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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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023

China Tobacco International (HK) Company Limited announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2023 together with the comparative figures for the six months ended 30 June 2022 as set out below.

FINANCIAL HIGHLIGHTS			
<i>Unit: HK\$ '000</i>			
Items	For the six months ended 30 June 2023 (unaudited)	For the six months ended 30 June 2022 (unaudited)	Year-on-year change (%)
Revenue	7,743,999	3,869,412	100%
Cost of sales	(6,998,654)	(3,429,794)	104%
Gross profit	745,345	439,618	70%
Other income, net	29,671	19,613	51%
Administrative and other operating expenses	(76,978)	(59,898)	29%
Finance costs	(72,365)	(30,125)	140%
Profit before taxation	625,673	369,208	69%
Income tax	(115,133)	(91,462)	26%
Profit for the period	510,540	277,746	84%
Profit for the period attributable to			
Equity shareholders of the Company	456,952	218,978	109%
Earnings per Share			
Basic and diluted (HK\$)	0.66	0.32	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 – unaudited

	Note	Six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000
Revenue	4	7,743,999	3,869,412
Cost of sales		<u>(6,998,654)</u>	<u>(3,429,794)</u>
Gross profit		745,345	439,618
Other income, net	5	29,671	19,613
Administrative and other operating expenses		<u>(76,978)</u>	<u>(59,898)</u>
Profit from operations		698,038	399,333
Finance costs	6(a)	<u>(72,365)</u>	<u>(30,125)</u>
Profit before taxation	6	625,673	369,208
Income tax	7	<u>(115,133)</u>	<u>(91,462)</u>
Profit for the period		<u>510,540</u>	<u>277,746</u>
Profit for the period attributable to:			
Equity shareholders of the Company		456,952	218,978
Non-controlling interests		<u>53,588</u>	<u>58,768</u>
		<u>510,540</u>	<u>277,746</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2023 – unaudited

		Six months ended 30 June	
	Note	2023 HK\$'000	2022 HK\$'000
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements		<u>6,695</u>	<u>3,322</u>
Other comprehensive income for the period		<u>6,695</u>	<u>3,322</u>
Total comprehensive income for the period		<u>517,235</u>	<u>281,068</u>
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		463,647	222,300
Non-controlling interests		<u>53,588</u>	<u>58,768</u>
		<u>517,235</u>	<u>281,068</u>
Earnings per Share			
Basic and diluted (HK\$)	9	<u><u>0.66</u></u>	<u><u>0.32</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023 – unaudited

		At 30 June 2023	At 31 December 2022
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		44,722	42,748
Intangible assets		146,487	161,973
Goodwill		212,929	212,929
Trade and other receivables	10	62,716	44,310
Deferred tax assets		25,337	8,481
		<u>492,191</u>	<u>470,441</u>
Current assets			
Inventories		2,487,587	2,509,288
Current tax recoverable		–	1,965
Trade and other receivables	10	1,111,290	1,603,688
Cash and cash equivalents		2,162,934	1,785,139
		<u>5,761,811</u>	<u>5,900,080</u>
Current liabilities			
Trade and other payables and contract liabilities	11	1,204,798	1,929,323
Lease liabilities		10,852	10,751
Bank borrowings		2,303,441	2,095,137
Current tax payable		111,146	40,784
		<u>3,630,237</u>	<u>4,075,995</u>
Net current assets		<u>2,131,574</u>	<u>1,824,085</u>
Total assets less current liabilities		<u>2,623,765</u>	<u>2,294,526</u>
Non-current liabilities			
Lease liabilities		4,447	5,393
Deferred tax liabilities		–	48,772
Provision for reinstatement costs		2,829	2,771
		<u>7,276</u>	<u>56,936</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)*As at 30 June 2023 – unaudited*

		At 30 June 2023	At 31 December 2022
	Note	HK\$'000	HK\$'000
NET ASSETS		2,616,489	2,237,590
Capital and reserves			
Share capital		1,403,721	1,403,721
Reserves		944,759	619,448
Total equity attributable to equity shareholders of the Company		2,348,480	2,023,169
Non-controlling interests		268,009	214,421
TOTAL EQUITY		2,616,489	2,237,590

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 Main Board of The Stock Exchange of Hong Kong (the “**Stock Exchange**”) after completion of its initial public offering on 12 June 2019. China Tobacco International Group Limited (“**CTIG**”), a company incorporated in Hong Kong with limited liability, is the immediate parent of the Company. China National Tobacco Corporation (“**CNTC**”), a company registered in the People’s Republic of China (the “**PRC**”), is the ultimate controlling company of the Company.

The Company and its subsidiaries (collectively the “**Group**”) are engaged in the following business operations:

- export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan (the “**Tobacco Leaf Products Export Business**”);
- import of tobacco leaf products in Chinese Mainland 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 Chinese Mainland or sales of cigarettes from CNTC Group through distributors (the “**Cigarettes Export Business**”);
- export of new tobacco products to overseas market worldwide (the “**New Tobacco Products Export Business**”); and
- procurement, processing, sale of tobacco leaves and sale of agricultural materials inherent to tobacco production in Republic of Brazil (“**Brazil**”) and from Brazil to regions around the world (except China) (the “**Brazil Operation Business**”).

2 BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the unaudited interim financial report of the Group for the six months ended 30 June 2023 but is extracted from that unaudited interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Listing Rules, 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 25 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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 preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Group’s statutory annual consolidated 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) (“**Companies Ordinance**”) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 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 Group has applied the following new and amended HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform – Pillar Two model rules*

None of these amendments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the Tobacco Leaf Products Export Business, the Tobacco Leaf Products Import Business, the Cigarettes Export Business, the New Tobacco Products Export Business and the Brazil Operation 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	
	2023	2022
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Sales of tobacco leaf products	7,469,818	3,824,917
– Export sales of cigarettes	240,131	17,568
– Sales of new tobacco products	33,895	26,729
– Provision of service	155	198
	<u>7,743,999</u>	<u>3,869,412</u>

The Group recognises all its revenue point in time.

Geographical information

The following table sets out information on the geographical locations of the Group's revenue from external customers based on the location at which the Group's products are distributed to the customers.

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Chinese Mainland	6,607,111	2,616,959
Hong Kong	100,394	43,639
Republic of Indonesia	571,828	770,641
Republic of the Philippines	93,053	89,711
Arab Republic of Egypt	75,167	46,792
Brazil	69,259	43,374
Socialist Republic of Vietnam	49,353	109,327
Others	177,834	148,969
	7,743,999	3,869,412

(b) Segment reporting

The Group 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 Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group 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 Chinese Mainland 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 Chinese Mainland or sales of cigarettes from CNTC Group through distributors.
- New Tobacco Products Export Business: export of new tobacco products to overseas market worldwide.
- Brazil Operation Business: procurement, processing, sale of tobacco leaves and sale of agricultural materials inherent to tobacco production in Brazil and from Brazil to region around the world (except China).

Segment results, assets and liabilities

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

Segment assets include primarily trade and other receivables, and inventories. Segment liabilities include primarily trade and other payables and contract liabilities. The Group's all other assets and liabilities such as non-current assets, cash and cash equivalents, lease liabilities, provision for restatement costs, other payables not related to business, borrowings 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 Group's reportable segments. Other corporate income and expenses, net, mainly refers to net exchange gains/losses, administrative and other operating expenses that are not considered specifically attributed to individual segments.

Information regarding the Group's reportable segments as provided to the Group'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\$'000	Tobacco Leaf Products Import Business HK\$'000	Cigarettes Export Business HK\$'000	New Tobacco Products Export Business HK\$'000	Brazil Operation Business HK\$'000	Unallocated HK\$'000	Total HK\$'000
<i>For the six months ended</i>							
<i>30 June 2023</i>							
Reportable segment revenue	<u>746,435</u>	<u>6,448,079</u>	<u>240,131</u>	<u>33,895</u>	<u>275,459</u>	<u>–</u>	<u>7,743,999</u>
Reportable segment gross profit	<u>21,321</u>	<u>611,426</u>	<u>37,613</u>	<u>1,325</u>	<u>73,660</u>	<u>–</u>	<u>745,345</u>
Other income, net						29,671	29,671
Depreciation and amortisation						(24,820)	(24,820)
Other corporate expenses						(52,158)	(52,158)
Finance costs						(72,365)	(72,365)
Profit before taxation							625,673
Income tax							(115,133)
Profit for the period							<u>510,540</u>
<i>As at 30 June 2023</i>							
Reportable segment assets	<u>57,166</u>	<u>2,678,905</u>	<u>157,117</u>	<u>4,672</u>	<u>930,590</u>	<u>2,425,552</u>	<u>6,254,002</u>
Reportable segment liabilities	<u>90,475</u>	<u>890,657</u>	<u>117,084</u>	<u>19,501</u>	<u>18,066</u>	<u>2,501,730</u>	<u>3,637,513</u>

	Tobacco Leaf Products Export Business HK\$'000	Tobacco Leaf Products Import Business HK\$'000	Cigarettes Export Business HK\$'000	New Tobacco Products Export Business HK\$'000	Brazil Operation Business HK\$'000	Unallocated HK\$'000	Total HK\$'000
<i>For the six months ended 30 June 2022</i>							
Reportable segment revenue	<u>1,002,552</u>	<u>2,606,311</u>	<u>17,568</u>	<u>26,729</u>	<u>216,252</u>	<u>–</u>	<u>3,869,412</u>
Reportable segment gross profit	<u>25,835</u>	<u>364,611</u>	<u>3,076</u>	<u>615</u>	<u>45,481</u>	<u>–</u>	<u>439,618</u>
Other income, net						19,613	19,613
Depreciation and amortisation						(24,920)	(24,920)
Other corporate expenses						(34,978)	(34,978)
Finance costs						(30,125)	(30,125)
Profit before taxation							369,208
Income tax							(91,462)
Profit for the period							<u>277,746</u>
<i>As at 31 December 2022</i>							
Reportable segment assets	<u>54,507</u>	<u>3,541,491</u>	<u>43,380</u>	<u>2,278</u>	<u>705,921</u>	<u>2,022,944</u>	<u>6,370,521</u>
Reportable segment liabilities	<u>101,620</u>	<u>1,731,280</u>	<u>4,283</u>	<u>12,391</u>	<u>16,544</u>	<u>2,266,813</u>	<u>4,132,931</u>

5 OTHER INCOME, NET

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Net exchange (losses)/gains	(5,584)	10,279
Interest income	35,255	9,150
Others	<u>–</u>	<u>184</u>
	<u>29,671</u>	<u>19,613</u>

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Interest on bank borrowings	63,969	27,631
Interest on lease liabilities	236	436
Interest accrued on provision	58	58
Other finance cost	8,102	2,000
	<u>72,365</u>	<u>30,125</u>

(b) Other items

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Depreciation		
– owned property and equipment	5,661	4,722
– right-of-use assets	3,575	4,734
	<u>9,236</u>	<u>9,456</u>
Amortisation of intangible assets	15,583	15,464
Expense related to short-term lease	1,777	622
Impairment losses recognised on trade and other receivables	336	210
Cost of inventories	6,965,995	3,416,962
	<u>6,965,995</u>	<u>3,416,962</u>

7 INCOME TAX

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	64,929	24,750
Current tax – Overseas	115,833	61,268
Deferred tax	(65,629)	5,444
	<u>115,133</u>	<u>91,462</u>

The provision for Hong Kong Profits Tax for the six months ended 30 June 2023 is calculated at 16.5% (six months ended 30 June 2022: 16.5%) of the estimated assessable profits for the period. The Group is not eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2023 as this concession has been taken elsewhere in the larger group to which the Group belongs.

Taxation for overseas subsidiaries includes corporate income tax and social contribution tax in Brazil. The applicable rates for corporate income tax and social contribution tax in Brazil are 25% and 9%, respectively during the six months ended 30 June 2023 and 2022.

8 DIVIDENDS

Final dividend attributable to equity shareholders of the Company in respect of 2022 of HK\$20 cents per share (2021: HK\$17 cents per share) amounting to a total of HK\$138,336,000 (2021: HK\$117,586,000) was approved by the shareholders of the Company at the annual general meeting of the Company on 9 June 2023 and paid on 29 June 2023.

The Directors do not recommend a payment of any other interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: 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 2023 of HK\$456,952,000 (six months ended 30 June 2022: HK\$218,978,000) and the weighted average of 691,680,000 ordinary shares (six months ended 30 June 2022: 691,680,000 ordinary 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 TRADE AND OTHER RECEIVABLES

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Trade receivables	702,039	1,378,793
Bills receivable	37,696	2,714
	739,735	1,381,507
Deposits, prepayments and other receivables	171,259	76,264
Advances to producers	154,164	141,845
VAT and other tax recoverable	108,848	48,382
	1,174,006	1,647,998
Represented by:		
– Current portion	1,111,290	1,603,688
– Non-current portion	62,716	44,310
	1,174,006	1,647,998

Apart from long term rental deposit, other tax recoverable and certain advances to producers, all of the remaining trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Group grants short-term advances to producers in cash or agricultural inputs, which are settled through the delivery of tobacco. Additionally, it grants long-term advances to producers for the financing of the production and/or default of the producers in the settlement of their short-term debt.

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

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Within 30 days	182,069	167,241
31 to 90 days	70,066	999,542
Over 90 days	487,600	214,724
	739,735	1,381,507

The following table sets out an aging analysis of trade receivable and bills receivable based on due date as at the dates indicated:

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Not past due	253,906	1,290,410
Past due 1 to 30 days	178,526	53,549
Past due 31 to 90 days	139,930	35,526
Past due 91-180 days	167,373	2,022
	<u>739,735</u>	<u>1,381,507</u>

Trade receivables are normally due within 30 to 180 days from the date of billing. The Group generally does not hold any collateral over the balances.

11 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Trade payables	963,953	1,815,743
Dividends payables to non-controlling interests	55,179	50,964
Other payables and accruals	52,480	33,873
	<u>1,071,612</u>	<u>1,900,580</u>
Financial liabilities measured at amortised cost	133,186	27,930
Contract liabilities	—	813
Financial guarantees issued	—	—
	<u>1,204,798</u>	<u>1,929,323</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. Included in trade payables were certain amounts due to the non-controlling interests of CBT.

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 2023 HK\$'000	At 31 December 2022 HK\$'000
Within 30 days	189,863	384,964
31 to 90 days	335,413	1,123,841
Over 90 days	438,677	306,938
	<u>963,953</u>	<u>1,815,743</u>

Certain producers of CBT obtained financing from financial institutions under the rural credit policies that are implemented through a system managed by the Central Bank of Brazil (Banco Central do Brasil). CBT issued guarantees to these financial institutions with respect to the financing they provided to such producers. As at 30 June 2023, there is no guarantees issued by CBT with respect to such financing (31 December 2022: US\$9,101,000 (equivalent to HK\$70,987,000)).

In the ordinary course of business, the Group may receive quality claims made by the end customers from time to time. As at 30 June 2023, management believes such quality claims will not have a material adverse effect on the financial position or financial performance of the Group.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation for the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2023, the Group proactively seized market opportunities in accordance with its established strategic objectives and directions, achieving substantial year-on-year growth in overall results. In terms of capital operation, the Group actively engaged in identifying and screening potential merger and acquisition targets, while continuously enhancing our systematic construction and subsidiaries management to improve overall operational efficiency. For the Tobacco Leaf Products Import Business, seizing the opportunities of the resurgence in sea freight capacity following the gradual subsiding of the pandemic, we strategically harnessed this opportunity to actively allocate resources within the upstream and downstream supply chain to ensure the efficient operation of our business. For the Tobacco Leaf Products Export Business, the Group proactively responded to the uncertainties stemming from cyclical changes in the international tobacco leaf market. Specifically, we built up the long-term supply mechanisms with major customers and suppliers to strengthen the resilience of the supply chain, and optimised sales pricing strategies to increase gross profit for major categories. For the Cigarettes Export Business, the Group seized the opportunity of the relaxation of border control and responded to the market demand from duty-free channels in a timely manner, while strengthened upstream and downstream business convergence, shortened the lead time, and accelerated the recovery of the sales volume of the terminal channels. The Group also deepened its market segmentation to introduce new product based on market demand to increase market vitality and further increase the proportion of proprietary business. In respect of the New Tobacco Products Export Business, the Group fully leveraged the advantages of resource aggregation to guide and enhance the suitability between supply and demand, so as to dynamically formulate strategies for market expansion and product optimisation that aim towards increasing its market competitiveness and market share. We also improved the layout and management of trademarks in the international market and strengthened the protection of self-owned brands' intellectual property rights to reduce the operational risks. In terms of operational management of the Company, it continued to implement "Lean Management" to effectively control operational costs, and strengthened the construction of the Company's compliance system and improved the risk control system to ensure that the Company's business is operated in compliance with regulations. In terms of social responsibility, the Company has taken practical actions to realise the concept of ESG by organizing tree-planting activities to strengthen the awareness of environmental protection, providing a "nursing room" to show concern for working women, and improving the overtime and leave policies to promote work-life balance among employees. In terms of CBT's operation and management, we have controlled the cost of raw tobacco procurement to ensure the quality of products is stable and controllable. Besides, our adherence to the predetermined timeline has pushed forward the construction of local ESG system in Brazil, further establishing a strong foundation for expanding into the international market.

BUSINESS OPERATION REVIEW

Core Businesses

Tobacco Leaf Products Import Business

For the six months ended 30 June 2023 (the “**Reporting Period**”), the import volume of tobacco leaf products of the Group reached 94,222 tons, representing an increase of 42,945 tons or 84% on a year-on-year basis. The operating revenue reached HK\$6,448.1 million, representing an increase of HK\$3,841.8 million or 147% on a year-on-year basis. The gross profit reached HK\$611.4 million, representing an increase of HK\$246.8 million or 68% on a year-on-year basis. Compared to the same period last year, the significant year-on-year increase was mainly attributable to: (1) there was a substantial boost in revenue as tobacco leaves which had experienced shipment delays in 2022 due to the pandemic in past few years, arrived at the Chinese mainland ports; and (2) an increase in the unit sale price of imported tobacco leaf products during the Reporting Period as compared to the past few years.

Tobacco Leaf Products Export Business

For the six months ended 30 June 2023, the export volume of tobacco leaf products of the Group reached 31,396 tons, representing a decrease of 8,480 tons or 21% on a year-on-year basis. The operating revenue reached HK\$746.4 million, representing a decrease of HK\$256.1 million or 26% on a year-on-year basis. The gross profit reached HK\$21.3 million, representing a decrease of HK\$4.5 million or 17% on a year-on-year basis. The decline in results was mainly because: (1) the continuous rise in cigarette tax and the implementation of stricter smoking control measures in the major export areas have resulted in a reduced demand for tobacco leaves from manufacturers. and (2) the existing supplies of marketable tobacco leaves in China decreased.

Cigarettes Export Business

For the six months ended 30 June 2023, the export volume of cigarettes of the Group reached 562,943 thousand sticks, representing an increase of 497,969 thousand sticks or 766% on a year-on-year basis. The operating revenue reached HK\$240.1 million, representing an increase of HK\$222.6 million or 1,267% on a year-on-year basis. The gross profit reached HK\$37.6 million, representing an increase of HK\$34.5 million or 1,123% on a year-on-year basis. The significant growth in results was mainly due to: (1) the gradual lifting of global pandemic prevention and control measures within our operational regions has led to its rapid recovery of consumer traffic; and (2) the expansion of our markets and products, the continuous optimisation of product structure and the ongoing increase in the share of proprietary business, which drives the improvement of gross profit level.

New Tobacco Products Export Business

For the six months ended 30 June 2023, the export volume of new tobacco products of the Group reached 166,280 thousand sticks, representing an increase of 51,940 thousand sticks or 45% on a year-on-year basis. The operating revenue reached HK\$33.9 million, representing an increase of HK\$7.2 million or 27% on a year-on-year basis. The gross profit reached HK\$1.3 million, representing an increase of HK\$0.7 million or 115% on a year-on-year basis. The growth in results was mainly due to: (1) the acceleration of the expansion of international market channels and customers, seizing the growth opportunities in emerging markets, and the increase in demand for orders in the Middle East, Eastern Europe, Central Asia and Southeast Asia regions; and (2) the connection strengthened among production, supply and sales, and the collaboration of manufacturers to develop diversified products which matched the market demands in response to changes in target market demands to improve our market competitiveness and influence effectively.

Brazil Operation Business

For the six months ended 30 June 2023, the export volume of tobacco leaf products to areas outside China from CBT, a non-wholly-owned subsidiary of CTIB, reached 14,222 tons, representing an increase of 2,815 tons or 25% on a year-on-year basis. The operating revenue reached HK\$275.5 million, representing an increase of HK\$59.2 million or 27% on a year-on-year basis. The gross profit was HK\$73.7 million, representing an increase of HK\$28.2 million or 62% on a year-on-year basis. The increase in results was mainly due to: (1) shipment pace impact which led to a significant year-on-year increase in the sales volume of by-products with higher gross profit level; and (2) price increase of finished tobacco strips sold to regions outside China during the 2022 tobacco season, which exceeded the cost increase during the Reporting Period increasing the gross profit level.

PROSPECTS FOR THE SECOND HALF OF 2023

In the second half of 2023, we will uphold the tenet of “respect rules, respect market, respect investors”, and based on the strategic position of “capital markets operation platform” and “international business expansion platform” to ensure the Group’s sustainable growth. In this regard, we will emphasize on promoting the following aspects:

- Continue implementing the two-pronged strategy to drive both organic and inorganic growth and to identify, analyse, and approach potential merger and acquisition targets based on our vision and mission.
- Seize the change between supply and demand of tobacco raw materials in the international market and continue to optimise the upstream and downstream supply chain to ensure a stable supply of high-quality imported tobacco leaf in a cost-effective way.

- Follow the rising price trend in the international tobacco leaf market to adjust pricing strategy timely; enter into long-term supply agreements with major customers and suppliers to strengthen the resilience of the supply chain; actively explore new markets by seeking more sales channels and expanding the scope for business development.
- Cooperate with cigarette operators and distributors, optimise the order process, facilitate inventory turnover rate, and continue to increase the scale of proprietary business, develop new business channels, and get prepared to capture the new business development opportunities in the post-pandemic era.
- Work closely with suppliers to develop technology research and development and product reserves, enhance efforts in brand cultivation and develop emerging markets, and participate in international tobacco expositions to enhance the competitiveness and influence of the new tobacco products of the Group.
- Committed to ongoing enhancement of the internal control system, improve risk prevention and control capabilities, optimize human resource allocation, elevate the Group's ESG governance level, prioritize financing cost control, and emphasize treasury management to enhance the Group's overall operational quality.
- Strengthen the integration with CTIB and its subsidiary in operation, management, and corporate culture aspects, to enhance the Group's overall operational efficiency.

FINANCIAL REVIEW

Revenue, Cost of Sales and Gross Profit

For the six months ended 30 June 2023, the Group's revenue increased by 100% to HK\$7,744.0 million (2022: HK\$3,869.4 million) as compared with the same period in 2022, costs increased by 104% to HK\$6,998.7 million (2022: HK\$3,429.8 million) as compared with the same period in 2022 and gross profit increased by 70% to HK\$745.3 million (2022: HK\$439.6 million) as compared with the same period in 2022. The increase in the overall financial performance of the Group was mainly driven by the growth in the Tobacco Leaf Product Import Business and the Cigarettes Export Business.

Other Income, Net

For the six months ended 30 June 2023, the Group's other income, net increased by 51% to HK\$29.7 million (2022: other income, net of HK\$19.6 million) as compared with the same period in 2022, which was mainly due to the increase in the U.S. dollars benchmark interest rate, resulting in a significant increase in bank deposit interest income.

Administrative and Other Operating Expenses

For the six months ended 30 June 2023, the Group's administrative and other operating expenses increased by 29% to HK\$77.0 million (2022: HK\$59.9 million) as compared with the same period in 2022, which included staff cost of HK\$28.3 million, depreciation and amortisation of intangible assets of HK\$21.5 million and professional fees of HK\$4.8 million. The increase in administrative and other operating expenses was mainly due to the expansion of the Group's business activities, resulting in increased staff costs and professional fees.

Finance Costs

For the six months ended 30 June 2023, the Group's finance costs increased significantly by 140% to HK\$72.4 million (2022: HK\$30.1 million) as compared with the same period in 2022. The expenses were primarily interest on bank borrowings. The significant increase in finance costs was mainly due to the increase of CBT bank borrowings balance and the bank borrowings interest rates.

Profit and Total Comprehensive Income for the Reporting Period

For the six months ended 30 June 2023, net profit attributable to equity shareholders of the Company increased by 109% to HK\$457.0 million (2022: HK\$219.0 million) as compared with the same period in 2022. The Group's net profit increased by 84% to HK\$510.5 million (2022: HK\$277.7 million) as compared with the same period in 2022. The increase in net profit was mainly driven by the growth in the Tobacco Leaf Product Import Business and the Cigarettes Export Business.

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 2023 of HK\$457.0 million (six months ended 30 June 2022: HK\$219.0 million) and the weighted average of 691,680,000 ordinary Shares (six months ended 30 June 2022: 691,680,000 ordinary Shares) in issue during the interim period. For the six months ended 30 June 2023, the Group's earnings per Share was HK\$0.66 (six months ended 30 June 2022: HK\$0.32).

Diluted earnings per Share presented are the same as the basic earnings per Share as there were no potentially dilutive ordinary Shares issued.

Liquidity, Financial Resources and Gearing Ratio

Total assets of the Group amounted to HK\$6,254.0 million as at 30 June 2023 (as at 31 December 2022: HK\$6,370.5 million). The Group had cash and cash equivalents of HK\$2,162.9 million as at 30 June 2023 (as at 31 December 2022: HK\$1,785.1 million). The Board is of the opinion that the Group has sufficient resources to support its operations and meet its foreseeable capital expenditures. Total liabilities of the Group amounted to HK\$3,637.5 million as at 30 June 2023 (as at 31 December 2022: HK\$4,132.9 million).

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

As at 30 June 2023, the Group had a gearing ratio (being borrowings and lease liabilities divided by total equity) of 0.89 (as at 31 December 2022: 0.94). As at 30 June 2023, the Group had a current ratio (being the current assets divided by the current liabilities) of 1.59 (as at 31 December 2022: 1.45).

Net Current Assets

As at 30 June 2023, net current assets of the Group amounted to HK\$2,131.6 million (as at 31 December 2022: HK\$1,824.1 million).

Foreign Exchange Risk

The Group entered into transactions primarily in U.S. dollars and Real. The functional currency of CBT is U.S. dollars. Actual payments received by CBT are made in U.S. dollars, but all other costs and expenses are paid by CBT in Real. During the six months ended 30 June 2023, the Group did not enter into any hedging arrangements to hedge against our exposure to foreign exchange risk but will closely monitor such risk on an ongoing basis.

Pledge of Assets

As at 30 June 2023, the Group did not pledge any assets (as at 31 December 2022: nil).

Contingent Liabilities

As at 30 June 2023, the Group did not have significant contingent liabilities (as at 31 December 2022: nil).

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend a payment of any interim dividend for the six months ended 30 June 2023 to the Shareholders.

SIGNIFICANT INVESTMENTS

The Group did not have any significant investments during the six months ended 30 June 2023.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not conduct any material acquisition or disposal of any subsidiary, associate or joint venture during the six months ended 30 June 2023.

CAPITAL EXPENDITURES

Save as disclosed in this results announcement, the Group had no plan relating to material investments and capital assets during the six months ended 30 June 2023.

EMPLOYEES

As at 30 June 2023, the Group had 36 (as at 31 December 2022: 31) employees in Hong Kong and 232 (as at 31 December 2022: 214) employees (excluding seasonal workers) in Brazil. For the six months ended 30 June 2023, the staff cost incurred by the Group amounted to HK\$28.3 million (2022: HK\$22.8 million). The Group 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 its employees comprises basic salary, performance-related bonus and certain other employee benefits. The Group reviews the remuneration package of its employees annually in reference to the pay trend of the Hong Kong and Brazil markets with consideration of factors such as years of service, relevant professional experience, and performance evaluations.

The Group provides induction training to all employees to familiarize them with its business operations and the tobacco industry. The Group provides additional professional training specific to its 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 2023 that is required to be disclosed by the Group.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

On the Listing Date, the Company issued 166,670,000 Shares at a price of HK\$4.88 per Share pursuant to the initial public offering of the Shares, the total gross proceeds of which amounted to approximately HK\$813 million, and the Shares are listed on the Main Board of the Stock Exchange (the “**Listing**”). The closing price on the Listing Date was 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) 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 30 June 2023 is set out as follows:

Use of Net Proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK\$ million)	Unutilised amount as at 1 January 2023 (HK\$ million)	Amount utilised during the period from 1 January 2023 to the date of this announcement (HK\$ million)	Unutilised amount as at the date of this announcement (HK\$ million)	Expected timeline (as disclosed in the 2022 Annual Report)	Updated expected timeline for utilising the remaining Net Proceeds
Making investments and acquisitions that are complementary to the Group's business	45%	406.8	81.4	–	81.4	Remainder to be utilised by 30 June 2023.	Remainder to be utilised by 30 June 2025.
Supporting the ongoing growth of the Group's business	20%	180.8	174.9	1.4	173.5	Remainder to be utilised by 30 June 2023.	Remainder to be utilised by 30 June 2025.
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco market	20%	180.8	180.6	0.1	180.5	Remainder to be utilised by 30 June 2023.	Remainder to be utilised by 30 June 2025.
General working capital	10%	90.4	–	–	–	Not Applicable.	Not Applicable.
Improving the Group's management of purchase and sales resources and optimizing the Group's operational management	5%	45.2	22.5	3.4	19.1	Remainder to be utilised by 30 June 2023.	Remainder to be utilised by 30 June 2025.
Total	100%	904.0	459.4	4.9	454.5		

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

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

During the annual general meeting of the Company dated 9 June 2023, Ms. YANG Xuemei, Mr. WANG Chengrui, Mr. XU Zengyun and Ms. MAO Zilu were re-elected as executive Director, and Mr. WANG Xinhua was re-elected as an independent non-executive Director. For details, please refer to the relevant circular and announcements of the Company dated 25 April 2023 and 9 June 2023, respectively.

Mr. DAI Jiahui has become the executive Director, general manager, authorised representative, and member of the Connected Transactions Control Committee and the Strategic Development Committee of the Company following the resignation of Ms. YANG Xuemei as the executive Director, general manager, authorised representative, and member of Connected Transactions Control Committee and Strategic Development Committee of the Company with effect from 4 July 2023. For details, please refer to the Company's announcement dated 4 July 2023.

Ms. MAO Zilu, one of the Company's executive Directors, has become the deputy general manager of the Company since 20 April 2023.

Mr. CHOW SiuLui, one of the Company's independent non-executive Directors, has resigned as a non-executive Director, a member of the audit committee, and the chairman of the investment committee of Renrui Human Resources Technology Holdings Limited (Stock Code: 6919) since 19 April 2023.

Mr. CHAU Kwok Keung, one of the Company's independent non-executive Directors, has resigned as an independent non-executive Director, chairman of the audit committee, and member of the remuneration and appraisal committee and the nomination committee of Suzhou Basecare Medical Corporation Limited (Stock Code: 2170) since 14 June 2023. In addition, he has served as an independent non-executive director, chairman of the audit committee, and a member of the remuneration committee of Laekna, Inc. (Stock Code: 2105) since 16 June 2023.

Save as disclosed above and in the relevant circular and announcements of the Company dated 25 April 2023 and 9 June 2023, respectively, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

During the six months ended 30 June 2023, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2023 and the accounting principles and practices adopted by the Group, 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 2023, 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 2023.

PUBLICATION OF 2023 INTERIM RESULTS AND 2023 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 2023 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;
“CBT”	China Brasil Tabacos Exportadora S.A., a company incorporated in Brazil on 15 September 2011 with limited liability and owned as to 51% by China Tabaco Internacional do Brasil Ltda.;
“China” or “PRC”	the People’s Republic of China;
“China Tobacco” or “CNTC Group”	CNTC and its subsidiaries;
“Chinese Mainland”	PRC excluding Hong Kong SAR, Macau SAR 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;
“Companies Ordinance”	Companies Ordinance, Chapter 622 of the Laws of Hong Kong;
“Company”	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), stock code: 6055, a company incorporated in Hong Kong with limited liability;
“Connected Transactions Control Committee”	the connected transactions control committee of the Board;
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“CTIB”	China Tabaco Internacional do Brasil Ltda. (中煙國際巴西有限公司), a company incorporated in Brazil on 6 June 2002 with limited liability;
“CTIG”	China Tobacco International Group Limited (中煙國際集團有限公司), the controlling shareholder of the Company;
“Directors”	the directors of the Company;
“Group”, “we” or “our”	the Company and its subsidiaries;
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Listing Date”	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended and 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;

“Nomination Committee”	the nomination committee of the Board;
“Prospectus”	the prospectus dated 28 May 2019 issued by the Company;
“Real”	Brazilian real, the lawful currency of Brazil;
“Remuneration Committee”	the remuneration committee of the Board;
“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;
“Strategic Development Committee”	the strategic development committee of the Board;
“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

“” is for identification purpose only. If there is any inconsistency between the Chinese name and its English translation, the Chinese name shall prevail.*

Hong Kong, 25 August 2023

As at the date of this announcement, the Board comprises Mr. Shao Yan as chairman and non-executive director, Mr. Dai Jiahui, Mr. Wang Chengrui, Mr Xu Zengyun and Ms. Mao Zilu as executive directors, and Mr. Chow Siu Lui, Mr. Wang Xinhua, Mr. Chau Kwok Keung and Mr. Qian Yi as independent non-executive directors.