



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

**2023**  
**INTERIM REPORT**

# CONTENTS

I. Definitions	2
II. Company Profile	5
III. Financial Highlights	6
IV. Management Discussion and Analysis	7
V. Review of Continuing Connected Transactions	12
VI. Other Information	33
VII. Review Report of the Independent Auditors	37
VIII. Consolidated Statement of Profit or Loss and Other Comprehensive Income	38
IX. Consolidated Statement of Financial Position	39
X. Consolidated Statement of Changes In Equity	41
XI. Condensed Consolidated Statement of Cash Flows	43
XII. Notes to the Financial Statements	44
XIII. Financial Summary	58

# Definitions

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

“2021-2024 Offshore Supply Framework Agreements”	the 2021-2024 offshore tobacco leaf products long-term supply framework agreements entered into between the Company, on one hand, and each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business, on the other hand, on 17 November 2021;
“2021-2024 Tobacco Leaf Products Export Agency Agreements”	the 2021-2024 tobacco leaf products export agency agreements entered into between the Company, on one hand, and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products, on the other hand, on 17 November 2021;
“Acquisition”	an acquisition by the Company of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG;
“Agency Business in the Sales of Tobacco Leaf Products”	the Group’s agency business whereby the Group acts as an agent in certain sale transactions of tobacco leaf products as part of the Tobacco Leaf Products Export Business;
“AGM”	annual general meeting of the Company;
“Alliance One Brazil”	Alliance One Brasil Exportadora de Tabacos Ltda., a company incorporated in Brazil on 28 October 1971 with limited liability;
“Alliance One Group”	Alliance One International and its subsidiaries, including Alliance One Brazil;
“Alliance One International”	Alliance One International, LLC, a company organized under the laws of the State of North Carolina, United States in August 2018;
“Audit Committee”	the audit committee of the Board;
“Board” or “Board of Directors”	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;

\* is for identification only.

## Definitions (Continued)

“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;
“CTI”	China Tobacco International Inc.* (中國煙草國際有限公司), a company incorporated with limited liability in the PRC on 6 November 1984 and a wholly-owned subsidiary of CNTC;
“CTI Argentina”	China Tobacco International Argentina S.A., a company incorporated in Argentina on 11 November 2009 and one of the Company’s overseas suppliers. CTI Argentina is an indirectly wholly-owned subsidiary of CNTC and a connected person of the Company;
“CTI North America”	China Tobacco International (North America), Inc., a company incorporated in the State of North Carolina, United States and an indirectly wholly-owned subsidiary of CNTC;
“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;
“EGM”	an extraordinary general meeting 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;
“Latest Practicable Date”	8 September 2023, being the latest practicable date prior to the bulk printing and publication of this interim report;
“Listing Date”	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;
“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;

## Definitions (Continued)

“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;
“Offshore Supply Framework Agreements”	the Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements entered into between the Company, on one hand, and each of CBT, CTI North America and CTI Argentina, on the other hand, as of 28 November 2018;
“Prospectus”	the prospectus dated 28 May 2019 issued by the Company;
“Pyxus”	Pyxus International, Inc. (formerly known as and successor of Alliance One International Inc.), a company incorporated under the laws of the State of Virginia, United States in August 2020 and trading on the New York OTC Market (OTC: PYYX);
“R\$” or “Real”	Brazilian real, the lawful currency of Brazil;
“Remuneration Committee”	the remuneration committee of the Board;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“STMA”	the State Tobacco Monopoly Administration of the PRC (國家煙草專賣局);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Strategic Development Committee”	the strategic development committee of the Board;
“Tobacco Leaf Products Export Agency Agreements”	the tobacco leaf products export agency agreements entered into between the Company and each of certain entities under CNTC in the transactions where the Company acted as an agent as of 21 December 2018;
“U.S. dollars”	United States dollars, the lawful currency of the United States of America;
“United States”	the United States of America; and
“%”	percent.

# Company Profile

(as of the Latest Practicable Date)

<b>Name in Chinese:</b>	中煙國際(香港)有限公司
<b>Name in English:</b>	China Tobacco International (HK) Company Limited
<b>Chairman of the Board and Non-Executive Director:</b>	SHAO Yan
<b>Executive Directors:</b>	DAI Jiahui, WANG Chengrui, XU Zengyun, MAO Zilu
<b>Independent Non-Executive Directors:</b>	CHOW Siu Lui, WANG Xinhua, CHAU Kwok Keung, QIAN Yi
<b>General Manager:</b>	DAI Jiahui
<b>Company Secretary:</b>	WANG Chengrui
<b>Authorized Representatives:</b>	DAI Jiahui, WANG Chengrui
<b>Audit Committee:</b>	CHOW Siu Lui ( <i>Chairman</i> ), WANG Xinhua, CHAU Kwok Keung
<b>Remuneration Committee:</b>	CHOW Siu Lui ( <i>Chairman</i> ), SHAO Yan, WANG Xinhua
<b>Nomination Committee:</b>	SHAO Yan ( <i>Chairman</i> ), CHOW Siu Lui, WANG Xinhua
<b>Connected Transactions Control Committee:</b>	WANG Xinhua ( <i>Chairman</i> ), CHAU Kwok Keung, QIAN Yi, DAI Jiahui
<b>Strategic Development Committee:</b>	SHAO Yan ( <i>Chairman</i> ), DAI Jiahui, XU Zengyun, CHOW Siu Lui
<b>Headquarters, Registered Office and Principal Place of Business:</b>	Room 1002, 10/F, Tower A, China Life Center, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong
<b>Stock Abbreviation Name:</b>	CTIHK
<b>Stock Code:</b>	6055
<b>Legal Adviser:</b>	Linklaters
<b>Auditor:</b>	KPMG (Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance)
<b>Hong Kong Share Registrar:</b>	Computershare Hong Kong Investor Services Limited
<b>Principal Bankers:</b>	Industrial and Commercial Bank of China (Asia) Limited Bank of China (Hong Kong) Limited
<b>Company's Website:</b>	<a href="http://www.ctihk.com.hk">www.ctihk.com.hk</a>

# Financial Highlights

Unit: HK\$'000

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	

# 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 cigarette 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 organising 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.



# Management Discussion and Analysis (Continued)

## 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 the Group’s results was mainly because: (1) the continuous rise in cigarette tax and the implementation of stricter smoking control measures 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 has led to a rapid recovery of consumer traffic within our operational regions; and (2) the expansion of our markets and products, the continuous optimisation of product structure and the on-going increase in the share of proprietary business, which drives the improvement of gross profit.

#### 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) strengthening the connection among production, supply and sales, collaborating 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.

# Management Discussion and Analysis (Continued)

## 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 market, respect rules, 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, optimise 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.

# Management Discussion and Analysis (Continued)

## 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.

# Management Discussion and Analysis (Continued)

## 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 shareholders' 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).

# Review of Continuing Connected Transactions

## REVIEW OF CONTINUING CONNECTED TRANSACTIONS

### Connected Persons

#### (a) Connected Persons at Issuer Level

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

#### (b) Connected Persons at Subsidiary Level

On 26 November 2021, the Company completed the Acquisition of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG. As at the Latest Practicable Date, CBT is owned as to 51% by CTIB and 49% by Alliance One Brazil. For more information on the Acquisition, please refer to the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, CTIB has become a wholly-owned subsidiary of the Company and CBT has become an indirect non-wholly-owned subsidiary of the Company. As Alliance One International through its wholly-owned subsidiary, Alliance One Brazil, holds 49% of the total issued share capital of CBT, Alliance One Group are the Company's connected persons at the subsidiary level.

### Continuing Connected Transactions

During the the six months ended 30 June 2023, the Group conducted certain transactions with the above connected persons of the Company at the issuer level in the ordinary course of business, and these transactions constituted continuing connected transactions of the Company (the "Continuing Connected Transactions at Issuer Level") under the Listing Rules.

During the Reporting Period, the Group (including the Company and CBT) conducted certain transactions with the above connected persons of the Company at the subsidiary level in the ordinary course of business, and these transactions constituted continuing connected transactions of the Company (the "Continuing Connected Transactions at Subsidiary Level", together with the Continuing Connected Transactions at Issuer Level, the "Continuing Connected Transactions") under the Listing Rules.

We have followed the pricing policies set forth in the Exclusive Operation and Long-Term Supply Framework Agreements as well as pricing policies in connection with the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level as set forth below as well as the guidelines under the Listing Rules in determining the prices and terms of the connected transactions conducted during the Reporting Period. During the Reporting Period, the aggregate revenue amount of the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level was HK\$6,448.2 million and HK\$493.4 million, respectively, accounting for approximately 83.3% and 6.4% of our total revenue, respectively, during the Reporting Period. The total procurement of the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level was HK\$1,015.8 million and HK\$1,534.5 million, respectively, accounting for approximately 14.6% and 22.0% of our total purchase, respectively, during the Reporting Period.

The details of the Continuing Connected Transactions conducted by the Group during the Reporting Period that are subject to reporting requirement under the Listing Rules are set out in this section. Unless otherwise defined herein, capitalised terms used in this section shall have the same meaning as those defined in the Prospectus.

# Review of Continuing Connected Transactions (Continued)

## (A) Sales Transactions in the Tobacco Leaf Products Import Business

To facilitate that sales of imported tobacco leaf products to CTI, as of 30 June 2023, the Company and CTI have entered into a Tobacco Leaf Products Import Business Exclusive Operation and Long-Term Supply Framework Agreement (the “Tobacco Leaf Products Import Framework Agreement”), pursuant to which we sell imported tobacco leaf products to CTI as part of the Tobacco Leaf Products Import Business. The term of the Tobacco Leaf Products Import Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

### Parties

The Company and CTI

### Pricing Policies

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

$$P = A \times 1.06$$

Where

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

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

The price at which we procure tobacco leaf products from overseas suppliers is determined through arm’s length negotiation with (i) independent third party suppliers, or (ii) connected persons, including CTI North America, taking into consideration factors including current international market condition, relationship with the suppliers, past procurement prices, product quality and annual production volume. We utilise the same pricing mechanism in transactions with both independent third parties and connected persons. We currently sell tobacco leaf products to CTI after adding a 6% margin to our procurement prices from our suppliers, other than a small portion of tobacco leaf products imported for manufacturing certain cigarette brands, for which we apply a 3% margin.

For details of the sales transactions in the Tobacco Leaf Products Import Business, including but not limited to the background of the Tobacco Leaf Products Import Framework Agreement and the respective pricing policy of the relevant products, please refer to the Prospectus.

### Transaction Amount during the Reporting Period

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the sales transactions under the Tobacco Leaf Products Import Framework Agreement.

During the Reporting Period, the amount of the sales transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK\$6,448.1 million, accounting for 100% of the total revenue of our Tobacco Leaf Products Import Business.

# Review of Continuing Connected Transactions (Continued)

## (B) Procurement Transactions in the Tobacco Leaf Products Export Business

We conduct our Tobacco Leaf Products Export Business in our ordinary course of business. Connected transactions contemplated under our Tobacco Leaf Products Export Business include the procurement of tobacco leaf products from certain entities under CNTC, including the import-export companies and industrial companies. To facilitate the above transactions, as of 30 June 2023, the Company and each of the relevant entities under CNTC have entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the “Tobacco Leaf Products Export Framework Agreements”), pursuant to which we procure tobacco leaf products from such connected persons. The term of each Tobacco Leaf Products Export Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

### Parties

The Company and each of the entities under CNTC below:

- Shanghai Tobacco Group Co., Ltd\* (上海煙草集團有限責任公司);
- China Tobacco Zhejiang Industrial Co., Ltd\* (浙江中煙工業有限責任公司);
- China Tobacco Yunnan Industrial Co., Ltd\* (雲南中煙工業有限責任公司);
- China Tobacco Fujian Industrial Co., Ltd\* (福建中煙工業有限責任公司);
- China Tobacco Yunnan Import and Export Co., Ltd\* (中國煙草雲南進出口有限公司);
- China Tobacco Sichuan Import and Export Co., Ltd\* (中國煙草四川進出口有限責任公司);
- China Tobacco Shandong Import and Export Co., Ltd\* (中國煙草山東進出口有限責任公司);
- China Tobacco Guangdong Import and Export Co., Ltd\* (中國煙草廣東進出口有限公司);
- China Tobacco Henan Import and Export Co., Ltd\* (中國煙草河南進出口有限責任公司);
- China Tobacco Hubei Import and Export Co., Ltd\* (中國煙草湖北進出口有限責任公司);
- China Tobacco Hunan Import and Export Co., Ltd\* (中國煙草湖南進出口有限責任公司);
- China Tobacco Fujian Import and Export Co., Ltd\* (中國煙草福建進出口有限責任公司);
- China Tobacco Guizhou Import and Export Co., Ltd\* (中國煙草貴州進出口有限責任公司);
- China Tobacco Liaoning Import and Export Company\* (中國煙草遼寧進出口公司);
- China Tobacco Heilongjiang Import and Export Co., Ltd\* (中國煙草黑龍江進出口有限責任公司);
- Xinjiang Tobacco Import and Export Co., Ltd\* (新疆煙草進出口有限責任公司);

# Review of Continuing Connected Transactions (Continued)

- Zhejiang Tobacco Import and Export Co., Ltd\* (浙江煙草進出口有限公司);
- Shenzhen Tobacco Import and Export Co., Ltd\* (深圳煙草進出口有限公司);
- Shaanxi Tobacco Import and Export Co., Ltd\* (陝西煙草進出口有限責任公司); and
- Viniton Group Co., Ltd\* (柬埔寨威尼頓集團有限公司).

## Pricing Policies

With respect to our Tobacco Leaf Products Export Business, the Company first obtains indicative sales terms, which include quantity, specification, quality, acceptable price range and others, from potential independent third party customers. The Company then solicits offer from various suppliers of tobacco leaf products by obtaining samples, price quotes and price floors. The Company compares the terms and samples obtained and selects the supplier that offers the most favourable terms for commercially viable tobacco leaf products. Based on the market condition and its own evaluation of the quality of the samples, the Company provides the customers with price quotes and negotiates with them based on the suppliers' price floor. Our suppliers may also offer their products to us without any solicitation, and we will take such products into account in our future sales to customers where the products meet the demand of the customers and compare the samples as well as the other terms with those provided by the other suppliers. Procurement by the Company and by third parties from our suppliers are subject to the same pricing formula in similar transactions and therefore our procurement has been conducted based on normal commercial terms. The pricing formula is shown as below:

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

Where

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

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

The price at which the Company sells tobacco leaf products to third party customers is determined through arm's length negotiation between the parties. Specifically, our sales prices comprise: (i) our suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products (for example, the premium of tobacco leaf products produced in Yunnan Province is usually considered higher due to the different grades of tobacco leaf products); and (iv) other factors, including prevailing supply and demand in the tobacco leaf products market (such as seasonal domestic production volume and demand by overseas manufacturers for tobacco leaf products produced in different regions in China), fluctuation in the exchange rate between Hong Kong dollars and local currency at the export destinations, relationship with trading counterparties, past sales prices, local taxation at export destinations and other factors. Import tariffs charged by export destinations are borne by the buyers.

Currently, the applicable margin for exported tobacco leaf products is between 1% and 4%. Factors taken into consideration in setting these margins include relevant operating costs of the Company and reasonable profit margin. These applicable margins may be adjusted in the future based on changing market conditions and relevant costs of the Company in operating such business.



# Review of Continuing Connected Transactions (Continued)

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

## Transaction Amount during the Reporting Period

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the procurement transactions under the Tobacco Leaf Products Export Framework Agreements.

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Tobacco Leaf Products Export Business was HK\$725.1 million, accounting for 100.0% of the total purchase of our Tobacco Leaf Products Export Business.

## (C) Procurement Transactions in the Cigarettes Export Business

As of 30 June 2023, the Company and each of the relevant entities under CNTC have entered into the Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the “Cigarettes Export Framework Agreements”), pursuant to which we procure duty-free cigarettes from the Company’s connected persons. The term of each Cigarettes Export Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

### Parties

The Company and each of the entities under CNTC below:

- China Tobacco Sichuan Industrial Co., Ltd\* (四川中煙工業有限責任公司);
- China Tobacco Anhui Industrial Co., Ltd\* (安徽中煙工業有限責任公司);
- China Tobacco Jiangsu Industrial Co., Ltd\* (江蘇中煙工業有限責任公司);
- Tobacco Henan China Industrial Co., Ltd\* (河南中煙工業有限責任公司);
- China Tobacco Zhejiang Industrial Co., Ltd\* (浙江中煙工業有限責任公司);
- Shenzhen Tobacco Industrial Co., Ltd\* (深圳煙草工業有限責任公司);
- China Tobacco Hubei Industrial Co., Ltd\* (湖北中煙工業有限責任公司);
- China Tobacco Hunan Industrial Co., Ltd\* (湖南中煙工業有限責任公司);
- China Tobacco Guizhou Industrial Co., Ltd\* (貴州中煙工業有限責任公司);
- China Tobacco Shaanxi Industrial Co., Ltd\* (陝西中煙工業有限責任公司);
- China Tobacco Guangdong Industrial Co., Ltd\* (廣東中煙工業有限責任公司);

# Review of Continuing Connected Transactions (Continued)

- Hongta Liaoning Tobacco Co., Ltd\* (紅塔遼寧煙草有限責任公司);
- Shanghai Tobacco Group Co., Ltd\* (上海煙草集團有限責任公司);
- China Tobacco Shandong Industrial Co., Ltd\* (山東中煙工業有限責任公司);
- China Tobacco Chongqing Industrial Co., Ltd\* (重慶中煙工業有限責任公司);
- China Tobacco Yunnan Industrial Co., Ltd\* (雲南中煙工業有限責任公司);
- China Tobacco Jilin Industrial Co., Ltd\* (吉林煙草工業有限責任公司);
- China Tobacco Guangxi Industrial Co., Ltd\* (廣西中煙工業有限責任公司);
- China Tobacco Hebei Industrial Co., Ltd\* (河北中煙工業有限責任公司); and
- China Tobacco Jiangxi Industrial Co., Ltd\* (江西中煙工業有限責任公司).

## Pricing Policies

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

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

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

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

# Review of Continuing Connected Transactions (Continued)

## *(ii) Other Duty-Free Cigarettes*

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

Subsequently, similar as described above for premium and other first tier duty-free cigarettes, we determine sales prices of other duty-free cigarettes through arm's length negotiation with our customers in our proprietary business. With respect to customers in our incremental business, we currently determine sales prices by adding an applicable margin scale of 1% to 2%, 2% to 5% or more than 5% to our procurement prices.

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

## **Transaction Amount during the Reporting Period**

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the procurement transactions under the Cigarettes Export Framework Agreements.

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Cigarettes Export Business was HK\$195.4 million, accounting for approximately 99.7% of the total purchase of our Cigarettes Export Business.

## **(D) Procurement Transactions in the New Tobacco Products Export Business**

As of 30 June 2023, the Company and each of the relevant entities under CNTC have entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the “**New Tobacco Products Export Framework Agreements**”), pursuant to which we procure new tobacco products from such connected persons as part of our New Tobacco Products Export Business. The term of each New Tobacco Products Export Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

On 31 October 2022, the Board announced that: (i) as a result of expansion of the New Tobacco Products Export Business, after its listing on the Stock Exchange and as of 31 October 2022, the Company has entered into New Tobacco Products Export Framework Agreements with certain subsequent parties on the same terms and conditions as those of the New Tobacco Products Export Framework Agreements with the original parties; and (ii) the Company has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a modification of the existing waivers to cover the New Tobacco Products Export Framework Agreements with such subsequent parties from strict compliance with the requirements in relation to annual cap and independent shareholders' approval and the term of such transactions shall be indefinite, subject to the same conditions of the existing waivers. For details, please refer to the announcement of the Company dated 31 October 2022.

# Review of Continuing Connected Transactions (Continued)

## Parties

The Company and each of the entities under CNTC below:

- China Tobacco Shandong Industrial Co., Ltd\* (山東中煙工業有限責任公司);
- China Tobacco Henan Industrial Co., Ltd\* (河南中煙工業有限責任公司);
- China Tobacco Heilongjiang Industrial Co., Ltd\* (黑龍江煙草工業有限責任公司);
- China Tobacco Chongqing Industrial Co., Ltd\* (重慶中煙工業有限責任公司);
- Shanghai Tobacco Group Co., Ltd\* (上海煙草集團有限責任公司);
- China Tobacco Yunnan Industrial Co., Ltd\* (雲南中煙工業有限責任公司);
- China Tobacco Guangdong Industrial Co., Ltd\* (廣東中煙工業有限責任公司);
- China Tobacco Sichuan Industrial Co., Ltd\* (四川中煙工業有限責任公司)
- China Tobacco Anhui Industrial Co., Ltd\* (安徽中煙工業有限責任公司);
- China Tobacco Jiangsu Industrial Co., Ltd\* (江蘇中煙工業有限責任公司);
- China Tobacco Zhejiang Industrial Co., Ltd\* (浙江中煙工業有限責任公司);
- China Tobacco Hubei Industrial Co., Ltd\* (湖北中煙工業有限責任公司);
- China Tobacco Hunan Industrial Co., Ltd\* (湖南中煙工業有限責任公司);
- Shenzhen Tobacco Industrial Co., Ltd\* (深圳煙草工業有限責任公司);
- China Tobacco Jilin Industrial Co., Ltd\* (吉林煙草工業有限責任公司);
- China Tobacco Hebei Industrial Co., Ltd\* (河北中煙工業有限責任公司);
- China Tobacco Jiangxi Industrial Co., Ltd\* (江西中煙工業有限責任公司);
- China Tobacco Guangxi Industrial Co., Ltd\* (廣西中煙工業有限責任公司);
- Inner Mongolia Kunming Cigarette Limited Liability Company\* (內蒙古昆明捲煙有限責任公司);
- China Tobacco Guizhou Industrial Co., Ltd\* (貴州中煙工業有限責任公司); and
- China Tobacco Fujian Industrial Co., Ltd\* (福建中煙工業有限責任公司).

# Review of Continuing Connected Transactions (Continued)

## Pricing Policies

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

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

Where

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

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

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

Currently, the margins utilised in the New Tobacco Products Export Business are at least 1%. Such margins were determined taking into consideration, among others, the relevant operating costs of the Company and the cost of early-stage marketing. These margins may be adjusted by the Company in response to changes in the international market conditions and the Company's relevant operating costs.

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

## Transaction Amount during the Reporting Period

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the procurement transactions under the New Tobacco Products Export Framework Agreements.

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the New Tobacco Products Export Business was HK\$32.6 million, accounting for 100.0% of the total purchase of our New Tobacco Products Export Business.

# Review of Continuing Connected Transactions (Continued)

## (E) Procurement Transactions in the Tobacco Leaf Products Import Business

To facilitate the procurement of tobacco leaf products from the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business, the Company previously entered into the Offshore Supply Framework Agreements with each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business (as set out below), all being subsidiaries and/or associates of CNTC. The Offshore Supply Framework Agreements have expired as of 28 November 2021. To continue to facilitate such procurement of tobacco leaf products, on 17 November 2021, the Company entered into the 2021-2024 Offshore Supply Framework Agreements with each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business (as set out below), on substantially the same terms and conditions of the Offshore Supply Framework Agreements. Pursuant to each of the 2021-2024 Offshore Supply Framework Agreements, the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business shall provide long-term supply of tobacco leaf products to us in accordance with the specific terms of procurement separately agreed with us through arm's length negotiation in good faith. The term of each of the 2021-2024 Offshore Supply Framework Agreements shall be three years from 17 November 2021 to 16 November 2024. Upon expiration, the parties may negotiate to extend the term of such agreement by another three years. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. The 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated thereunder were approved by the independent Shareholders of the Company at the EGM held on 30 December 2021.

### Parties

- (in relation to the Offshore Supply Framework Agreements) the Company and each of CTI North America, CTI Argentina and CBT
- (in relation to the 2021-2024 Offshore Supply Framework Agreements) the Company and each of CTI North America and CBT

Prior to the completion of the Acquisition on 26 November 2021, CBT was owned as to 51% by CTIB, an indirectly wholly-owned subsidiary of CNTC through CTIG, and 49% by Alliance One Brazil, an indirectly wholly-owned subsidiary of Pyxus (OTC: PYYX). After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, CBT has become a non-wholly-owned subsidiary of the Company and hence ceases to be a connected person of the Company.

### Pricing Policies

The procurement of tobacco leaf products by the Company from the relevant counterparties that are entities under CNTC and thus connected persons of the Company are conducted by the Company as part of the Tobacco Leaf Products Import Business, which consists of (i) procurement of tobacco leaf products by the Company from overseas suppliers; and (ii) sale of such products by the Company to CTI for onward sales to cigarette manufacturers in the PRC. Pursuant to the Approval of Matters Including the Adjustment of Commission Rates Relating to Tobacco Leaves Import by China Tobacco International Company Limited (Zhongyanban (2018) No. 135) (中國煙草總公司關於中國煙草國際有限公司進口煙葉代理費率等事項調整的批覆(中煙辦[2018]135號)) issued by CNTC on 17 July 2018 (the "No. 135 Notice"), the margin (the "Margin") at which the Company shall add to the price at which the Company procures such products from its suppliers (the "Procurement Price") in its sales of tobacco leaf products to CTI shall be 6% (except for a small portion of tobacco leaf products imported for manufacturing certain cigarette brands which are not relevant to the Offshore Supply Framework Agreements, the 2021-2024 Offshore Supply Framework Agreements and the respective transactions

## Review of Continuing Connected Transactions (Continued)

contemplated thereunder). As disclosed in the Prospectus, the determination of the Margin under the No. 135 Notice took into account the overall transaction cost associated with the importation process born by the various parties, including the import tariff, value-added tax, our cost of operations and the risk associated with the applicable exchange rate, and the Company may apply with the STMA for adjustment of the Margin based on changing international and domestic market conditions. The Procurement Price is negotiated between the parties on an arm's length basis, taking into consideration factors including current international market condition, relationship with the relevant suppliers, past procurement prices, product quality and annual production volume. Specifically, the Procurement Price comprises: (i) suppliers' costs of raw materials; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) suppliers' costs associated with exchange rate (since suppliers procure tobacco leaves from local tobacco farmers with local currency but sell processed tobacco leaves to the Company in U.S. dollars). The applicable taxes, for example, export tax imposed by certain countries, are usually borne by the Company. The Company applies the same pricing policies in negotiating and determining the Procurement Prices with independent third parties suppliers and suppliers that are connected persons of the Company. The determination of the Procurement Prices will not affect the margin the Company charges in the Tobacco Leaf Products Import Business (to the extent relevant to the Offshore Supply Framework Agreements, the 2021-2024 Offshore Supply Framework Agreements and the respective transactions contemplated thereunder), which is fixed at 6% pursuant to the No. 135 Notice.

For further details of the procurement transactions in the Tobacco Leaf Products Import Business, including but not limited to the background of the Offshore Supply Framework Agreements and the 2021-2024 Offshore Supply Framework Agreements and the respective pricing policy of the relevant products, please refer to the Prospectus and the Company's circular dated 14 December 2021.

### **Annual Caps**

The transaction amount of the continuing connected transactions under the 2021-2024 Offshore Supply Framework Agreements for the year ended 31 December 2022, the year ending 31 December 2023 and for the period from 1 January 2024 to 16 November 2024 is expected not to exceed HK\$444.6 million, HK\$466.9 million and HK\$490.2 million, respectively.

### **Transaction Amount during the Reporting Period**

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK\$62.7 million, accounting for approximately 1.2% of the total purchase of our Tobacco Leaf Products Import Business.

# Review of Continuing Connected Transactions (Continued)

## (F) Agency Business in the Sales of Tobacco Leaf Products

We act as an agent in certain sale transactions of tobacco leaf products as part of our Tobacco Leaf Products Export Business, from which we record certain commissions. To facilitate our Agency Business in the Sale of Tobacco Leaf Products, the Company and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products that are entities under CNTC previously entered into the Tobacco Leaf Products Export Agency Agreements. The Tobacco Leaf Products Export Agency Agreements have expired as of 21 December 2021. To continue to facilitate such Agency Business in the Sale of Tobacco Leaf Products, on 17 November 2021, the Company and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products that are entities under CNTC (as set out below) entered into the 2021-2024 Tobacco Leaf Products Export Agency Agreements on substantially the same terms and conditions of the Tobacco Leaf Products Export Agency Agreements. As part of the Agency Business in the Sale of Tobacco Leaf Products, we act as an agent in the sales of tobacco leaf products in accordance with the specific terms separately agreed between us and each of the relevant counterparties through arm's length negotiation in good faith, and generate income from commission received in connection with such transactions. The term of each of the 2021-2024 Tobacco Leaf Products Export Agency Agreements shall be three years from 17 November 2021 to 16 November 2024. Upon expiration, the parties may negotiate to extend the term of such agreements by another three years. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws and regulations. The 2021-2024 Tobacco Leaf Products Export Agency Agreements and the transactions contemplated thereunder were approved by the independent Shareholders of the Company at the EGM held on 30 December 2021.

### Parties

The Company and each of the entities under CNTC below:

- Viniton Group Co., Ltd. “(柬埔寨威尼頓集團有限公司)”;
- Bang Kang Cigarette Factory, Myanmar “(緬甸邦康煙廠)”;
- Lao-China Hongta Good Luck Tobacco Co., Ltd. “(老撾寮中紅塔好運煙草有限公司)”;
- Golden Leaf (Macau) Tobacco's Manufacturing Ltd. “(金葉捲煙廠(澳門)有限公司)”;
- Hong Kong Hongta International Tobacco Company Limited. “(香港紅塔國際煙草有限公司)”



# Review of Continuing Connected Transactions (Continued)

## Pricing Policies

The rate of commission charged by the Company in connection with the transactions under the Tobacco Leaf Products Export Agency Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements is determined based on the resources devoted by the Company in connection with such transactions and varies according to the unit price of the relevant tobacco leaf products. The Company generally charges a higher commission rate for the tobacco leaf products carrying lower unit price and vice versa to derive reasonable profit. These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to the Group). The Group currently expects to receive a commission of not less than 1% for tobacco leaf products (excluding cut tobacco) and less than 1% for cut tobacco, respectively, of the contract amount as revenue in such transactions. For cut tobacco, the minimum commission rate that the Group expects to receive is 0.25% of the selling price. The minimum commission rate is determined based on the gross margin that the Group expects to generate from the sale of such products, which is (i) 0.25% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price of USD20,000 per metric ton or above, and (ii) 0.5% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price below USD20,000 per metric ton, respectively.

For further details of the Agency Business in the Sale of Tobacco Leaf Products (including the relevant pricing policies), please refer to the Prospectus and the Company's circular dated 14 December 2021.

## Annual Caps

The transaction amount of the Agency Business in the Sale of Tobacco Leaf Products (in terms of commission) under the 2021-2024 Tobacco Leaf Products Export Agency Agreements for the year ended 31 December 2022, the year ending 31 December 2023 and for the period from 1 January 2024 to 16 November 2024 is expected not to exceed HK\$3.0 million, HK\$3.3 million and HK\$3.6 million, respectively.

## Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the Agency Business in the Sales of Tobacco Leaf Products which constitute connected transactions (in terms of commission) was HK\$0.1 million, accounting for approximately 0.002% of the total revenue of our Tobacco Leaf Products Export Business.

## (G) Sale and Purchase Transactions with Alliance One Group

CBT previously entered into transactions with Alliance One Group in relation to (i) the sale of tobacco transactions, and (ii) the purchase of agricultural materials, tobacco and services transactions in the ordinary course of its business. The Group also previously entered into transactions with Alliance One International in relation to the sale and purchase of tobacco in the ordinary course of its business. After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, such existing transactions with Alliance One Group carried out in the ordinary course of business of the Group and CBT have constituted continuing connected transactions of the Company under the Listing Rules. Such existing transactions have been contemplated under (i) the Framework Tobacco Sales Agreement, (ii) the Framework Tobacco Purchase Agreement, (iii) the CBT Framework Tobacco Sales Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement (collectively, the “Alliance One Connected Transactions Agreements”), the details of which are set out below. For details, please refer to the Company's circular dated 29 September 2021.

## Review of Continuing Connected Transactions (Continued)

Pursuant to the terms of each of the Alliance One Connected Transactions Agreements, the initial term of each of the Alliance One Connected Transactions Agreements commenced upon closing of the Acquisition, being 26 November 2021, and ended on 31 December 2022 and the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 29 December 2022, the Group and the Alliance One Group entered into extension agreements to extend the term of each of the Alliance One Connected Transactions Agreements, for a period of one year from 1 January 2023 to 31 December 2023. Save for the extension of term, the transactions under each of the Alliance One Connected Transactions Agreements will be conducted on the same terms and pricing policies during the extended term as those disclosed in the the Company's circular dated 29 September 2021. Given that (i) each of Alliance One International and Alliance One Brazil is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules and transactions carried out in the ordinary course of business of the Group under the Alliance One Connected Transactions Agreements are continuing connected transactions of the Company under Chapter 14A of the Listing Rules; (ii) one or more of the applicable percentage ratios of the annual caps (on an aggregated basis) under the Listing Rules for both (a) the sale of tobacco transactions, and (b) the purchase of agricultural materials, tobacco and services transactions under the Alliance One Connected Transactions Agreements are 5% or more; and (iii) the Board (including all the independent non-executive Directors) has approved the extension agreements and transactions thereunder (including the annual caps) and all the independent non-executive Directors have confirmed that the relevant terms of the extension agreements and the transactions thereunder (including the annual caps) and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the extension agreements and the transactions thereunder (including the annual caps) are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. For details, please refer to the announcement of the Company dated 29 December 2022.

### (i) *Framework Tobacco Sales Agreement*

The Group sells and exports various grades of tobacco leaves to different customers with varying demands in the ordinary course of its business. In particular, Alliance One International procures tobacco leaves from us and sells them to its end customers in Southeast Asia, Hong Kong, Macau and Taiwan as part of its business activities. On 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Sales Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021, and provided for the principles and terms and conditions upon which the Group is to carry out the sale of tobacco leaves transactions with Alliance One Group. Pursuant to the Framework Tobacco Sales Agreement, the Group will sell to Alliance One Group certain grades of tobacco leaves targeted for its end customers in Southeast Asia, Hong Kong, Macau and Taiwan. The initial term of the Framework Tobacco Sales Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 30 May 2022, the Board adjusted upward the existing annual caps for sale of tobacco transactions contemplated (i) under the Framework Tobacco Sales Agreement; (ii) under the CBT Framework Tobacco Sales Agreement; and (iii) on an aggregated basis, each for the year ended 31 December 2022. On 29 December 2022, the term of the Framework Tobacco Sales Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

# Review of Continuing Connected Transactions (Continued)

For further details of the Framework Tobacco Sales Agreement (including the relevant pricing policies) and the revised annual cap for the Framework Tobacco Sales Agreement, please refer to the Company's circular dated 29 September 2021 and announcements dated 30 May 2022 and 29 December 2022.

## Parties

The Company and Alliance One International

## Pricing Policies

The price and amount of the sale of tobacco leaves transactions contemplated under the Framework Tobacco Sales Agreement are separately negotiated between relevant members of the Group and relevant members of Alliance One Group on an arm's length basis. In particular, the tobacco leaves are priced with reference to (i) the volume and quality of tobacco leaves sold, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) the Group's procurement costs for such tobacco leaves, including cost of raw material, utility cost, rent of factory premises, shipping costs, storage expenses and staff costs; and (iii) other factors such as seasonal demand and past sales prices. The same pricing mechanism is adopted for sale of tobacco leaves to independent third parties of the Group.

## Annual Caps

The revised annual cap for the sale of tobacco transactions under the Framework Tobacco Sales Agreement for the year ended 31 December 2022 is US\$104.0 million (equivalent to HK\$811.2 million). The transaction amount of the sale of tobacco transactions under the Framework Tobacco Sales Agreement for the year ending 31 December 2023 is expected not to exceed US\$114.4 million (equivalent to HK\$892.3 million).

## Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the sale of tobacco transactions under the Framework Tobacco Sales Agreement which constitutes connected transactions was HK\$242.2 million.

### (ii) *CBT Framework Tobacco Sales Agreement*

CBT sells tobacco leaves of various grades to different customers in the ordinary course of its business. Those customers include Alliance One Group, who procures tobacco leaves and sells them to end customers as part of its business activities. In addition, certain end customers maintain internal lists of approved tobacco merchants and would only trade with those approved tobacco merchants on their lists. Certain members of Alliance One Group are such approved tobacco merchants for such end customers, while CBT is not and would need to sell tobacco leaves to Alliance One Group for onward sales to such end customers. On 23 September 2021, CBT and Alliance One International entered into the CBT Framework Tobacco Sales Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021, and provided for the principles and terms and conditions upon which CBT is to carry out the sale of tobacco leaves transactions with Alliance One Group. Pursuant to the CBT Framework Tobacco Sales Agreement, CBT will sell to Alliance One Group: (i) certain grades of tobacco leaf products; and (ii) tobacco leaf products for onward sales to other end customers through Alliance One Group's distribution channels. The initial term of the CBT Framework Tobacco Sales Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the

# Review of Continuing Connected Transactions (Continued)

Listing Rules and other applicable laws. On 30 May 2022, the Board adjusted upward the existing annual caps for sale of tobacco transactions contemplated (i) under the Framework Tobacco Sales Agreement, (ii) under the CBT Framework Tobacco Sales Agreement and (iii) on an aggregated basis, each for the year ended 31 December 2022. On 29 December 2022, the term of the CBT Framework Tobacco Sales Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

For further details of the CBT Framework Tobacco Sales Agreement (including the relevant pricing policies) and the revised annual cap for the CBT Framework Tobacco Sales Agreement, please refer to the Company's circular dated 29 September 2021 and announcements dated 30 May 2022 and 29 December 2022.

## Parties

CBT and Alliance One International

## Pricing Policies

The price and amount of the sale of tobacco leaves transactions contemplated under the CBT Framework Tobacco Sales Agreement are separately negotiated between CBT and relevant members of Alliance One Group on an arm's length basis. In particular, the tobacco leaves are priced with reference to (i) the volume and quality of tobacco leaves sold, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) CBT's procurement costs for such tobacco leaves, including cost of raw material, utility cost, rent of factory premises, shipping costs, storage expenses and staff costs; and (iii) other factors such as seasonal demand, applicable exchange rates and taxation. The same pricing mechanism is adopted for sale of tobacco leaves to independent third parties of CBT.

## Annual Caps

The revised annual cap for the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement for the year ended 31 December 2022 is US\$79.0 million (equivalent to HK\$616.2 million). The transaction amount of the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement for the year ending 31 December 2023 is expected not to exceed US\$148.0 million (equivalent to HK\$1,154.4 million).

## Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement which constitutes connected transactions was HK\$251.2 million.

### *(iii) Framework Tobacco Purchase Agreement*

As part of the Group's import business and in order to meet the demand of its end customers for high quality grades of tobacco leaves, the Company procures tobacco leaves from various suppliers in the ordinary course of its business, including from Alliance One International, who procures tobacco leaves from tobacco farmers and processes and sells such tobacco leaves to its customers, including the Group, as part of its business. Such transactions enable the Group to secure a sufficient amount of high quality tobacco leaf products to meet the demands of its end customers. On 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Purchase Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021. The Framework Tobacco Purchase Agreement provides for the principles and terms and conditions upon which the Group and Alliance One Group are to carry out the purchase of tobacco leaves transactions. Pursuant to the Framework

# Review of Continuing Connected Transactions (Continued)

Tobacco Purchase Agreement, the Group will procure from Alliance One Group certain high quality grades of tobacco leaves. The initial term of the Framework Tobacco Purchase Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 29 December 2022, the term of the Framework Tobacco Purchase Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

For further details of the Framework Tobacco Purchase Agreement (including the relevant pricing policies), please refer to the Company's circular dated 29 September 2021 and announcement dated 29 December 2022.

## Parties

The Company and Alliance One International

## Pricing Policies

The price and amount of the purchase of tobacco leaves transactions contemplated under the Framework Tobacco Sales Agreement are separately negotiated between relevant members of the Group and relevant members of Alliance One Group on an arm's length basis. In particular, the tobacco leaves are priced with reference to (i) the volume and quality of tobacco leaves offered, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) procurement costs for such tobacco leaves, including cost of raw material, utility cost, rent of factory premises, shipping costs, storage expenses and staff costs; and (iii) other factors such as seasonal demand and past procurement prices. The same pricing mechanism is adopted for purchase of tobacco leaves from independent third parties of the Group.

## Annual Caps

The transaction amount of the purchase of tobacco and services transactions under the Framework Tobacco Purchase agreement for the year ended 31 December 2022 and the year ending 31 December 2023 is expected not to exceed US\$264.4 million (equivalent to HK\$2,062.3 million) and US\$475.5 million (equivalent to HK\$3,708.9 million), respectively.

## Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the purchase of tobacco transactions under the Framework tobacco Purchase Agreement which constitutes connected transactions was HK\$1,312.7 million.

# Review of Continuing Connected Transactions (Continued)

## *(iv) CBT Framework Tobacco and Services Purchase Agreement*

In order to sell and export tobacco leaf products, CBT procures agricultural materials, tobacco leaves and processing services from various suppliers in the ordinary course of its business. Those suppliers include Alliance One Brazil, who sells agricultural materials and tobacco leaves, as well as operates processing facilities as part of its business activities. The transactions with Alliance One Brazil enable CBT to secure a sufficient amount of high quality tobacco leaf products to meet the demands of its end customers. On 23 September 2021, CBT and Alliance One Brazil entered into the CBT Framework Tobacco and Services Purchase Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021. The CBT Framework Tobacco and Services Purchase Agreement provides for the principles and terms and conditions upon which CBT and Alliance One Brazil are to carry out the purchase of agricultural materials, tobacco leaves and processing services transactions. Pursuant to the CBT Framework Tobacco and Services Purchase Agreement, CBT will procure from Alliance One Brazil: (i) agricultural materials for the production of tobacco leaf products, such as seeds and fertilizers; (ii) high quality tobacco leaf products; and (iii) processing services to manufacture tobacco leaves into tobacco leaf products. The initial term of the CBT Framework Tobacco and Services Purchase Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 30 May 2022, the Board adjusted upward the existing annual caps (i) for purchase of agricultural materials, tobacco leaves and service transactions contemplated under the CBT Framework Tobacco and Services Purchase Agreement and (ii) accordingly, for purchase of agricultural materials, tobacco leaves and service transactions contemplated under the Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement on an aggregated basis, each for the year ended 31 December 2022. On 29 December 2022, the term of the CBT Framework Tobacco and Services Purchase Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

For further details of the CBT Framework Tobacco and Services Purchase Agreement (including the relevant pricing policies) and the revised annual cap for the CBT Framework Tobacco and Services Purchase Agreement, please refer to the Company's circular dated 29 September 2021 and announcements dated 30 May 2022 and 29 December 2022.

### **Parties**

CBT and Alliance One Brazil

### **Pricing Policies**

The price and amount of the purchase of agricultural materials, tobacco leaves and processing services transactions contemplated under the CBT Framework Tobacco and Services Purchase Agreement are separately negotiated between CBT and Alliance One Brazil on an arm's length basis. In particular:

- (a) In respect of the purchase of agricultural materials, a fixed margin of approximately 2.5% is added to Alliance One Brazil's procurement price of the agricultural materials, representing Alliance One Brazil's expenses for the administration, loading, handling, storage and shipping of the agricultural materials.

## Review of Continuing Connected Transactions (Continued)

- (b) In respect of the purchase of tobacco leaves, price is determined by: (i) the volume and quality of tobacco leaves offered, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) the price range for tobacco leaves of the same quality, as compared to prices offered by independent third party suppliers; and (iii) negotiations with CBT's end customers regarding their retail price and reasonable profit margins. The same pricing mechanism is adopted for the purchase of tobacco leaves from independent third parties of CBT.
- (c) In respect of the purchase of processing services, for the six months ended 30 June 2023, a fixed fee of approximately R\$1.139 is charged for each kilogram of tobacco leaves processed, respectively, where such fixed fee is mainly comprised of labour costs, utility costs, and storage costs for the processing services. Such fixed fee is determined on a yearly basis taking into account the potential increase in the aforementioned costs.

### Annual Caps

The revised annual cap for the purchase of agricultural materials, tobacco leaves and service transactions under the CBT Framework Tobacco and Services Purchase Agreement for the year ended 31 December 2022 is US\$75.2 million (equivalent to HK\$586.6 million). The transaction amount of the purchase of tobacco and services transactions under the CBT Framework Tobacco and Services Agreement for the year ending 31 December 2023 is expected not to exceed US\$108.0 million (equivalent to HK\$842.4 million).

### Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the purchase of tobacco and services transactions under the CBT Framework Tobacco and Services Purchase Agreement which constitutes connected transactions was HK\$221.8 million.

Save as disclosed above, none of the other related party transactions set out in the note 16 of the financial statements constitutes connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules. Save as disclosed in this interim report, the Group has no connected transactions which are required to be disclosed under Chapter 14A of the Listing Rules from 1 January 2023 to 30 June 2023.

At the time of the initial public offering of the Company, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted the Company, a waiver from strict compliance with:

- in respect of the Continuing Connected Transactions of types A, B, C and D above, the requirements for (i) announcement, (ii) independent Shareholders' approval, (iii) setting a term of no more than three years and (iv) setting annual caps under Chapter 14A of the Listing Rules; and
- in respect of the Continuing Connected Transactions under the Offshore Supply Framework Agreements and the Tobacco Leaf Products Export Agency Agreements of types E and F above, the requirements for (i) announcement and (ii) independent Shareholders' approval under Chapter 14A of the Listing Rules.

## Review of Continuing Connected Transactions (Continued)

The Continuing Connected Transactions under the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements of types E and F above are subject to the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcements dated 17 November 2021 and 30 December 2021 and circular dated 14 December 2021.

The Continuing Connected Transactions at Subsidiary Level of type G above are subject to the requirements for reporting and announcement but are exempt from the circular, independent financial advice and Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. For details, please refer to the Company's announcements dated 23 September 2021, 22 October 2021, 29 November 2021, 30 May 2022 and 29 December 2022 and circular dated 29 September 2021.

On the basis of the above, the Group confirms that it has complied with the requirements of Chapter 14A of the Listing Rules in relation to all connected transactions and continuing connected transactions to which the Group was a party during the Reporting Period.

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

The independent non-executive Directors of the Company (the "INEDs") have reviewed the continuing connected transactions (the "Continuing Connected Transactions") conducted by the Group during the Reporting Period. In particular, to ensure the fairness of the Continuing Connected Transactions, the INEDs have performed the following works, which apply to the Continuing Connected Transactions of types A, B, C and D above (the "CCTs of Indefinite Term"), the Continuing Connected Transactions of types E and F (the "CCTs of Fixed Terms") and the Continuing Connected Transactions of type G (the "CCTs with Alliance One Group"), respectively: (i) reviewed the financial information of the Group to understand the Continuing Connected Transactions entered into during the Reporting Period; (ii) reviewed various transaction documents to consider whether the Continuing Connected Transactions have complied with the agreements governing such transactions, the pricing policies and whether the contract terms are conducted on the normal commercial terms or better to the Group on the sampling basis; (iii) reviewed the reports of the independent financial adviser of the Continuing Connected Transactions during the Reporting Period; (iv) convened the special meetings of the Connected Transactions Control Committee to discuss the review conducted by the Connected Transactions Control Committee of the Continuing Connected Transactions during the Reporting Period (the "Review"), and the review opinions on the Continuing Connected Transactions jointly with the independent financial adviser; (v) reviewed the audited financial statements of the Group for the Reporting Period with disclosure note on related party transactions included therein; and (vi) convened the special meetings of the Connected Transactions Control Committee to enquire the management about its control measures and implementations in relation to the Continuing Connected Transactions. In connection with the CCTs with Alliance One Group, the INEDs have also sampled and reviewed contracts with independent third parties to compare relevant key commercial terms with those in the CCTs with Alliance One Group.

The aggregate transaction amount of the CCTs of Indefinite Term which have been covered by the Review are approximately HK\$4,716.3 million, HK\$537.9 million, HK\$151.4 million and HK\$22.1 million, respectively, representing not less than 50% of the total sales transaction amount of each type of transactions during the Reporting Period.



## Review of Continuing Connected Transactions (Continued)

In addition to the above works, the INEDs have confirmed that during the Reporting Period, the Continuing Connected Transactions had been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better to the Group; and (iii) according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

### REVIEW OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER

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

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

In addition, the Company has engaged Somerley to review the CCTs of Fixed Terms and the CCTs with Alliance One Group for the Reporting Period. Somerley has confirmed that the CCTs of Fixed Terms and the CCTs with Alliance One Group during the Reporting Period have been entered into: 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better to the Group; and 3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

# Other Information

## INTERIM DIVIDEND

The Board does not recommend a payment of any interim dividend for the six months ended 30 June 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 interim report, 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 interim report, 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.

## Other Information (Continued)

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 report (HK\$ million)	Unutilised amount as at the date of this report (HK\$ million)	Expected timeline for utilising the remaining Net Proceeds (as disclosed in an announcement of the Company dated 28 June 2023)
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 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 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 2025.
General working capital	10%	90.4	–	–	–	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 2025.
<b>Total</b>	<b>100%</b>	<b>904.0</b>	<b>459.4</b>	<b>4.9</b>	<b>454.5</b>	

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.

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

As at 30 June 2023, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that is recorded in the register required to be kept under section 352 of the SFO or any interests otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Other Information (Continued)

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

At no time during the six months ended 30 June 2023 was the Company, any of its holding companies, or any of its holding companies' subsidiaries a party for any arrangement to enable the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

#### Long Positions in the Shares and Underlying Shares of the Company

	Nature of interest	Ordinary shares held	Percentage of the total number of issued shares <sup>2</sup>	
(i)	CTIG	Beneficial owner	500,010,000	72.29%
(ii)	CNTC <sup>1</sup>	Interest in a controlled corporation	500,010,000	72.29%

Notes:

1. In light of the fact that CNTC directly controls one third or more of the voting rights in the shareholders' meetings of CTIG, in accordance with the SFO, the interests of CTIG are deemed to be, and have therefore been included in, the interests of CNTC.
2. As at 30 June 2023, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 30 June 2023, no other person (other than a Director or the chief executive of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

### CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

During the annual general meeting of the Company dated 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.

## Other Information (Continued)

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 Siu Lui, 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.

### **APPENDIX 16 TO THE LISTING RULES**

According to paragraph 40 of Appendix 16 to the Listing Rules headed "Disclosure of Financial Information", save as disclosed in this report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the 2022 annual report of the Company.

# Review Report of the Independent Auditors



Review report to the board of directors  
of China Tobacco International (HK) Company Limited  
(Incorporated in Hong Kong with limited liability)

## Introduction

We have reviewed the interim financial report set out on pages 38 to 57 which comprises the consolidated statement of financial position of China Tobacco International (HK) Company Limited and its subsidiaries as of 30 June 2023 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2023 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

**KPMG**  
*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

25 August 2023

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2023 – unaudited (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000
Revenue	4	7,743,999	3,869,412
Cost of sales		(6,998,654)	(3,429,794)
<b>Gross profit</b>		<b>745,345</b>	<b>439,618</b>
Other income, net	5	29,671	19,613
Administrative and other operating expenses		(76,978)	(59,898)
<b>Profit from operations</b>		<b>698,038</b>	<b>399,333</b>
Finance costs	6(a)	(72,365)	(30,125)
<b>Profit before taxation</b>	6	<b>625,673</b>	<b>369,208</b>
Income tax	7	(115,133)	(91,462)
<b>Profit for the period</b>		<b>510,540</b>	<b>277,746</b>
<b>Profit for the period attributable to:</b>			
Equity shareholders of the Company		456,952	218,978
Non-controlling interests		53,588	58,768
		<b>510,540</b>	<b>277,746</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements		6,695	3,322
<b>Other comprehensive income for the period</b>		<b>6,695</b>	<b>3,322</b>
<b>Total comprehensive income for the period</b>		<b>517,235</b>	<b>281,068</b>
<b>Total comprehensive income for the period attributable to:</b>			
Equity shareholders of the Company		463,647	222,300
Non-controlling interests		53,588	58,768
		<b>517,235</b>	<b>281,068</b>
<b>Earnings per Share</b>			
Basic and diluted (HK\$)	9	0.66	0.32

The notes on pages 44 to 57 form part of this interim financial report.

# Consolidated Statement of Financial Position

As at 30 June 2023 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		44,722	42,748
Intangible assets		146,487	161,973
Goodwill		212,929	212,929
Trade and other receivables	11	62,716	44,310
Deferred tax assets		25,337	8,481
		<b>492,191</b>	<b>470,441</b>
<b>Current assets</b>			
Inventories	10	2,487,587	2,509,288
Current tax recoverable		–	1,965
Trade and other receivables	11	1,111,290	1,603,688
Cash and cash equivalents	12	2,162,934	1,785,139
		<b>5,761,811</b>	<b>5,900,080</b>
<b>Current liabilities</b>			
Trade and other payables and contract liabilities	13	1,204,798	1,929,323
Lease liabilities		10,852	10,751
Bank borrowings	14	2,303,441	2,095,137
Current tax payable		111,146	40,784
		<b>3,630,237</b>	<b>4,075,995</b>
<b>Net current assets</b>		<b>2,131,574</b>	<b>1,824,085</b>
<b>Total assets less current liabilities</b>		<b>2,623,765</b>	<b>2,294,526</b>
<b>Non-current liabilities</b>			
Lease liabilities		4,447	5,393
Deferred tax liabilities		–	48,772
Provision for reinstatement costs		2,829	2,771
		<b>7,276</b>	<b>56,936</b>



# Consolidated Statement of Financial Position (Continued)

As at 30 June 2023 – unaudited (Expressed in Hong Kong dollars)

	Note	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
<b>NET ASSETS</b>		<b>2,616,489</b>	<b>2,237,590</b>
<b>Capital and reserves</b>	15		
Share capital		1,403,721	1,403,721
Reserves		944,759	619,448
<b>Total equity attributable to equity shareholders of the Company</b>		<b>2,348,480</b>	<b>2,023,169</b>
<b>Non-controlling interests</b>		<b>268,009</b>	<b>214,421</b>
<b>TOTAL EQUITY</b>		<b>2,616,489</b>	<b>2,237,590</b>

The notes on pages 44 to 57 form part of this interim financial report.

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023 – unaudited (Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company								Total HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Profit retention reserve HK\$'000	Retained earnings HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	
Balance at 1 January 2022	1,403,721	-	(365,934)	(134,318)	7,611	851,193	1,762,273	221,066	1,983,339
Profit for the period	-	-	-	-	-	218,978	218,978	58,768	277,746
Other comprehensive income	-	-	-	3,322	-	-	3,322	-	3,322
Total comprehensive income	-	-	-	3,322	-	218,978	222,300	58,768	281,068
Dividends approved in respect of prior year (note 8)	-	-	-	-	-	(117,586)	(117,586)	-	(117,586)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(44,936)	(44,936)
Balance at 30 June 2022	1,403,721	-	(365,934)	(130,996)	7,611	952,585	1,866,987	234,898	2,101,885

# Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2023 – unaudited (Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total
	Share capital	Capital reserve	Merger reserve	Exchange reserve	Profit retention reserve	Retained earnings	Sub-total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2023	1,403,721	-	(365,934)	(130,741)	7,611	1,108,512	2,023,169	214,421	2,237,590
Profit for the period	-	-	-	-	-	456,952	456,952	53,588	510,540
Other comprehensive income	-	-	-	6,695	-	-	6,695	-	6,695
Total comprehensive income	-	-	-	6,695	-	456,952	463,647	53,588	517,235
Dividends approved in respect of prior year (note 8)	-	-	-	-	-	(138,336)	(138,336)	-	(138,336)
Balance at 30 June 2023	1,403,721	-	(365,934)	(124,046)	7,611	1,427,128	2,348,480	268,009	2,616,489

The notes on pages 44 to 57 form part of this interim financial report.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023 – unaudited (Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
<b>Operating activities</b>		
Cash generated from/(used in) operations	494,428	(324,940)
Income tax paid	(108,435)	(75,379)
<b>Net cash generated from/(used in) operating activities</b>	<b>385,993</b>	<b>(400,319)</b>
<b>Investing activities</b>		
Payment for purchase of property and equipment	(7,439)	(3,061)
Payment for purchase of intangible assets	(19)	(325)
Interest received	6,784	5,545
<b>Net cash (used in)/generated from investing activities</b>	<b>(674)</b>	<b>2,159</b>
<b>Financing activities</b>		
Proceeds from new bank borrowings	2,352,480	1,841,619
Repayment of bank borrowings	(2,113,059)	(1,046,343)
Dividends paid to equity shareholders of the Company	(138,336)	–
Other cash flows arising from financing activities	(107,317)	(35,340)
<b>Net cash (used in)/generated from financing activities</b>	<b>(6,232)</b>	<b>759,936</b>
<b>Net increase in cash and cash equivalents</b>	<b>379,087</b>	<b>361,776</b>
Cash and cash equivalents at 1 January	1,785,139	1,658,972
Effect of foreign exchange rate changes	(1,292)	3,322
<b>Cash and cash equivalents at 30 June</b>	<b>2,162,934</b>	<b>2,024,070</b>

The notes on pages 44 to 57 form part of this interim financial report.

# Notes to the Financial Statements

## 1 GENERAL INFORMATION

China Tobacco International (HK) Company Limited (the “Company”) is incorporated in Hong Kong as a limited liability company and its shares are listed on the 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”).

# Notes to the Financial Statements (Continued)

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 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 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.

# Notes to the Financial Statements (Continued)

## 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
	<b>7,743,999</b>	<b>3,869,412</b>

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
	<b>7,743,999</b>	<b>3,869,412</b>

# Notes to the Financial Statements (Continued)

## 4 REVENUE AND SEGMENT REPORTING *(continued)*

### (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 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 a 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.



# Notes to the Financial Statements (Continued)

## 4 REVENUE AND SEGMENT REPORTING *(continued)*

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 30 June 2023</i>							
Reportable segment revenue	746,435	6,448,079	240,131	33,895	275,459	-	7,743,999
Reportable segment gross profit	21,321	611,426	37,613	1,325	73,660	-	745,345
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							510,540
<i>As at 30 June 2023</i>							
Reportable segment assets	57,166	2,678,905	157,117	4,672	930,590	2,425,552	6,254,002
Reportable segment liabilities	90,475	890,657	117,084	19,501	18,066	2,501,730	3,637,513

# Notes to the Financial Statements (Continued)

## 4 REVENUE AND SEGMENT REPORTING (continued)

	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	1,002,552	2,606,311	17,568	26,729	216,252	–	3,869,412
Reportable segment gross profit	25,835	364,611	3,076	615	45,481	–	439,618
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							277,746
<i>As at 31 December 2022</i>							
Reportable segment assets	54,507	3,541,491	43,380	2,278	705,921	2,022,944	6,370,521
Reportable segment liabilities	101,620	1,731,280	4,283	12,391	16,544	2,266,813	4,132,931

## 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	–	184
	29,671	19,613

# Notes to the Financial Statements (Continued)

## 6 PROFIT BEFORE TAXATION

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

### (a) Finance costs

	Six months ended 30 June	
	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

# Notes to the Financial Statements (Continued)

## 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
	115,133	91,462

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 INVENTORIES

At 30 June 2023 and 31 December 2022, the Group's inventories comprise mainly of tobacco leaf products that were in the warehouse and in transit in the course of sales.

# Notes to the Financial Statements (Continued)

## 11 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

# Notes to the Financial Statements (Continued)

## 11 TRADE AND OTHER RECEIVABLES *(continued)*

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
	739,735	1,381,507

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.

## 12 CASH AND CASH EQUIVALENTS

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Cash at bank and on hand	1,615,301	1,756,344
Bank certificates of deposits	547,633	28,795
	2,162,934	1,785,139

At 30 June 2023 and 31 December 2022, bank certificates of deposits were with original maturity of less than 6 months and they were held for the purpose of meeting short-term cash commitments.

## 13 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 payable to non-controlling interests	55,179	50,964
Other payables and accruals	52,480	33,873
Financial liabilities measured at amortised cost	1,071,612	1,900,580
Contract liabilities	133,186	27,930
Financial guarantees issued	-	813
	1,204,798	1,929,323

## Notes to the Financial Statements (Continued)

### 13 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES *(continued)*

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
	<b>963,953</b>	<b>1,815,743</b>

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.

### 14 BANK BORROWINGS

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
Advances on foreign exchange contracts	1,043,390	1,412,755
Export prepayments	548,504	682,382
Other borrowings	711,547	–
	<b>2,303,441</b>	<b>2,095,137</b>

At the end of each reporting period, all of the bank borrowings were unsecured, carried at amortised cost and expected to be settled within one year. All of the bank borrowings bore fixed interest and the weighted average interest rates as at 30 June 2023 were 7.92% per annum (31 December 2022: 4.75% per annum).

# Notes to the Financial Statements (Continued)

## 15 CAPITAL AND RESERVES

	No. of shares	HK\$'000
Ordinary shares, issued and fully paid:		
At 1 January, 30 June and 31 December 2022 and 1 January and 30 June 2023	691,680,000	1,403,721

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

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

## 16 MATERIAL RELATED PARTY TRANSACTIONS

CNTC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company.

Related parties include (i) the CNTC Group and its associates and joint ventures, other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over, key management personnel of the Group and the CNTC Group, their close family members and any entity, of any member of a group of which it is a part, provides key management personnel services to the Company's parent; and (ii) the Pyxus Group ("Pyxus"), namely Pyxus International, Inc. and its subsidiaries (including Alliance One Brasil Exportadora de Tabacos Ltda., the non-controlling interests of CBT).

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of material related party transactions entered into in the ordinary course of business between the Group and its related parties during the reporting period and balances arising therefrom.



# Notes to the Financial Statements (Continued)

## 16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (a) Transactions with the CNTC Group and other related parties

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
– Sales of tobacco leaf products to a fellow subsidiary	6,448,079	2,606,311
– Sales of tobacco leaf products to Pyxus	493,360	583,684
– Sales of new tobacco products to an associate of the CNTC Group	2,946	2,960
– Commission income from fellow subsidiaries	155	198
– Procurement of tobacco leaf products from fellow subsidiaries	787,848	976,717
– Procurement of cigarettes from fellow subsidiaries	195,360	8,290
– Procurement of new tobacco products from fellow subsidiaries	32,570	26,114
– Procurement of tobacco leaf products and services from Pyxus	1,534,524	770,717

During the six months ended 30 June 2023, sales of HK\$2,946,000 (six months ended 30 June 2022: HK\$2,960,000) in respect of New Tobacco Products Export Business were made to an associate of the CNTC Group that is not considered as a connected person defined under Chapter 14A of the Listing Rules. Except for such sales transactions, all the related party transactions above constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

# Notes to the Financial Statements (Continued)

## 16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (a) Transactions with the CNTC Group and other related parties *(continued)*

As at 30 June 2023 and 31 December 2022, balances arising from the above transactions, which are unsecured and interest-free, are included in the following financial statement captions as summarised below:

	At 30 June 2023 HK\$'000	At 31 December 2022 HK\$'000
<b>Trade receivables from:</b>		
– fellow subsidiaries	488,163	1,132,429
– Pyxus	151,969	187,230
<b>Prepayments for goods to:</b>		
– fellow subsidiaries	112,738	10,995
<b>Trade payables to:</b>		
– fellow subsidiaries	101,325	236,633
– Pyxus	250,905	576,698
<b>Other payables and accruals, including contract liabilities and dividends payables to:</b>		
– fellow subsidiaries	964	2,171
– Pyxus	55,179	58,131

### (b) Key management personnel remuneration

The remuneration of key management members, who are the Directors of the Company during the period, was as follows:

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Directors' fees	720	720
Salaries, allowances and benefits in kind	4,563	4,493
Retirement scheme contributions	220	171
	5,503	5,384

### (c) Transactions with other state-controlled entities in the PRC

The Group has transactions with other state-controlled entities including but not limited to bank deposits. These transactions are conducted in the ordinary course of the Group's business.

## 17. COMPARATIVE FIGURES

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

# Financial Summary

	Six months ended				
	30 June	30 June	30 June	30 June	30 June
	2023	2022	2021	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	7,743,999	3,869,412	3,813,759	1,884,554	3,931,020
Gross profit	745,345	439,618	188,194	74,259	185,477
Profit from operations	698,038	399,333	111,115	65,700	158,144
Profit before taxation	625,673	369,208	615,260	64,917	158,144
Profit for the period attributable to					
Equity shareholders of the Company	456,952	218,978	615,776	57,209	130,604
Earnings per Share					
Basic and diluted (HK\$)	0.66	0.32	0.89	0.08	0.25

Note:

The consolidated results of the Group for the six months ended 30 June 2021 have been restated for the common control transactions in 2021. No retrospective adjustments for such common control transactions were made on the financial results for the corresponding six months ended 30 June 2019 and 2020.