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**中煙國際（香港）有限公司**  
**China Tobacco International (HK) Company Limited**  
*(Incorporated in Hong Kong with limited liability)*  
**(Stock Code: 6055)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2020**

China Tobacco International (HK) Company Limited announces the audited financial results of the Company for the year ended 31 December 2020 together with the comparative figures for the year ended 31 December 2019 as set out below.

**FINANCIAL HIGHLIGHTS**

	<b>2020</b> <b>HK\$</b>	<b>2019</b> <b>HK\$</b>
Revenue	<b>3,480,909,568</b>	8,976,951,511
Cost of sales	<b>(3,343,078,409)</b>	(8,558,113,354)
Gross profit	<b>137,831,159</b>	418,838,157
Other income, net	<b>38,137,653</b>	26,509,025
Administrative and other operating expenses	<b>(67,030,217)</b>	(64,999,570)
Finance costs	<b>(1,509,261)</b>	(563,443)
Profit before taxation	<b>107,429,334</b>	379,784,169
Income tax	<b>(12,237,476)</b>	(60,858,699)
Profit after taxation	<b>95,191,858</b>	318,925,470

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	2020 HK\$	2019 HK\$
<b>Revenue</b>	4	<b>3,480,909,568</b>	8,976,951,511
Cost of sales		<u>(3,343,078,409)</u>	<u>(8,558,113,354)</u>
<b>Gross profit</b>		<b>137,831,159</b>	418,838,157
Other income, net	5	<b>38,137,653</b>	26,509,025
Administrative and other operating expenses		<u>(67,030,217)</u>	<u>(64,999,570)</u>
<b>Profit from operations</b>		<b>108,938,595</b>	380,347,612
Finance costs	6(a)	<u>(1,509,261)</u>	<u>(563,443)</u>
<b>Profit before taxation</b>	6	<b>107,429,334</b>	379,784,169
Income tax	7	<u>(12,237,476)</u>	<u>(60,858,699)</u>
<b>Profit and total comprehensive income for the year</b>		<b><u>95,191,858</u></b>	<b><u>318,925,470</u></b>
<b>Profit and total comprehensive income for the year attributable to:</b>			
Equity shareholders of the Company		<u><b>95,191,858</b></u>	<u>318,925,470</u>
<b>Earnings per share</b>			
Basic and diluted	9	<b><u>0.14</u></b>	<b><u>0.53</u></b>

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2020 (Expressed in Hong Kong dollars)

	Note	2020 HK\$	2019 HK\$
<b>Non-current assets</b>			
Property and equipment		41,198,108	41,010,570
Rental deposit		<u>1,930,132</u>	<u>1,930,132</u>
		<b>43,128,240</b>	42,940,702
<b>Current assets</b>			
Inventories		1,623,114,353	237,329,901
Current tax recoverable		33,122,114	—
Trade and other receivables	10	332,176,280	851,545,243
Cash and cash equivalents		<u>1,613,169,695</u>	<u>1,737,979,196</u>
		<b>3,601,582,442</b>	2,826,854,340
<b>Current liabilities</b>			
Trade and other payables	11	2,028,677,576	1,153,175,011
Lease liabilities		7,546,348	7,546,348
Current tax payable		<u>—</u>	<u>78,902,716</u>
		<b>2,036,223,924</b>	1,239,624,075
<b>Net current assets</b>		<b>1,565,358,518</b>	1,587,230,265
<b>Total assets less current liabilities</b>		<b>1,608,486,758</b>	1,630,170,967
<b>Non-current liabilities</b>			
Lease liabilities		17,983,165	24,306,534
Provision for reinstatement costs		<u>2,539,029</u>	<u>2,422,927</u>
		<b>20,522,194</b>	26,729,461
<b>NET ASSETS</b>		<b>1,587,964,564</b>	1,603,441,506
<b>Capital and reserves</b>			
Share capital		1,403,721,280	1,403,721,280
Reserves		<u>184,243,284</u>	<u>199,720,226</u>
<b>TOTAL EQUITY</b>		<b>1,587,964,564</b>	1,603,441,506

# NOTES TO THE FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

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

The Company is engaged in the following business operations (together, the “**Relevant Businesses**”):

- export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan (the “**Tobacco Leaf Products Export Business**”);
- import of tobacco leaf products in the mainland China of the PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Zimbabwe) (the “**Tobacco Leaf Products Import Business**”);
- export of cigarettes 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 financial information relating to the years ended 31 December 2020 and 2019 included in this preliminary announcement of annual results does not constitute the Company’s statutory annual financial statements for those years but is derived from those financial statements.

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

Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2020 in due course.

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

### **3 CHANGES IN ACCOUNTING POLICIES**

The 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 HKFRS 16 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 year. 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 year, the Company is entitled to COVID-19-related rent concessions of HK\$318,024.

## 4 REVENUE AND SEGMENT REPORTING

### (a) Revenue

The principal activities of the Company are the Tobacco Leaf Products Export Business, the Tobacco Leaf Product Import Business, the Cigarettes Export Business and New Tobacco Product 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:

	2020 HK\$	2019 HK\$
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products or service lines		
– Export sales of tobacco leaf products	1,932,247,753	2,154,191,004
– Import sales of tobacco leaf products	1,350,749,968	4,630,885,448
– Export sales of cigarettes	158,051,298	2,161,363,346
– Sales of new tobacco products	38,308,054	26,819,668
– Commission income	1,552,495	3,692,045
	<b>3,480,909,568</b>	<b>8,976,951,511</b>

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

During the year ended 31 December 2020, revenue of HK\$2,436,864,281 (2019: HK\$4,638,635,226) to three customers (2019: one customer) has exceeded 10% of the Company's revenue.

### (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 Product 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 and inventories. 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, short-term bank deposits, lease liabilities, provision for reinstatement costs and 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 directly associated therewith. In addition to receiving segment information concerning gross profit, management is provided with segment information concerning revenue. There is no inter-segment revenue between the Company's reportable segments. Other income and expenses, net, mainly refers to interest income, net exchange gains/losses, administrative and other operating expenses are not considered specifically attributed to individual segments.

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 years ended 31 December 2020 and 2019 is set out below.

	Tobacco Leaf Products Export Business HK\$	Tobacco Leaf Products Import Business HK\$	Cigarettes Export Business HK\$	New Tobacco Product Export Business HK\$	Unallocated HK\$	Total HK\$
<b>For the year ended 31 December 2020</b>						
Sale of goods	1,932,247,753	1,350,749,968	158,051,298	38,308,054	-	3,479,357,073
Commission income	1,552,495	-	-	-	-	1,552,495
Reportable segment revenue	<u>1,933,800,248</u>	<u>1,350,749,968</u>	<u>158,051,298</u>	<u>38,308,054</u>	<u>-</u>	<u>3,480,909,568</u>
Reportable segment gross profit	<u>45,836,218</u>	<u>73,803,385</u>	<u>17,141,411</u>	<u>1,050,145</u>	<u>-</u>	<u>137,831,159</u>
Interest income					32,719,005	32,719,005
Other corporate income					5,418,648	5,418,648
Depreciation					(10,685,897)	(10,685,897)
Finance costs					(1,509,261)	(1,509,261)
Other corporate expenses					(56,344,320)	(56,344,320)
Profit before taxation						107,429,334
Income tax expense						(12,237,476)
Profit for the year						<u>95,191,858</u>
<b>As at 31 December 2020</b>						
Reportable segment assets	<u>70,057,189</u>	<u>1,841,486,480</u>	<u>32,331,868</u>	<u>-</u>	<u>1,700,835,145</u>	<u>3,644,710,682</u>
Reportable segment liabilities	<u>157,155,156</u>	<u>1,840,174,420</u>	<u>405,600</u>	<u>15,235,740</u>	<u>43,775,202</u>	<u>2,056,746,118</u>

For the year ended 31 December 2019	Tobacco Leaf Products Export Business HK\$	Tobacco Leaf Products Import Business HK\$	Cigarettes Export Business HK\$	New Tobacco Product Export Business HK\$	Unallocated HK\$	Total HK\$
Sale of goods	2,154,191,004	4,630,885,448	2,161,363,346	26,819,668	–	8,973,259,466
Commission income	3,692,045	–	–	–	–	3,692,045
Reportable segment revenue	<u>2,157,883,049</u>	<u>4,630,885,448</u>	<u>2,161,363,346</u>	<u>26,819,668</u>	<u>–</u>	<u>8,976,951,511</u>
Reportable segment gross profit	<u>53,959,206</u>	<u>259,713,459</u>	<u>104,317,640</u>	<u>847,852</u>	<u>–</u>	<u>418,838,157</u>
Interest income					26,458,024	26,458,024
Other corporate income					51,001	51,001
Depreciation					(2,583,397)	(2,583,397)
Finance costs					(563,443)	(563,443)
Other corporate expenses					(62,416,173)	(62,416,173)
Profit before taxation						379,784,169
Income tax expense						(60,858,699)
Profit for the year						<u>318,925,470</u>
As at 31 December 2019						
Reportable segment assets	<u>172,710,056</u>	<u>799,982,942</u>	<u>102,413,797</u>	<u>–</u>	<u>1,794,688,247</u>	<u>2,869,795,042</u>
Reportable segment liabilities	<u>312,991,813</u>	<u>824,287,400</u>	<u>4,796,089</u>	<u>537,030</u>	<u>123,741,204</u>	<u>1,266,353,536</u>

### ***Geographical information***

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.

	2020 HK\$	2019 HK\$
The PRC, excluding the SARs	<b>1,459,594,466</b>	6,407,789,249
Republic of Indonesia	<b>1,332,810,408</b>	1,488,492,999
Hong Kong	<b>135,033,307</b>	381,613,948
Republic of the Philippines	<b>204,605,522</b>	249,447,126
Socialist Republic of Vietnam	<b>247,987,121</b>	167,598,119
Singapore	<b>30,487,046</b>	138,951,196
Thailand	<b>12,340,097</b>	35,785,422
Others	<b>58,051,601</b>	107,273,452
	<b><u>3,480,909,568</u></b>	<b><u>8,976,951,511</u></b>

The Company carries out its operations in Hong Kong and all of the Company's non-current assets are located in Hong Kong.



## 5 OTHER INCOME, NET

	2020 HK\$	2019 HK\$
Net exchange gains	4,560,924	51,001
Interest income	32,719,005	26,458,024
Others	857,724	—
	<u>38,137,653</u>	<u>26,509,025</u>

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Finance costs

	2020 HK\$	2019 HK\$
Interest on lease liabilities	1,393,159	524,741
Interest accrued on provision	116,102	38,702
	<u>1,509,261</u>	<u>563,443</u>

### (b) Staff costs (including directors' emoluments)

	2020 HK\$	2019 HK\$
Salaries, wages and other benefits	35,194,131	24,911,889
Contributions to defined contribution retirement plans	1,926,926	1,862,446
	<u>37,121,057</u>	<u>26,774,335</u>

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

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

Staff cost is included under “Administrative and other operating expenses”.

(c) **Other items**

	<b>2020</b> <b>HK\$</b>	2019 <i>HK\$</i>
Depreciation		
– owned property and equipment	<b>3,534,997</b>	199,764
– right-of-use assets	<b>7,150,900</b>	2,383,633
	<b>10,685,897</b>	2,583,397
Expense related to short-term lease	<b>649,580</b>	3,920,933
Cost of inventories	<b>3,343,078,409</b>	8,558,113,354
Listing expenses	–	15,803,852
Auditors' remuneration	<b>1,500,000</b>	2,188,200

Except for cost of inventories, all the other items are included under “Administrative and other operating expenses”.

**7 INCOME TAX**

	<b>2020</b> <b>HK\$</b>	2019 <i>HK\$</i>
<b>Current tax</b>		
Provision for Hong Kong Profits Tax for the year	<b>12,237,476</b>	60,858,699

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

The provision for Hong Kong Profits Tax for 2020 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2019/20 subject to a maximum reduction of HK\$20,000 for each business (2019: a maximum reduction of HK\$20,000 was granted for the year of assessment 2018/19 and was taken into account in calculating the provision for 2019).

## 8 DIVIDENDS

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

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Final dividend proposed after the end of the reporting period of HK4 cents (2019: HK16 cents) per ordinary share	<u>27,667,200</u>	<u>110,668,800</u>

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

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

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK16 cents per ordinary share (2019: Nil)	<u>110,668,800</u>	<u>—</u>

### (c) Special dividend declared and paid to CTIG

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 has been fully paid during the year ended 31 December 2019.

## 9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$95,191,858 (2019: HK\$318,925,470) and the weighted average of 691,680,000 ordinary shares in issue during year ended 31 December 2020 (2019: 605,140,055 shares).

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

## 10 TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Trade receivables	281,150,912	814,838,610
Bills receivable	31,414,996	18,524,160
	<u>312,565,908</u>	<u>833,362,770</u>
Deposits, prepayments and other receivables	19,610,372	18,182,473
	<u>332,176,280</u>	<u>851,545,243</u>

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

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

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Within 30 days	48,722,054	212,398,323
31 to 90 days	255,099,118	217,283,725
Over 90 days	8,744,736	403,680,722
	<u>312,565,908</u>	<u>833,362,770</u>

# 11 TRADE AND OTHER PAYABLES

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Trade payables	1,909,490,319	1,114,070,042
Contract liabilities	100,000,929	28,542,290
Other payables and accruals	19,186,328	10,562,679
	<u>2,028,677,576</u>	<u>1,153,175,011</u>

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

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Within 30 days	681,068,703	243,685,927
31 to 90 days	1,148,955,750	343,882,360
Over 90 days	79,465,866	526,501,755
	<u>1,909,490,319</u>	<u>1,114,070,042</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW FOR THE YEAR

For the year of 2020 (the “Year”), the management of the Company proactively promoted the development philosophy of “respecting the market, rules, and investors”, and fully adhered to the working principle of “pursuing exogenous and endogenous growth” (外延與內生) put forward by the Board. The Company met challenges head-on while vigorously seizing market opportunities, hence achieving remarkable results in terms of overcoming the negative impacts of the COVID-19 pandemic on its major businesses, as well as expanding markets of new tobacco products. With regard to preventing pandemic risks, the Company adopted rapid and flexible measures and alleviated the negative effects brought by the COVID-19 pandemic through various measures, including adjusting its business models, improving operation efficiency, and reducing operating costs. At the same time, the Company actively strengthened its corporate governance, carefully planned for capital operation, and sought business innovation in order to build a solid foundation for recovery and development subsequent to the end of the COVID-19 pandemic. As a result, the Company’s revenue for the Year reached HK\$3,480.9 million, representing a decrease of HK\$5,496.0 million or 61.2% on a year-on-year basis; gross profit reached HK\$137.8 million, representing a decrease of HK\$281.0 million or 67.1% on a year-on-year basis; and profit for the Year attributable to owners of the Company reached HK\$95.2 million, representing a decrease of HK\$223.7 million or 70.2% on a year-on-year basis.

### Tobacco Leaf Products Export Business

#### *Business Overview*

In 2020, the COVID-19 pandemic affected the demand for tobacco leaves from cigarette manufacturers to a certain extent. Benefited from the long-term and solid cooperative relationship built with its suppliers and key customers, as well as the responsive adjustment made for the supply of raw materials in exact accordance with the customers’ needs, the Company was able to provide customers with stable and consistent services and products of quality, as a result of which its export volume remained relatively stable.

#### *Operation Initiatives*

- 1. Strengthening the connection between suppliers and demanders.** Due to the COVID-19 pandemic, the consumption in the cigarette market in Southeast Asia dropped significantly, which in turn affected the demand for tobacco raw materials at a certain level. Accordingly, the Company maintained close communication with customers, adjusted the structure of its export grade in a timely manner, and maintained its export volume at a stable level while alleviating customers’ cost pressure.
- 2. Focusing on the key markets and customers.** The Company conducted an in-depth investigation on the market changes under the COVID-19 pandemic to fully understand the customer’s needs. In addition, we selected appropriate production areas of tobacco leaves to cater to the procurement orders placed from different markets. The Company improved the cost-effectiveness of its export products while ensuring product quality, thus strengthening the competitiveness of domestically-sourced tobacco leaves.

3. **Relentlessly expanding our market share.** The Company has been actively promoting the potential market demand and customer resources in Southeast Asia. Throughout the Year, the Company's contracted export volume to the newly-acquired customers (including the ultimate users) amounted to 6,730 tons, accounting for 6.3% of total contracted volume for the Year, with the shipment volume amounting to 1,390 tons, accounting for 1.7% of total shipment volume for the Year.

### ***Results of the Year***

- The export volume reached 82,013 tons, remaining stable compared with 85,463 tons for 2019.
- The operating revenue reached HK\$1,933.8 million, representing a decrease of HK\$224.1 million or 10.4% on a year-on-year basis.
- The gross profit reached HK\$45.8 million, representing a decrease of HK\$8.1 million or 15.1% on a year-on-year basis.

### **Tobacco Leaf Products Import Business**

#### ***Business Overview***

In 2020, the production volume of the main tobacco production areas across the globe remained stable, while the inventory of new cigarettes stayed at a lower level. With China's economy taking the lead in recovering from the COVID-19 pandemic, the demand of cigarette manufacturers in China for overseas high-quality tobacco raw materials was expanding. However, due to the impact of the COVID-19 pandemic, the production progress in certain tobacco production areas encountered delay during the Year. From the second half of the Year to the end of the Year, the global supply chain faced disruption and the logistics capacity dropped significantly. As a result, product delivery was later than the previous year, and the cycle was prolonged.

#### ***Operation Initiatives***

1. **Promptly reacting to the outbreak of the COVID-19 pandemic and establishing new import procedures in a timely manner.** Through the strategy of "early acquisition and early processing", the Company grasped the limited period of time prior to the spreading of the COVID-19 pandemic, and performed the procedures of sample preparation, processing, sample evaluation, product inspection, negotiation and deal signing from a distance. Leveraging on the transmission of videos and the innovative import inspection and quarantine model, we successfully imported tobacco leaves under the new procedures.
2. **Continuously improving the quality control of major tobacco leaves supply areas.** We attached greater importance to the selection of quality tobacco production areas, and continued to enhance the quality of imported tobacco leaves supply through quality control measures such as sample preparation and processing.

3. **Strengthening the overall advantage of the industrial chain at source.** The Company increased efforts in procurement from major tobacco leaves supply areas to secure the stable supply of tobacco leaves. We provided solid protection for the upstream resources, so as to steadily grow our business, and continuously improve the global tobacco leaf supply chain capabilities.

### ***Results of the Year***

- The import volume reached 22,466 tons, representing a decrease of 64,795 tons or 74.3% on a year-on-year basis.
- The operating revenue reached HK\$1,350.7 million, representing a decrease of HK\$3,280.1 million or 70.8% on a year-on-year basis.
- The gross profit reached HK\$73.8 million, representing a decrease of HK\$185.9 million or 71.6% on a year-on-year basis.

### **Cigarettes Export Business**

#### ***Business Overview***

Due to the impact of the COVID-19 pandemic, global sales of duty-free cigarettes declined significantly. Governments in the areas in which we operated successively imposed measures of movement control and border control from the beginning of the Year. The duty-free shops in Thailand, Singapore, Hong Kong and Macau as well as those within or outside China's customs borders either temporarily closed or shortened their business hours due to the impact, leading to a significant decrease on a year-on-year basis in both customer traffic and sales volume and severely disturbing the economic consumption activities. In the second half of the Year, as China resumed processing of visas for mainland residents to travel to Macau, the customer traffic and consumption activities in the duty-free shops in the region began to gradually resume.

#### ***Operation Initiatives***

1. **Fostering closer communication and cooperation, and overcoming difficult times together.** With the global tourism and retail industries suffering huge blows from the COVID-19 pandemic, we maintained close connections with our suppliers and customers. We have paved way for the recovery of the duty-free cigarette sales as the impact of COVID-19 pandemic subsides by continuously expanding channels in which we had no presence and formulating more flexible pricing, payment and destocking policies, which helped accelerate the destocking of duty-free market terminals while clearing our own inventories.
2. **Comprehensively implementing policies and lowering operating costs.** On the one hand, we reduced purchasing costs of cigarettes, and on the other hand, we stepped up efforts in our control of expenditure with an aim to mitigate the impact of the COVID-19 pandemic on our profit.



- 3. Creating a more resilient product portfolio.** Taking advantage of the slowdown in sales during the COVID-19 pandemic, we adjusted our product portfolio, optimised our product structure, mapped out our post-pandemic marketing strategies, and were proactively ready ourselves for duty-free cigarette sales.

### ***Results of the Year***

- The export volume reached 429,854.2 thousand cigarettes, representing a decrease of 5,075,963.3 thousand cigarettes or 92.2% on a year-on-year basis.
- The operating revenue reached HK\$158.1 million, representing a decrease of HK\$2,003.3 million or 92.7% on a year-on-year basis.
- The gross profit reached HK\$17.1 million, representing a decrease of HK\$87.2 million or 83.6% on a year-on-year basis.

### **New Tobacco Products Export Business**

#### ***Business Overview***

The market size of global new tobacco products has been expanding year on year, in line with which, the Company's sales volume, revenue, and gross profit of this business all increased significantly as compared with the same period of last year. To date, this business has reached 28 countries (regions), with 15 Chinese new tobacco leaf product brands, including CTOM, COO, MC, PRIDE (嬌子), etc.

#### ***Operation Initiatives***

- 1. Building the marketing system of our own brands.** We continued to promote the research & development and generational upgrade of CNTC Group's brands, with brand building as the point of breakthrough and channel building as the target of efforts. We strengthened our cooperation with the related enterprises within China's tobacco system by proactively leveraging the leading position of CNTC Group's exclusive overseas platforms to continuously introduce new products, expand into new markets, and achieve a broader market coverage. In 2020, the Company introduced 5 new specifications and 9 new export target countries (regions).
- 2. Actively developing global distribution channels.** We improved our channel expansion capabilities and accelerated the global layout of our business through optimising our distributor management system, continuously developing independent channels, recruiting distributors globally and selecting partners with experiences in distribution channels and online and offline distributions in the target markets.

## ***Results of the Year***

- The export volume reached 164,990 thousand cigarettes, representing an increase of 57,440 thousand cigarettes or 53.4% on a year-on-year basis.
- The operating revenue reached HK\$38.3 million, representing an increase of HK\$11.5 million or 42.8% on a year-on-year basis.
- The gross profit reached HK\$1.1 million, representing an increase of HK\$0.2 million or 23.9% on a year-on-year basis.

## **OUTLOOK FOR 2021**

2021 will be a year full of uncertainties in respect of the development of the COVID-19 pandemic worldwide and the external environment. Border control orders and travel restriction measures may continue to exert pressure on the Company's Cigarettes Export Business. Policies on tobacco industries in certain countries and regions may cause changes in demand for Tobacco Leaf Export Business of the Company. The Company will continue to improve its risk prediction capacity, maintain its strategic focus and positive results of business operations and corporate governance under the COVID-19 pandemic in 2020, and follow its business development philosophy of "pursuing exogenous and endogenous growth" (外延與內生) to seek breakthrough in capital operation and accelerate the expansion of business innovation, which will improve satisfaction levels at tobacco leaf imports, increase the export market share of tobacco leaves, and speed up the recovery of the Cigarettes Export Business.

## **FINANCIAL REVIEW**

### **Revenue and Cost of Sales**

For the year ended 31 December 2020, the Company's revenue was HK\$3,480.9 million, representing a decrease of HK\$5,496.0 million or 61.2% on a year-on-year basis; the Company's cost of sales was HK\$3,343.1 million, representing a decrease of HK\$5,215.0 million or 60.9% on a year-on-year basis.

The decrease in revenue and cost of sales on a year-on-year basis was mainly due to the COVID-19 pandemic: 1. the COVID-19 pandemic affected certain production progress and global supply chain, which result in decrease in the amount of tobacco leaf products import; and 2. duty-free shops in Thailand, Singapore, Hong Kong and Macau as well as those within the borders but outside the customs areas of China either temporarily closed or shortened their business hours due to the COVID-19 pandemic, leading to a significant decrease in the Cigarettes Export Business.

### **Gross Profit**

For the year ended 31 December 2020, the Company's gross profit was HK\$137.8 million, representing a decrease of HK\$281.0 million or 67.1% on a year-on-year basis.

The decrease in gross profit on a year-on-year basis was mainly due to COVID-19 pandemic, which result in a decrease in the amount of tobacco leaf products import and a significant decrease of export sales of cigarettes.

### **Administrative and Other Operating Expenses**

For the year ended 31 December 2020, the Company's administrative and other operating expenses was HK\$67.0 million, representing an increase of HK\$2.0 million or 3.1% on a year-on-year basis. It mainly consists of staff cost of HK\$37.1 million, depreciation of HK\$10.7 million and legal and professional fees of HK\$13.0 million.

### **Other Income, Net**

For the year ended 31 December 2020, the Company's other income, net was HK\$38.1 million, representing an increase of HK\$11.6 million or 43.9% on a year-on-year basis.

The increase in other income, net was mainly due to increase of exchange gain and interest income.

### **Profit for the Year**

For the year ended 31 December 2020, the Company's profit after taxation was HK\$95.2 million, representing a decrease of HK\$223.7 million or 70.2% on a year-on-year basis.

The decrease in profit after taxation was mainly due to the effect from the COVID-19 pandemic as mentioned above.

## **Earnings per Share**

The calculation of basic earnings per share is based on the profit attributable to ordinary equity Shareholders of the Company of HK\$95,191,858 (2019: HK\$318,925,470) and the weighted average of 691,680,000 ordinary shares (2019: 605,140,055 shares) in issue during the year ended 31 December 2020.

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

## **Net Current Assets**

As at 31 December 2020, net current assets of the Company amounted to HK\$1,565.4 million (as at 31 December 2019: HK\$1,587.2 million).

## **Significant Investments, Acquisitions and Disposals**

The Company did not conduct any material acquisition or disposal of any subsidiary, associate or joint venture for the year ended 31 December 2020.

## **Capital Expenditures**

As at 31 December 2020, the Company had no plan relating to material investments and capital assets.

## **INDEBTEDNESS**

### **Borrowings**

As at 31 December 2020, the Company did not have any bank borrowing (as at 31 December 2019: nil).

### **Exposure to Fluctuations in Exchange Rates**

The Company was not exposed to any significant currency risks as at 31 December 2020. The Company entered into transactions primarily in U.S. dollars and did not enter into any hedging arrangements.

### **Contingent Liabilities**

As at 31 December 2020, the Company had no significant contingent liabilities (as at 31 December 2019: nil).

### **Pledge of Assets**

As at 31 December 2020, the Company did not pledge any assets (as at 31 December 2019: nil).

## **Liquidity, Financial Resources and Gearing Ratio**

As at 31 December 2020, total assets of the Company amounted to HK\$3,644.7 million (as at 31 December 2019: HK\$2,869.8 million) and cash and cash equivalents of HK\$1,613.2 million (as at 31 December 2019: HK\$1,738.0 million). The Board is of the opinion that the Company has sufficient resources to support its operations and meet its foreseeable capital expenditures. As at 31 December 2020, total liabilities of the Company amounted to HK\$2,056.8 million (as at 31 December 2019: HK\$1,266.4 million).

As at 31 December 2020, the Company had a gearing ratio (being lease liabilities divided by shareholders' equity) of 0.01 (as at 31 December 2019: 0.02).

As at 31 December 2020, the Company had a current ratio (being current assets divided by the current liabilities) of 1.8 (as at 31 December 2019: 2.3).

## **USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING**

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

The use of Net Proceeds during the period from the Listing Date up to 31 December 2020 and the expected timeline of the unutilised amount of the use of Net Proceeds are set out as follows:

Use of Net Proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK\$ million)	Amount utilised as at 31 December 2020 (HK\$ million)	Unutilised amount as at 31 December 2020 (HK\$ million)	Expected timeline
Making investments and acquisitions that are complementary to the Company's business	45%	406.8	6.1	400.7	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	3.7	177.1	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	180.6	Remainder to be utilised by 30 June 2022.
General working capital	10%	90.4	90.4	–	Not applicable
Improving the Company's management of purchase and sales resources and optimizing the Company's operational management	5%	45.2	15.3	29.9	Remainder to be utilised by 30 June 2022.
<b>Total</b>	<b>100%</b>	<b>904.0</b>	<b>115.7</b>	<b>788.3</b>	

## EMPLOYEE

As at 31 December 2020, the Company had 29 (as at 31 December 2019: 30) employees in Hong Kong.

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

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

## **PROPOSED FINAL DIVIDEND**

The Board recommends a final dividend of HK\$0.04 per share for the year ended 31 December 2020 (2019: HK\$0.16 per share).

## **OTHER INFORMATION**

### **Annual General Meeting**

The AGM will be held on 21 May 2021. A notice convening the AGM will be published on the Company's website and the Stock Exchange's website and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

### **Closure of Register of Members**

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both dates inclusive, during which period no transfer of its Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 May 2021.

## **COMPLIANCE WITH THE CODE PROVISIONS OF THE CORPORATE GOVERNANCE CODE**

The Board is committed to maintaining high corporate governance standards. For the year ended 31 December 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.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 December 2020.

## **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the Directors' securities transactions. All Directors have confirmed, following specific enquiries by the Company, that they had complied with the required standards set out in the Model Code throughout the year ended 31 December 2020.

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

During the year ended 31 December 2020, the Company did not purchase, sell or redeem any of the Company's listed securities.

## **AUDIT COMMITTEE**

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

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2020. Based on this review and discussions with management, the Audit Committee was satisfied that the annual results were prepared in accordance with applicable accounting standards and fairly present the Company's financial position and results for the year ended 31 December 2020.

## **SCOPE OF WORK OF INDEPENDENT AUDITOR**

The financial figures in this announcement of the Company's results for the year ended 31 December 2020 have been agreed by the Company's independent auditor, KPMG, Certified Public Accountants, to the amounts set out in the Company's audited financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's independent auditor.

## **EVENTS AFTER THE REPORTING PERIOD**

As at the date of this announcement, there is no major event after 31 December 2020 that is required to be disclosed by the Company.

## **PUBLICATION OF 2020 ANNUAL RESULTS AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This announcement is published on the website of the Stock Exchange at <https://www.hkexnews.hk> and the website of the Company at <http://www.ctihk.com.hk>. The annual report of the Company for the year ended 31 December 2020 will be despatched to the Shareholders and be available on the websites of the Stock Exchange and the Company in due course.

## **DEFINITIONS**

"AGM"	annual general meeting of the Company;
"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, Macau 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;
“CTIG”	China Tobacco International Group Limited (中煙國際集團有限公司), formerly known as Tian Li International Company Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company. On 2 September, 2020, China Tobacco International Inc.* (中國煙草國際有限公司) (“CTI”), the sole shareholder of CTIG and a wholly-owned subsidiary of CNTC, transferred the entire issued share capital of CTIG held by it to CNTC. Immediately after this transfer, CTIG became a direct wholly-owned subsidiary of CNTC;
“Directors”	the directors of the Company;
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Date”	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, supplemented or otherwise modified from time to time;
“Macau”	the Macau Special Administrative Region of the PRC;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
“Prospectus”	the prospectus dated 28 May 2019 issued by the Company;
“Share(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; and

“%” percent.

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

Hong Kong, 2 March 2021

*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.*