk. In respect of traditional business, we focused on strengthening coordination and control abilities of supply chains under the pandemic to maintain our current market advantage. In respect of company operation, we continued to promote “lean management” and proactively applied information and digital Internet technology that brought costs and expenses under effective control. In terms of social responsibility, we provided pandemic protection and care for our employees in response to the call of the government while proactively meeting the new requirements of the Stock Exchange, to improve the level of the environmental, social and governance (“ESG”) of the Company in respect of identification, evaluation and management of material ESG matters, optimisation of ESG structure, identification and management of climate change risks, etc. In terms of the career development of employees, the Company set up an employee development system with multiple career paths and established a comprehensive incentive-oriented remuneration system, so as to grow with its employees.

FINANCIAL REVIEW

Revenue and Cost of Sales

For the six months ended 30 June 2021, the Company’s revenue increased by 96.03% to HK\$3,694.3 million (2020: HK\$1,884.6 million) as compared with the same period in 2020, and costs increased by 94.43% to HK\$3,519.8 million (2020: HK\$1,810.3 million) as compared with the same period in 2020. It was because the Company maintained close communication with the upstream and downstream of the industrial chain and maximised its efforts to mitigate the impact of the COVID-19 pandemic on the supply chain of import and export business of tobacco leaves. Meanwhile, the Company further expanded New Tobacco Leaf Products Business, resulting in a significant increase in revenue from relevant business in the first half of 2021.

Gross Profit

For the six months ended 30 June 2021, the Company’s gross profit increased by 134.86% to HK\$174.5 million (2020: HK\$74.3 million) as compared with the same period in 2020, which was mainly due to the substantial increase in the amount of tobacco leaf products imported.

Other Income, Net

For the six months ended 30 June 2021, the Company’s other income, net decreased by 67.40% to HK\$5.9 million (2020: HK\$18.1 million) as compared with the same period in 2020, which was mainly due to the constant decrease in the bank deposit interest rate, resulting in a significant decrease in interest income.

Management Discussion and Analysis (Continued)

Administrative and Other Operating Expenses

For the six months ended 30 June 2021, the Company's administrative and other operating expenses decreased by 4.51% to HK\$25.4 million (2020: HK\$26.6 million) as compared with the same period in 2020. It consisted of staff cost of HK\$15.2 million, depreciation of HK\$5.7 million and legal and professional fees of HK\$2.8 million. It was because the Company have vigorously promoted "reducing costs and increasing efficiency" to better control expenses, so that the administrative and other operating expenses remained stable with a decline as compared with the same period in 2020.

Finance Costs

For the six months ended 30 June 2021, the Company's finance costs decreased by 25.00% to HK\$0.6 million (2020: HK\$0.8 million) as compared with the same period in 2020. The expenses were primarily interest on lease liabilities.

Profit and Total Comprehensive Income for the Period

For the six months ended 30 June 2021, the Company's net profit increased by 126.75% to HK\$129.7 million (2020: HK\$57.2 million) as compared with the same period in 2020. The significant increase in net profit was mainly due to increases in gross profit of the import and export business of tobacco leaves and New Tobacco Products Export Business and the effective control of expenses.

BUSINESS OPERATION REVIEW

Core Business

Tobacco Leaf Products Export Business

For the six months ended 30 June 2021, the export volume of tobacco leaf products of the Company reached 43,715 tons, representing an increase of 5,677 tons or 14.92% on a year-on-year basis. The operating revenue reached HK\$1,074.2 million, representing an increase of HK\$37.0 million or 3.57% on a year-on-year basis. The gross profit reached HK\$27.7 million, representing an increase of HK\$3.5 million or 14.46% on a year-on-year basis. The increase in the results was mainly because the Company has actively adjusted its business strategy to provide tobacco leaf products tailored to the market with high cost-effectiveness ratio. Meanwhile, we seized the window of opportunity when the pandemic had eased and the supply chain had recovered in certain Southeast Asian countries at the beginning of the year, and sped up shipment. In addition, we further optimised the structure of product sales to enhance the overall level of business's gross profit.

Tobacco Leaf Products Import Business

For the six months ended 30 June 2021, the import volume of tobacco leaf products of the Company reached 56,022 tons, representing an increase of 43,744 tons or 356.28% on a year-on-year basis. The operating revenue reached HK\$2,568.8 million, representing an increase of HK\$1,774.3 million or 223.32% on a year-on-year basis. The gross profit reached HK\$144.3 million, representing an increase of HK\$100.9 million or 232.49% on a year-on-year basis. The significant increase in the results was mainly due to the fact that the Company spared no efforts to mitigate the impact of the COVID-19 pandemic on supply chain logistics by close communication with upstream and downstream of the industrial chain, enabling imported tobacco leaf products delayed in shipment in 2020 to arrive successively in the first half of 2021.



Management Discussion and Analysis (Continued)

Cigarettes Export Business

For the six months ended 30 June 2021, the export volume of cigarettes of the Company reached 80,020 thousand sticks, representing a decrease of 47,025 thousand sticks or 37.01% on a year-on-year basis. The operating revenue reached HK\$27.6 million, representing a decrease of HK\$21.7 million or 44.02% on a year-on-year basis. The gross profit reached HK\$1.7 million, representing a decrease of HK\$4.9 million or 74.24% on a year-on-year basis. The significant decrease in Cigarettes Export Business was mainly due to the continued implementation of travel restriction and border control under the COVID-19 pandemic, which resulted in a significant drop in the customer traffic in duty-free shops in areas administered by the Company.

New Tobacco Products Export Business

For the six months ended 30 June 2021, the export volume of new tobacco products of the Company reached 102,400 thousand sticks, representing an increase of 86,500 thousand sticks or 544.03% on a year-on-year basis. The operating revenue reached HK\$23.7 million, representing an increase of HK\$20.1 million or 554.50% on a year-on-year basis. The gross profit reached HK\$0.73 million, representing an increase of HK\$0.68 million or 1,568.46% on a year-on-year basis. The significant increase in the results was mainly because the Company has seized the favourable market opportunities arising from worldwide vigorous development of new tobacco and established a rapid coordination and response system from the demand side to the supply side, so as to further develop the current market potential and to vastly expand the unexplored new markets and channels.

PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the second half of 2021, although the impact of the COVID-19 pandemic on global shipping logistics still remains highly uncertain, which may impact the Company's related business segments, the Company will continue implementing the dual wheel driving development model of "pursuing exogenous and endogenous growth" (外延與內生), enhancing its unique advantages, promoting innovative business development, and improving the Company's operational quality. In respect of capital operation, we will continue to conduct project selection and implementation in line with the established target and direction, and strive to promote a substantial transformation of operation throughout industrial chain. In respect of the import and export business of tobacco leaves, we will focus on stabilising supply chains to meet market demands. In respect of the Cigarettes Export Business, we will pay close attention to changes of the pandemic and the border control policy and strengthen communication and collaboration with the upstream and downstream to reserve power for post-pandemic business development. In respect of the new tobacco products business, we will continue to improve the coordinating and responding speed from the demand side to the supply side, consolidating current market results while focusing on the exploration of potential customers and cooperation projects.

Review of Continuing Connected Transactions

CONTINUING CONNECTED TRANSACTIONS

CNTC and CTIG are our substantial shareholders. Under the Listing Rules, CNTC and CTIG and their respective subsidiaries (including CTI which is a wholly-owned subsidiary of CNTC) are our connected persons.

During the six months ended 30 June 2021 (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\$2,571.7 million and HK\$1,392.9 million, respectively, accounting for approximately 69.6% and 39.6% 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 2021, 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\$2,568.8 million, accounting for 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, as of 30 June 2021, 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 favourable terms for commercially viable tobacco leaf products. Based on the market condition and its own evaluation of the quality of the samples, the Company provides the customers with price quotes and 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\$1,046.3 million, accounting for 100% of the total purchase of our Tobacco Leaf Products Export Business.

C. Procurement Transactions in the Cigarettes Export Business

As of 30 June 2021, 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 of not less than 1%, not less than 2% and not less 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.

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\$20.0 million, accounting for 100% of the total purchase of our Cigarettes Export Business.

D. Procurement Transactions in the New Tobacco Products Export Business

As of 30 June 2021, 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);
- Guizhou China Tobacco Industrial Co., Ltd. (貴州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);
- Jilin China Tobacco Industrial Co., Ltd. (吉林煙草工業有限責任公司);
- Hebei China Tobacco Industrial Co., Ltd. (河北中煙工業有限責任公司);
- Jiangxi China Tobacco Industrial Co., Ltd. (江西中煙工業有限責任公司); and
- Guangxi China Tobacco Industrial Co., Ltd. (廣西中煙工業有限責任公司).

Pricing Policies

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

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

Review of Continuing Connected Transactions (Continued)

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, and relationship with the relevant counterparties. New tobacco products are not subject to any export tariff. Currently, the margins utilised in the New Tobacco Products Export Business are at least 1%. Such margins were determined taking into consideration, among others, the relevant operating costs of the Company and the cost of early-stage marketing. These margins may be adjusted by the Company in response to changes in the international market conditions and the Company's relevant operating costs.

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

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the New Tobacco Products Export Business was HK\$23.0 million, accounting for 100% of the total purchase of our New Tobacco Products Export Business.

E. Procurement Transactions in the Tobacco Leaf Products Import Business

To facilitate the procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT, as of 30 June 2021, 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\$303.6 million, accounting for approximately 12.5% 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 sales 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 2021, 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:

- Vinton 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\$0.5 million, accounting for approximately 0.05% 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 the Continuing Connected Transactions of types A, B, C and D above (the "CCTs of Indefinite Term") and the report of the Continuing Connected Transactions of types E and F (the "CCTs of Fixed 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 and the CCTs of Fixed 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\$1,847 million, HK\$573 million, HK\$18 million and HK\$14 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 consumable goods business.

Based on the above, Somerley has confirmed that the CCTs of Indefinite Term for the Reporting Period have been conducted: 1) in the ordinary and usual course of business of the Company; 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 CCTs of Fixed Term for the Reporting Period. Somerley has confirmed that the CCTs of Fixed Term 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.

Other Information

INTERIM DIVIDEND

The Board does not recommend a payment of any interim dividend for the six months ended 30 June 2021 to the Shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Total assets of the Company amounted to HK\$2,483.1 million as at 30 June 2021 (as at 31 December 2020: HK\$3,644.7 million). The Company had cash and cash equivalents of HK\$1,818.6 million as at 30 June 2021 (as at 31 December 2020: HK\$1,613.2 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\$793.1 million as at 30 June 2021 (as at 31 December 2020: HK\$2,056.8 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 2021, the Company did not have any bank borrowing (as at 31 December 2020: Nil). As at 30 June 2021, the Company had a gearing ratio (being lease liabilities divided by shareholders' equity) of 0.01 (as at 31 December 2020: 0.01). As at 30 June 2021, the Company had a current ratio (being the current assets divided by the current liabilities) of 3.2 (as at 31 December 2020: 1.8).

SIGNIFICANT INVESTMENTS

As at 30 June 2021, 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 2021.

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 2021. The Company entered into transactions in U.S. dollars and did not enter into any hedging arrangements during the six months ended 30 June 2021.



Other Information (Continued)

PLEDGE OF ASSET

As at 30 June 2021, the Company did not pledge any assets (31 December 2020: Nil).

CONTINGENT LIABILITIES

As at 30 June 2021, the Company did not have significant contingent liabilities.

EMPLOYEES

As at 30 June 2021, we had 27 (31 December 2020: 29) 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 disclosed in this interim report, as at the date of the Latest Practicable Date, there was no major event after 30 June 2021 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 the Shares, the total gross proceeds of which amounted to approximately HK\$813 million, and the Shares were listed on the Main Board of the Stock Exchange (the "Listing"). The closing price on the Listing Date is HK\$5.35 per Share. On 4 July 2019, the Company issued 25,000,000 Shares at a price of HK\$4.88 per Share pursuant to the full exercise of over-allotment option relating to the Listing by China International Capital Corporation Hong Kong Securities Limited and China Merchants Securities (HK) Co., Limited, the total gross proceeds of which amounted to approximately HK\$122 million. The net proceeds from the Listing (including the net proceeds from the issuance 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 net price to the Company (which was calculated by dividing the Net Proceeds by the number of Shares issued in connection with the initial public offering of the Shares) was approximately HK\$4.72 per Share. The Net Proceeds have been and will continue to be used in a manner consistent with that set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Other Information (Continued)

The use of Net Proceeds during the period from the Listing Date up to 30 June 2021 is set out as follows:

Use of Net Proceeds	Approximate Percentage of total amount	Actual amount of Net Proceeds (HK\$ million)	Unutilised amount as at 1 January 2021 (HK\$ million)	Amount utilised for the	Unutilised amount as at 30 June 2021 (HK\$ million)	Expected timeline
				six months ended 30 June 2021 (HK\$ million)		
Making investments and acquisitions that are complementary to the Company's business	45%	406.8	400.7	1.3	399.4	Remainder to be utilised by 30 June 2022.
Supporting the ongoing growth of the Company's business	20%	180.8	177.1	0.1	177.0	Remainder to be utilised by 30 June 2022.
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets	20%	180.8	180.6	-	180.6	Remainder to be utilised by 30 June 2022.
General working capital	10%	90.4	-	-	-	Not applicable.
Improving the Company's management of purchase and sales resources and optimizing the Company's operational management	5%	45.2	29.9	-	29.9	Remainder to be utilised by 30 June 2022.
Total	100%	904.0	788.3	1.4	786.9	

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

During the six months ended 30 June 2021, the Company did not issue any equity securities (including securities convertible into equity securities).

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

As at 30 June 2021, 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.



Other Information (Continued)

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

At no time during the six months ended 30 June 2021 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 2021, 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)	CNTC ¹	Interest in a controlled corporation	500,010,000	72.29%

Notes:

- In light of the fact that CNTC directly controls one third or more of the voting rights in the shareholders' meetings of CTIG, in accordance with the SFO, the interests of CTIG are deemed to be, and have therefore been included in, the interests of CNTC.
- As at 30 June 2021, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 30 June 2021, 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.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

During the annual general meeting of the Company dated 21 May 2021, Ms. YANG Xuemei (楊雪梅) was re-elected as an executive Director and Mr. CHOW Siu Lui (鄒小磊) and Mr. CHAU Kwok Keung (鄒國強) were re-elected as independent non-executive Directors, respectively. For details, please refer to the relevant circular and announcements of the Company dated 20 April 2021 and 21 May 2021, respectively.

Other Information (Continued)

Mr. CHAU Kwok Keung, one of our independent non-executive Directors, has served as the chief financial officer of BetterLife Holding Limited, a company listed on Stock Exchange on 15 July 2021 (Stock Code: 6909), since September 2020 and as its executive director, authorized representative and company secretary since December 2020. Mr. CHAU Kwok Keung resigned as an independent non-executive director and the chairman of the audit committee of Forward Fashion (International) Holdings Company Limited, a company listed on the Stock Exchange (Stock Code: 2528), with effect from 27 August 2021. In addition, Suzhou Basecare Medical Corporation Limited, a company listed on the Stock Exchange (“Suzhou Basecare”, Stock Code: 2170), announced on 6 September 2021 that Mr. CHAU Kwok Keung was nominated as a candidate for its independent non-executive director, whose appointment will be subject to the approval on the 2021 first extraordinary general meeting of Suzhou Basecare.

Save as disclosed above and in the relevant circular and announcements of the Company dated 20 April 2021 and 21 May 2021, respectively, as of the Latest Practicable Date, there was 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 2021, 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 2021 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 2021, the Company has complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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 2021.

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 2020 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 27 to 42 which comprises the statement of financial position of China Tobacco International (HK) Company Limited (the “Company”) as of 30 June 2021 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 2021 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

31 August 2021

Statement of Profit or Loss and Other Comprehensive Income

	Note	Six months ended 30 June	
		2021 HK\$	2020 HK\$
Revenue	4	3,694,278,067	1,884,554,445
Cost of sales		(3,519,799,129)	(1,810,295,168)
Gross profit		174,478,938	74,259,277
Other income, net	5	5,858,251	18,066,021
Administrative and other operating expenses		(25,425,114)	(26,625,182)
Profit from operations		154,912,075	65,700,116
Finance costs	6(a)	(627,854)	(782,933)
Profit before taxation	6	154,284,221	64,917,183
Income tax	7	(24,605,785)	(7,708,489)
Profit and total comprehensive income for the period		129,678,436	57,208,694
Earnings per share			
– Basic and diluted	9	0.19	0.08

The notes on pages 31 to 42 form part of this interim financial report.



Statement of Financial Position

	Note	At 30 June 2021 HK\$	At 31 December 2020 HK\$
Non-current assets			
Property and equipment		35,476,761	41,198,108
Rental deposit		1,930,132	1,930,132
		37,406,893	43,128,240
Current assets			
Inventories	10	117,926,119	1,623,114,353
Current tax recoverable		23,694,215	33,122,114
Trade and other receivables	11	485,450,042	332,176,280
Cash and cash equivalents	12	1,818,585,335	1,613,169,695
		2,445,655,711	3,601,582,442
Current liabilities			
Trade and other payables	13	768,211,778	2,028,677,576
Lease liabilities		7,603,243	7,546,348
		775,815,021	2,036,223,924
Net current assets		1,669,840,690	1,565,358,518
Total assets less current liabilities		1,707,247,583	1,608,486,758
Non-current liabilities			
Lease liabilities		14,674,704	17,983,165
Provision for reinstatement costs		2,597,079	2,539,029
		17,271,783	20,522,194
NET ASSETS		1,689,975,800	1,587,964,564
Capital and reserves			
Share capital	14	1,403,721,280	1,403,721,280
Reserves		286,254,520	184,243,284
TOTAL EQUITY		1,689,975,800	1,587,964,564

The notes on pages 31 to 42 form part of this interim financial report.

Statement of Changes in Equity

	Note	Share capital HK\$ (note 14)	Retained earnings HK\$	Total HK\$
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
Balance at 1 January 2021		1,403,721,280	184,243,284	1,587,964,564
Changes in equity for the six months ended 30 June 2021:				
Profit and total comprehensive income for the period		–	129,678,436	129,678,436
Dividend	8	–	(27,667,200)	(27,667,200)
Balance at 30 June 2021		1,403,721,280	286,254,520	1,689,975,800

The notes on pages 31 to 42 form part of this interim financial report.



Condensed Statement of Cash Flows

	Note	Six months ended 30 June	
		2021 HK\$	2020 HK\$
Operating activities			
Cash generated from operations	12(b)	245,792,648	28,109,910
Tax paid:			
– Hong Kong Profits Tax paid		(15,177,886)	(36,094,212)
Net cash generated from/(used in) operating activities		230,614,762	(7,984,302)
Investing activities			
Payment for purchase of property and equipment		(1,687)	(9,649,177)
Interest received		6,291,135	2,888,835
Net cash generated from/(used in) investing activities		6,289,448	(6,760,342)
Financing activities			
Dividend distribution		(27,667,200)	(110,668,800)
Other financing activities		(3,821,370)	(3,318,224)
Net cash generated used in financing activities		(31,488,570)	(113,987,024)
Net increase/(decrease) in cash and cash equivalents		205,415,640	(128,731,668)
Cash and cash equivalents at 1 January		1,613,169,695	1,737,979,196
Cash and cash equivalents at 30 June		1,818,585,335	1,609,247,528

The notes on pages 31 to 42 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 on 12 June 2019. China Tobacco International Group Limited (“CTIG”), a company incorporated in Hong Kong with limited liability, is the immediate parent of the Company. China National Tobacco Corporation (“CNTC”), a company registered in the People’s Republic of China (the “PRC”), is the ultimate controlling company of the Company.

The Company is engaged in the following business operations:

- 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, 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 31 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 26.

The financial information relating to the financial year ended 31 December 2020 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 2020 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 HKICPA has issued certain 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 results and financial position for the current or prior periods have been prepared or presented.

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 the 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	
	2021	2020
	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	1,073,726,606	1,036,148,312
– Import sales of tobacco leaf products	2,568,781,581	794,487,140
– Export sales of cigarettes	27,559,862	49,277,555
– Sales of new tobacco products	23,747,880	3,628,404
– Others	462,138	1,013,034
	3,694,278,067	1,884,554,445

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	
	2021	2020
	HK\$	HK\$
Mainland China of the PRC	2,589,392,730	824,043,482
Republic of Indonesia	785,070,632	727,458,085
Republic of the Philippines	58,465,937	129,634,574
Hong Kong	31,126,330	124,349,155
Socialist Republic of Vietnam	199,248,334	47,516,006
Singapore	654,006	12,768,548
Others	30,320,098	18,784,595
	3,694,278,067	1,884,554,445

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 and other payables and contract liabilities. The Company's all other assets and liabilities such as property and equipment, cash and cash equivalents 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 2021</i>						
Reportable segment revenue	1,074,188,744	2,568,781,581	27,559,862	23,747,880	–	3,694,278,067
Reportable segment gross profit	27,701,717	144,302,938	1,748,103	726,180	–	174,478,938
Other income, net					5,858,251	5,858,251
Depreciation					(5,723,034)	(5,723,034)
Other corporate expenses					(19,702,080)	(19,702,080)
Finance costs					(627,854)	(627,854)
Profit before taxation						154,284,221
Income tax expense						(24,605,785)
Profit for the period						129,678,436
<i>At 30 June 2021</i>						
Reportable segment assets	82,570,711	474,935,685	34,623,180	873,600	1,890,059,428	2,483,062,604
Reportable segment liabilities	289,293,906	453,975,516	8,521,500	10,413,374	30,882,508	793,086,804

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 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
Other income, net					18,066,021	18,066,021
Depreciation					(4,968,705)	(4,968,705)
Other corporate expenses					(21,656,477)	(21,656,477)
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 31 December 2020</i>						
Reportable segment assets	70,057,189	1,841,486,480	32,331,868	–	1,700,835,145	3,644,710,682
Reportable segment liabilities	157,155,156	1,840,174,420	405,600	15,235,740	43,775,202	2,056,746,118

5 OTHER INCOME, NET

	Six months ended 30 June	
	2021 HK\$	2020 HK\$
Net exchange losses	–	(133,047)
Interest income	5,858,251	18,199,068
	5,858,251	18,066,021

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	
	2021	2020
	HK\$	HK\$
Interest on lease liabilities	569,804	724,881
Interest on provision for reinstatement costs	58,050	58,052
	627,854	782,933

(b) Other items

	Six months ended 30 June	
	2021	2020
	HK\$	HK\$
Depreciation		
– owned property and equipment	2,147,584	1,393,255
– right-of-use assets	3,575,450	3,575,450
	5,723,034	4,968,705
Expenses related to a short-term lease	–	650,080
Cost of inventories	3,519,799,129	1,810,295,168

7 INCOME TAX

Income tax for the six months ended 30 June 2021 and 2020 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% (2020: 16.5%) of the estimated assessable profits for the six months ended 30 June 2021.

8 DIVIDENDS

Final dividend attributable to owners of the Company in respect of 2020 of HK\$4 cents per share (2019: HK\$16 cents per share) amounting to a total of HK\$27,667,200 (2019: HK\$110,668,800) was approved by the shareholders at the Annual General Meeting on 21 May 2021 and paid during the six months ended 30 June 2021.

The Directors do not recommend a payment of any other interim dividend for the six months ended 30 June 2021 and 2020.

Notes to the Financial Statements (Continued)

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 2021 of HK\$129,678,436 (six months ended 30 June 2020: HK\$57,208,694) and the weighted average of 691,680,000 ordinary shares (six months ended 30 June 2020: 691,680,000 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 INVENTORIES

At 30 June 2021 and 31 December 2020, the Company's inventories comprise mainly of tobacco leaf products that were in transit in the course of sales.

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2021 HK\$	At 31 December 2020 HK\$
Trade receivables	433,031,181	281,150,912
Bills receivable	27,491,829	31,414,996
	460,523,010	312,565,908
Deposits, prepayments and other receivables	24,927,032	19,610,372
	485,450,042	332,176,280

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 2020 and 30 June 2021.

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 2021 HK\$	At 31 December 2020 HK\$
Within 30 days	16,761,345	48,722,054
31 to 90 days	60,715,587	255,099,118
Over 90 days	383,046,078	8,744,736
	460,523,010	312,565,908

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

Notes to the Financial Statements (Continued)

11 TRADE AND OTHER RECEIVABLES *(continued)*

The aging analysis of trade receivable by due date is as follows:

	At 30 June 2021 HK\$	At 31 December 2020 HK\$
Not past due	440,108,171	296,495,657
1 to 30 days past due	14,220,835	16,070,251
31 to 90 days past due	3,471,452	–
Over 90 days past due	2,722,552	–
	460,523,010	312,565,908

12 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 30 June 2021 HK\$	At 31 December 2020 HK\$
Cash at bank and on hand	1,818,585,335	1,613,169,695

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

		Six months ended 30 June	
	Note	2021 HK\$	2020 HK\$
Operating activities			
Profit before taxation		154,284,221	64,917,183
Adjustments for:			
Depreciation	6(b)	5,723,034	4,968,705
Interest income	5	(5,858,251)	(18,199,068)
Finance costs	6(a)	627,854	782,933
Operating profit before changes in working capital		154,776,858	52,469,753
(Increase)/decrease in trade and other receivables		(153,706,646)	644,270,621
Decrease in inventories		1,505,188,234	130,424,894
Decrease in trade and other payables		(1,260,465,798)	(799,055,358)
Cash generated from operations		245,792,648	28,109,910



Notes to the Financial Statements (Continued)

13 TRADE AND OTHER PAYABLES

	At 30 June 2021 HK\$	At 31 December 2020 HK\$
Trade payables	723,605,990	1,909,490,319
Contract liabilities	37,101,975	100,000,929
Other payables and accruals	7,503,813	19,186,328
	768,211,778	2,028,677,576

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 2021 HK\$	At 31 December 2020 HK\$
Within 30 days	133,300,622	681,068,703
31 to 90 days	211,074,491	1,148,955,750
Over 90 days	379,230,877	79,465,866
	723,605,990	1,909,490,319

14 SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares, Issued and fully paid:		
At 1 January, 30 June and 31 December 2020 and 1 January and 30 June 2021	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)

15 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	
	2021	2020
	HK\$	HK\$
Tobacco Leaf Products Import Business		
– Sales of goods to a fellow subsidiary	2,568,781,581	794,487,140
– Procurement of goods from a joint venture of the CNTC Group	303,625,424	–
Tobacco Leaf Products Export Business		
– Procurement of goods from fellow subsidiaries	1,046,268,201	1,012,976,230
– Commission income from fellow subsidiaries	462,138	1,013,034
Cigarettes Export Business		
– Procurement of goods from fellow subsidiaries	19,998,092	36,008,162
New Tobacco Product Export Business		
– Sales of goods to an associate of the CNTC Group	2,407,548	966,966
– Procurement of goods from fellow subsidiaries	23,021,700	3,584,880
Lease of certain property and office equipment from CTIG	–	650,080

During the six months ended 30 June 2021, sales of HK\$2,407,548 (six months ended 30 June 2020: 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)

15 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

As at 30 June 2021 and 31 December 2020, 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 2021 HK\$	At 31 December 2020 HK\$
Trade receivables		
– Trade receivables from fellow subsidiaries	412,265,904	272,590,568
Prepayments for goods		
– Prepayment of goods to fellow subsidiaries	14,554,047	8,195,276
Trade payables		
– Trade payables to fellow subsidiaries	365,969,421	135,312,497
– Trade payables to a joint venture of the CNTC Group	–	659,764,037
Other payables and accruals, including contract liabilities		
– Other payables and accruals, including contract liabilities to fellow subsidiaries	1,496,331	71,449,667

(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	
	2021 HK\$	2020 HK\$
Directors' fees	720,000	960,590
Salaries, allowances and benefits in kind	4,895,716	3,763,100
Retirement scheme contributions	160,175	54,326
	5,775,891	4,778,016

(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.