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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

China Tobacco International (HK) Company Limited announces the unaudited interim results of the Company for the six months ended 30 June 2020 together with the comparative figures for the six months ended 30 June 2019 as set out below.

FINANCIAL HIGHLIGHTS

Unit: HK$

Items	**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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2020	2019
	Note	***HK$***	*HK$*
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

STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited (Expressed in Hong Kong dollars)

	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		**106,905,007**	237,329,901
Trade and other receivables	*11*	**222,584,855**	851,545,243
Cash and cash equivalents		**1,609,247,528**	1,737,979,196
		1,938,737,390	2,826,854,340
Current liabilities			
Trade and other payables	*12*	**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		**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

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Tobacco International (HK) Company Limited is incorporated in Hong Kong as a limited liability company and its shares are listed on The Stock Exchange after completion of its initial public offering on 12 June 2019. China Tobacco International Group Limited (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, a company registered in the PRC, is the ultimate controlling company of the Company.

The Company is engaged in the following business operations (together as 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

The unaudited interim financial information set out in this announcement does not constitute the unaudited interim financial report of the Company for the six months ended 30 June 2020 but is extracted from that unaudited interim financial report which 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 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 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.

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.

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

(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.

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

	Tobacco Leaf Products Export Business *HK$*	**Tobacco Leaf Products Import Business** *HK$*	**Cigarettes Export Business** *HK$*	**New Tobacco Products Export Business** *HK$*	**Unallocated** *HK$*	**Total** *HK$*
For the six months ended 30 June 2020						
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**
At 30 June 2020						
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**

	Tobacco Leaf Products Export Business *HK$*	Tobacco Leaf Products Import Business *HK$*	Cigarettes Export Business *HK$*	New Tobacco Products Export Business *HK$*	Unallocated *HK$*	Total *HK$*
For the six months ended 30 June 2019						
Reportable segment revenue	1,022,101,799	2,174,253,924	732,786,485	1,877,655	–	3,931,019,863
Reportable segment gross profit	25,662,793	121,612,536	38,180,716	21,255	–	185,477,300
Interest income					5,929,523	5,929,523
Depreciation					(73,062)	(73,062)
Other corporate expenses					(33,189,617)	(33,189,617)
Profit before taxation						158,144,144
Income tax expense						(27,540,103)
Profit for the period						130,604,041
At 31 December 2019						
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

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June 2020 HK$	2019 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 HK$	2019 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.

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 of the Company 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 does not recommend a payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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 of the Company (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 TRADE AND OTHER RECEIVABLES

	At 30 June 2020	At 31 December 2019
	HK$	*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	At 31 December 2019
	HK$	*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.

12 TRADE AND OTHER PAYABLES

	At 30 June 2020	At 31 December 2019
	HK$	*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	At 31 December 2019
	HK$	*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

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.

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.

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.

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.

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.

OTHER INFORMATION

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).

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.

EMPLOYEES

As at 30 June 2020, the Company had 30 (31 December 2019: 30) employees in Hong Kong. The Company seeks to remunerate our employees on a market-competitive basis and has 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 announcement, 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 at the date of this announcement, 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**	

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.

PUBLICATION OF 2020 INTERIM RESULTS AND 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the website of the Stock Exchange at http://www.hkexnews.hk and the website of the Company at http://www.ctihk.com.hk/. The interim report of the Company for the six months ended 30 June 2020 will be despatched to the Shareholders and be available on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

"Audit Committee"	the audit committee of the Board;
"Board"	the board of Directors of the Company;
"China" or "PRC"	the People's Republic of China; for the purpose of this announcement only, references to "China" or the "PRC" do not include 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;
"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 and a wholly-owned subsidiary of CNTC;
"CTIG"	China Tobacco International Group Limited, 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;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
"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;

"Shares(s)"	ordinary share(s) of the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"U. S. dollars"	United States dollars, the lawful currency of the United States of America;
"%"	percent.

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

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

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises Mr. Shao Yan, as chairman and non-executive director, Ms. Yang Xuemei, Ms. Li Yan, Mr. Liang Deqing and Mr. Wang Chengrui as executive directors, and Mr. Chow Siu Lui, Mr. Wang Xinhua, Mr. Chau Kwok Keung and Mr. Qian Yi as independent non-executive directors.