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

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

China Tobacco International (HK) Company Limited announced the unaudited interim results of the Company for the six months ended 30 June 2019.

FINANCIAL HIGHLIGHTS

Unit: Millions of HK\$

Items	For the six months ended 30 June 2019 (unaudited)	For the six months ended 30 June 2018 (unaudited)
Revenue	3,931.02	4,048.34
Cost of sales	(3,745.54)	(3,803.90)
Gross profit	185.48	244.44
Other income, net	5.92	13.78
Administrative and other operating expenses	(33.26)	(25.09)
Profit before taxation	158.14	233.13
Income tax	(27.54)	(45.21)
Profit after taxation	<u>130.60</u>	<u>187.92</u>

Notes:

- The Company did not operate any business in substance before the Reorganization and the Relevant Businesses were then carried out by other Operating Entities as business divisions or smaller business components thereof. Other Operating Entities also carried out other businesses (the “**Excluded Businesses**”) which were retained by the CNTC. Upon the completion of the Reorganization, other Operating Entities ceased to carry out the Relevant Businesses except for settlement of the trade balances arisen from the Relevant Businesses conducted prior to the Reorganization and the Company commenced to carry out the Relevant Businesses since then. For further details of the Reorganization, please refer to the Company’s Prospectus.

2. The financial information for the six months ended 30 June 2018 (the “**Corresponding Period**”) is prepared on the same preparation basis with that for the historical financial information for the years ended 31 December 2016, 2017 and 2018 which is included in the Company’s Prospectus. Similarly, a process has been completed to attribute assets, liabilities, revenues, expenses and cash flows of the Operating Entities to the Relevant Businesses and the Excluded Businesses in preparing the financial information for the Corresponding Period, based either on specific identification to the extent possible, or otherwise on reasonable allocation bases.

Such basis of preparation results in the financial information for the Corresponding Period reflecting the assets and liabilities associated with the Relevant Businesses and reflecting costs and expenses associated with the functions that would be necessary to operate independently. However, as the Relevant Businesses did not operate as a stand-alone entity prior to the Reorganization, the financial information for the Corresponding Period does not necessarily reflect what its results of operations, financial position, and cash flows would have been had the Relevant Businesses operated as a separate entity during the Corresponding Period.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six months ended 30 June 2019 – unaudited (Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018
	<i>Note</i>	HK\$	HK\$
Revenue	4	3,931,019,863	4,048,337,632
Cost of sales		<u>(3,745,542,563)</u>	<u>(3,803,897,190)</u>
Gross profit		185,477,300	244,440,442
Other income, net	5	5,929,523	13,776,932
Administrative and other operating expenses		<u>(33,262,679)</u>	<u>(25,093,121)</u>
Profit before taxation	6	158,144,144	233,124,253
Income tax	7	<u>(27,540,103)</u>	<u>(45,205,112)</u>
Profit and total comprehensive income for the period		<u>130,604,041</u>	<u>187,919,141</u>
Profit and total comprehensive income for the period attributable to:			
Equity shareholders of the Company		130,604,041	185,642,064
Non-controlling interests		<u>–</u>	<u>2,277,077</u>
Profit and total comprehensive income for the period		<u>130,604,041</u>	<u>187,919,141</u>
Earnings per share			
– Basic and diluted	9	<u>0.25</u>	<u>0.37</u>

STATEMENT OF FINANCIAL POSITION*at 30 June 2019 – unaudited (Expressed in Hong Kong dollars)*

		At 30 June 2019	At 31 December 2018
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
Non-current asset			
Property, plant and equipment		<u>344,678</u>	<u>373,240</u>
Current assets			
Inventories		411,224,224	1,037,959,651
Trade and other receivables	10	209,249,014	449,233,397
Cash and cash equivalents		<u>1,622,428,625</u>	<u>650,995,191</u>
		<u>2,242,901,863</u>	<u>2,138,188,239</u>
Current liabilities			
Trade and other payables	11	901,493,750	1,546,763,038
Current tax payable		<u>45,584,120</u>	<u>18,044,017</u>
		<u>947,077,870</u>	<u>1,564,807,055</u>
Net current assets		<u>1,295,823,993</u>	<u>573,381,184</u>
NET ASSETS		<u>1,296,168,671</u>	<u>573,754,424</u>
Capital and reserves			
Share capital		1,284,769,874	500,010,000
Reserves		<u>11,398,797</u>	<u>73,744,424</u>
TOTAL EQUITY		<u>1,296,168,671</u>	<u>573,754,424</u>

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Tobacco International (HK) Company Limited (the “**Company**”) was incorporated in Hong Kong on 26 February 2004 as a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) after completion of its initial public offering (“**IPO**”) during the current period. China Tobacco International Group Limited (“**CTIG**”, formerly known as Tian Li International Company Limited), a company incorporated in Hong Kong with limited liability, is the immediate parent of the Company. China National Tobacco Corporation (“**CNTC**”), a company registered in the People’s Republic of China (the “**PRC**”), is the ultimate parent of the Company. The PRC government is the ultimate controlling parent of the Company.

Pursuant to a corporate reorganization (the “**Reorganization**”), the Company commenced the following business operations (together, the “**Relevant Businesses**”), which were carried out by various subsidiaries of CNTC (the “**Operating Entities**”) as divisions or smaller business components thereof prior to the Reorganization:

- export of tobacco leaf products to the Southeast Asia and Taiwan, Hong Kong Special Administrative Region (“**SAR**”) (“**Hong Kong**”) and Macau SAR (“**Macau**”) of the PRC (the “**Tobacco Leaf Products Export Business**”);
- import of tobacco leaf products in the mainland China of the PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Zimbabwe) (the “**Tobacco Leaf Products Import Business**”);
- export of cigarettes 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 the PRC (the “**Cigarettes Export Business**”); and
- export of new tobacco products from mainland China of the PRC to overseas market worldwide (the “**New Tobacco Products Export Business**”).

2 BASIS OF PREPARATION

The unaudited interim financial information set out in this announcement does not constitute the unaudited interim financial report of the Company for the six months ended 30 June 2019 but is extracted from that unaudited interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issue on 26 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the historical financial information in the Appendix I to the Prospectus, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual financial statements for that financial year but is derived from those financial statements. Further information related to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

As the Company was a private company, it is not required to deliver its 2018 financial statements to the Registrar of Companies, and has not done so.

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

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. None of the developments have had a material effect on how the Company's result and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period. Details of the changes in accounting policies are discussed below for HKFRS 16.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

The Company has initially applied HKFRS 16 as from 1 January 2019. The Company has elected to use the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under HKAS 17. As the Company only had one short-term lease as at 31 December 2018, the initial adoption of HKFRS 16 had no impact on the Company's opening balances at 1 January 2019.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use. The Company applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019.

(ii) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Company is concerned, there are no newly capitalised leases as a result of initial adoption of HKFRS 16.

When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. For the Company, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Company are the Tobacco Leaf Products Export Business, the Tobacco Leaf Products Import Business, the Cigarettes Export Business and New Tobacco Products Export Business as further disclosed in note 4(b).

Disaggregation of revenue from contracts with customers by major products and service lines is as follows:

	Six months ended 30 June	
	2019	2018
	HK\$	HK\$
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Export sales of tobacco leaf products	1,020,714,015	413,409,296
– Import sales of tobacco leaf products	2,174,253,924	3,485,573,941
– Export sales of cigarettes	732,786,485	149,354,395
– Sales of new tobacco products	1,877,655	–
– Others	1,387,784	–
	3,931,019,863	4,048,337,632

The Company recognises all its revenue point in time. The following table sets out information on the geographical locations of the Company's revenue from external customers based on the location at which the Company's products are distributed to the customers of the Company or the distributors.

	Six months ended 30 June	
	2019 <i>HK\$</i>	2018 <i>HK\$</i>
The PRC, excluding SARs	2,770,754,716	3,493,108,904
Republic of Indonesia ("Indonesia")	572,828,738	244,524,473
Hong Kong	192,517,801	122,658,074
Singapore	64,814,635	61,197,030
Thailand	20,329,252	25,410,009
Others	309,774,721	101,439,142
	<u>3,931,019,863</u>	<u>4,048,337,632</u>

(b) Segment reporting

The Company manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Company's most senior executive management for the purposes of resource allocation and performance assessment, the Company has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Tobacco Leaf Products Export Business: this segment exports the tobacco leaf products to customers in the Southeast Asia, Hong Kong, Macau and Taiwan.
- Tobacco Leaf Products Import Business: this segment imports tobacco leaf products to mainland China of the PRC from origin countries or regions around the world except for from countries or regions currently under international sanctions.
- Cigarettes Export Business: this segment exports cigarettes to duty-free outlets in Thailand, Singapore, Hong Kong, Macau and duty-free outlets within the borders, but outside the customs area, of the mainland China of the PRC.
- New Tobacco Products Export Business: this segment exports new tobacco products from mainland China of the PRC to overseas market worldwide.

Segment results, assets and liabilities

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

Segment assets include primarily trade receivables, prepayments for goods, inventories and other receivables that are specifically attributed to individual segments. Segment liabilities include primarily trade payables and contract liabilities. The Company's all other assets and liabilities such as property, plant and equipment, cash and cash equivalents, short-term bank deposits, other receivables/payables and assets/liabilities associated with deferred or current taxes are not considered specifically attributed to individual segments. These assets and liabilities are classified as corporate assets/liabilities and are managed on a central basis.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit i.e. reportable segment revenue less cost of sales associated therewith. In addition to receiving segment information concerning gross profit, management is provided with segment information concerning revenue. There is no inter-segment revenue between the Company's reportable segments. Corporate income and expenses, net, mainly refers to interest income, net exchange gains/losses, administrative and other operating expenses are not considered specifically attributed to individual segments.

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

	Tobacco Leaf Products Export Business <i>HK\$</i>	Tobacco Leaf Products Import Business <i>HK\$</i>	Cigarettes Export Business <i>HK\$</i>	New Tobacco Products Export Business <i>HK\$</i>	Unallocated <i>HK\$</i>	Total <i>HK\$</i>
<i>For the six months ended 30 June 2019</i>						
Reportable segment revenue	<u>1,022,101,799</u>	<u>2,174,253,924</u>	<u>732,786,485</u>	<u>1,877,655</u>	<u>-</u>	<u>3,931,019,863</u>
Reportable segment gross profit	<u>25,662,793</u>	<u>121,612,536</u>	<u>38,180,716</u>	<u>21,255</u>	<u>-</u>	<u>185,477,300</u>
Interest income					5,929,523	5,929,523
Depreciation					(73,062)	(73,062)
Other corporate expenses					(33,189,617)	(33,189,617)
Profit before taxation						158,144,144
Income tax expense						(27,540,103)
Profit for the period						<u>130,604,041</u>
<i>At 30 June 2019</i>						
Reportable segment assets	<u>124,661,057</u>	<u>437,181,233</u>	<u>57,231,800</u>	<u>-</u>	<u>1,624,172,451</u>	<u>2,243,246,541</u>
Reportable segment liabilities	<u>242,350,451</u>	<u>367,569,223</u>	<u>56,893,134</u>	<u>2,267,335</u>	<u>277,997,727</u>	<u>947,077,870</u>

	Tobacco Leaf Products Export Business HK\$	Tobacco Leaf Products Import Business HK\$	Cigarettes Export Business HK\$	New Tobacco Products Export Business HK\$	Unallocated HK\$	Total HK\$
<i>For the six months ended 30 June 2018</i>						
Reportable segment revenue	<u>413,409,296</u>	<u>3,485,573,941</u>	<u>149,354,395</u>	<u>-</u>	<u>-</u>	<u>4,048,337,632</u>
Reportable segment gross profit	<u>12,083,763</u>	<u>173,566,039</u>	<u>58,790,640</u>	<u>-</u>	<u>-</u>	<u>244,440,442</u>
Interest income					14,797,702	14,797,702
Other corporate income					44,800	44,800
Depreciation					(2,916,143)	(2,916,143)
Other corporate expenses					(23,242,548)	(23,242,548)
Profit before taxation						233,124,253
Income tax expense						(45,205,112)
Profit for the period						<u>187,919,141</u>
<i>At 31 December 2018</i>						
Reportable segment assets	<u>82,832,521</u>	<u>1,338,164,511</u>	<u>57,739,644</u>	<u>-</u>	<u>659,824,803</u>	<u>2,138,561,479</u>
Reportable segment liabilities	<u>172,444,429</u>	<u>1,320,277,179</u>	<u>22,219,514</u>	<u>3,646,500</u>	<u>46,219,433</u>	<u>1,564,807,055</u>

5 OTHER INCOME, NET

	Six months ended 30 June	
	2019	2018
	HK\$	HK\$
Net exchange losses	-	(1,065,570)
Interest income	5,929,523	14,797,702
Rental income	-	44,800
	<u>5,929,523</u>	<u>13,776,932</u>

6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2019	2018
	HK\$	HK\$
Depreciation	73,062	2,916,143
Expenses related to a short-term lease	1,950,240	–
Cost of inventories	3,745,542,563	3,803,897,190
Listing expenses	15,803,852	1,647,900
	<u>15,803,852</u>	<u>1,647,900</u>

7 INCOME TAX

	Six months ended 30 June	
	2019	2018
	HK\$	HK\$
Current tax		
Provision for Hong Kong Profits Tax for the period	27,540,103	20,717,914
Provision for PRC Corporate Income Tax for the period	–	24,365,055
	<u>27,540,103</u>	<u>45,082,969</u>
Deferred tax		
Origination and reversal of temporary differences (<i>Note</i>)	–	122,143
	<u>–</u>	<u>122,143</u>
Income tax expense	<u>27,540,103</u>	<u>45,205,112</u>

Note: The origination and reversal of temporary differences in deferred tax arose from the depreciation allowance being in excess of the related depreciation.

The provision for Hong Kong Profits Tax for the six months ended 30 June 2019 is calculated at 8.25% of the first HK\$2,000,000 and 16.5% of the remaining estimated assessable profits for the period. The provision for Hong Kong Profits Tax for the Company was calculated using the same basis in the same period of 2018.

In accordance with relevant PRC rules and regulations, the PRC Corporate Income Tax rate of 25% was applicable to the Relevant Businesses that were historically carried out in the PRC prior to the Reorganization.

8 DIVIDENDS AND DEEMED DISTRIBUTIONS

On 17 May 2019, CTIG, the then sole shareholder of the Company, has passed a resolution for the Company to distribute, subject to certain conditions precedent (the “**Conditions Precedent**”), a special cash dividend amounting to 100% of the Company’s distributable reserves at 31 May 2019 to CTIG. The special cash dividend is determined to be HK\$192,949,668 with reference to the Company’s non-statutory financial statements audited by KPMG for the five months ended 31 May 2019 prepared in accordance with HKFRSs. The special dividend has been accounted for in the interim financial report as all the Conditions Precedent have been fulfilled as at 30 June 2019.

The Board does not recommend a payment of any other interim dividend for the six months ended 30 June 2019.

Deemed distribution represents the net amount of assets and liabilities of the Relevant Businesses distributed to or contributed from CNTC and non-controlling interests for no monetary consideration. The assets and liabilities distributed to or contributed from CNTC and the non-controlling interests during the six months ended 30 June 2018 represented certain assets and liabilities historically associated with the Relevant Businesses but were retained by CNTC and non-controlling interests.

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 2019 is HK\$130,604,041 (six months ended 30 June 2018: HK\$185,642,064) and the weighted average of 517,602,944 ordinary shares (six months ended 30 June 2018: 500,010,000 shares) in issue during the interim period.

For the purpose of calculating the basic earnings per share for the six months ended 30 June 2018, the 500,000,000 ordinary shares issued in 26 June 2018 are considered to increase the number of shares outstanding without a corresponding change in resource of the Company. Accordingly, these ordinary shares are treated as if they had been issued since the beginning of the earliest period presented.

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

10 TRADE AND OTHER RECEIVABLES

	At 30 June 2019 HK\$	At 31 December 2018 HK\$
Trade receivables	110,242,346	415,252,168
Bills receivable	38,515,602	2,492,006
	<hr/>	<hr/>
	148,757,948	417,744,174
Deposits, prepayments and other receivables	60,491,066	31,489,223
	<hr/>	<hr/>
	209,249,014	449,233,397
	<hr/> <hr/>	<hr/> <hr/>

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

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

	At 30 June 2019 HK\$	At 31 December 2018 HK\$
Within 30 days	88,251,497	25,440,219
31 to 90 days	43,108,137	381,284,182
Over 90 days	17,398,314	11,019,773
	<hr/>	<hr/>
	148,757,948	417,744,174
	<hr/> <hr/>	<hr/> <hr/>

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

11 TRADE AND OTHER PAYABLES

	At 30 June 2019 HK\$	At 31 December 2018 HK\$
Trade payables	456,892,015	1,486,372,646
Contract liabilities	212,188,128	32,214,976
Dividend payable (<i>note 8</i>)	192,949,668	–
Other payables and accruals	39,463,939	28,175,416
	<u>901,493,750</u>	<u>1,546,763,038</u>

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 2019 HK\$	At 31 December 2018 HK\$
Within 30 days	274,907,148	728,090,410
31 to 90 days	161,655,595	656,215,239
Over 90 days	20,329,272	102,066,997
	<u>456,892,015</u>	<u>1,486,372,646</u>

MANAGEMENT DISCUSSION AND ANALYSIS

1. TOBACCO LEAF PRODUCTS EXPORT BUSINESS

Market environment

As a player in the traditional export market of tobacco leaf products produced in China, the Company has relatively stable sales channels and customer base in Southeast Asia. In 2019 (the “Year”), major tobacco leaves importing countries in Southeast Asia have a strong demand for tobacco leaf products produced in China, and domestic supply of tobacco leaf products for export is also relatively sufficient.

Operation initiatives and results

The Company exports tobacco leaf products produced in China to customers in Southeast Asia through traditional and stable sale channels. In the first half of the Year, the revenue generated from the Tobacco Leaf Products Export Business of the Company was HK\$1,022.10 million, representing an increase of HK\$608.69 million or 147.2% on a year-on-year basis, with a gross profit of HK\$25.66 million, representing an increase of HK\$13.58 million or 112.4% on a year-on-year basis. The significant increase in the revenue and gross profit on a year-on-year basis was due to: 1. strong demand from key customers of the Company for tobacco leaf products produced in China; and 2. the sufficient supply of domestic marketable tobacco leaves.

Prospects for the second half of the Year

In the second half of the Year, the Company will continue to focus on visiting key markets and key customers, so as to fully explore the potential demand of customer. Meanwhile, we will continue to explore new markets and new customers, while stabilizing and gradually increasing the market share of domestic tobacco leaves in Southeast Asia. In addition, the Company maintains sensitivity to the market by closely monitoring the political and economic situation as well as the changes of policies and regulations in Southeast Asia.

2. TOBACCO LEAF PRODUCTS IMPORT BUSINESS

Market environment

In 2019, all of the major tobacco producing regions around the world recorded an adequate yield, and the Chinese market showed a stable demand for imported quality tobacco, generally realizing balance between supply and demand. However, the Company's tobacco leaf import business was negatively impacted by the escalating trade friction with some countries where quality tobacco are produced.

Operation initiatives and results

In the first half of the Year, the revenue generated from the Company's Tobacco Leaf Products Import Business amounted to HK\$2,174.25 million, representing a decrease of HK\$1,311.32 million or 37.6% on a year-on-year basis, with a gross profit of HK\$121.61 million, representing a decrease of HK\$51.95 million or 29.9% on a year-on-year basis. The year-on-year decrease in the import volume, revenue and gross profit of tobacco leaves was mainly due to the intensifying trade friction between China and the United States, which caused the Company to suspend purchasing tobacco leaves from the United States temporarily. The revenue and gross profit contributed by tobacco leaf products imported from the United States amounted to HK\$1,272.04 million and HK\$57.88 million, respectively, for the Corresponding Period.

Prospects for the second half of the Year

In the second half of the Year, the Company will constantly optimize its business process, accelerate delivery and settlement of contracted tobacco leaf procurement, and enhance the efficiency of capital turnover. Meanwhile, if the trade friction between China and the United States has not relieved, the Company will probably increase the purchase volume of high quality tobacco leaves from other importing countries in order to minimize the adverse impact of trade friction on the business development of the Company.

3. CIGARETTES EXPORT BUSINESS

Market environment

In 2019, the market of duty-free cigarettes in Singapore and Thailand dwindled, as it was affected by factors such as the enactment of the Cigarette Plain Packaging Act, the devaluation of RMB and the newly opened inbound duty-free outlets in mainland China. The duty-free cigarette markets in mainland China, Hong Kong and Macau generally remained stable.

Operation initiatives and results

In the first half of the Year, the Company focused on exploiting new market for its cigarette business. With increased efforts in cooperating with domestic duty-free operators in Shenzhen, Zhuhai and other mainland China cities, the Company became a new supplier of 12 duty-free outlets in Shenzhen and Zhuhai, which has further expanded its sales channels. Through in-depth business negotiation with West Kowloon Railway Station in Hong Kong, the Company preliminarily introduced one of the main domestic brands of cigarettes to the duty-free outlets, and has been continuously and actively preparing for introducing more brands in the second half of the Year. Meanwhile, the Company continued to communicate with the duty-free outlets at Hong Kong airport, and prepare for further business arrangement in the second half of the Year. In the first half of the Year, our revenue from the Cigarettes Export Business amounted to HK\$732.79 million, representing an increase of HK\$583.43 million or 390.6% on a year-on-year basis, with a gross profit of HK\$38.18 million, representing a decrease of HK\$20.61 million or 35.1% on a year-on-year basis. The increase in business revenue was mainly due to the addition of new brands for distribution after the Reorganization. And the decrease in gross profit was primarily attributable to: 1. a decrease in the sales of Singaporean and Thai markets with a higher gross profit margin, inflicted by the RMB devaluation and the enactment of the Cigarette Plain Packaging Act; and 2. a decrease in gross profit caused by the change of supply channels of certain types of cigarettes.

Prospects for the second half of the Year

In the second half of the Year, the Company will launch the sales of around 15 new cigarette products on duty-free markets in mainland China, Hong Kong and Macau, to optimize the structure of its products base on massive preparation work in the early stage. The Company will further expand its business in the duty-free outlets of the West Kowloon Railway Station in Hong Kong, and introduce a full range of key cigarette brands of Chinese tobacco to sell in this market. The Company will further expand its business in the duty-free outlets at Hong Kong airport, increase its participation in sale of cigarettes and improve its profitability. The Company will further enhance the cooperation with the operators of all major duty-free outlets, so as to expand its sale coverage to about 100 duty-free outlets in mainland China, including the duty-free outlets at the airports in major cities of mainland China. The Company will enhance the maintenance and promotion of traditional markets (such as Singapore and Thailand) and strive to minimize the impact of adverse factors.

4. NEW TOBACCO PRODUCTS EXPORT BUSINESS

Market environment

New tobacco products business has remained an emerging tobacco business in the world. Its development is confronted with varied uncertainties in such aspects as laws and regulations, regulatory policies and technology development, in addition to the rapidly evolving demands of overseas markets.

Operation initiatives and results

Since its commencement of the New Tobacco Products Export Business, the Company has been prudently controlling operational risks and initiatively coping with market challenges while actively expanding overseas markets. In the first half of the Year, the Company exported 7 million sticks of new tobacco products (heat-not-burn cartridges), recording a revenue of HK\$1.88 million and a gross profit of HK\$21.26 thousand. However, no such business was engaged in during the Corresponding Period.

Prospects for the second half of the Year

In the second half of the Year, the Company will actively expand overseas markets, and the export volume in the second half of the Year is expected to experience a substantial increase as compared with that of the first half of the Year.

5. CONCLUSION

For the six months ended 30 June 2019, our revenue was HK\$3,931.02 million, representing a decrease of HK\$117.32 million or 2.9% on a year-on-year basis; our cost of sales were HK\$3,745.54 million, representing a decrease of HK\$58.35 million or 1.5% on a year-on-year basis; our administrative and other operating expenses were HK\$33.26 million, representing an increase of HK\$8.17 million or 32.6% on a year-on-year basis; our profit after taxation was HK\$130.60 million, representing a decrease of HK\$57.32 million or 30.5% on a year-on-year basis. The year-on-year decrease in revenue and costs of sale was mainly due to the emergence of the trade friction between China and the United States, which was exacerbating and caused the Company to suspend purchasing tobacco from the United States (see Risk Factors in the Prospectus for details). The year-on-year increase in the administrative and other operating expenses was mainly due to the successful Listing of the Company in the first half of 2019 which resulted in an increase in Listing intermediary expenses. The decrease in profit after taxation was primarily attributable to: 1. a decrease in profits of the Tobacco Leaf Products Import Business due to the trade friction between China and the United States; 2. an impact on the profits of the Cigarettes Export Business due to the RMB devaluation, the enactment of the Plain Cigarette Packaging Act and the change of supply channels of certain types of cigarettes; and 3. in light of the basis of preparation of the financial information, the data of the Corresponding Period does not necessarily reflect what the results of operations (such as interest income) would have been had the Relevant Businesses operated as a separate entity during the Corresponding Period.

In the second half of the Year, the Company will delve into the market, reduce expenditure and improve efficiency in a multi-pronged approach, so as to tirelessly heighten its profitability. In respect of the Tobacco Leaf Products Export Business, we will continue to tap into the demand of markets, proactively arrange the supply of domestic marketable product sources and further raise its share in the Southeast Asian market. In respect of the Tobacco Leaf Products Import Business, we will expand the alternative sources of the tobacco leaves imported from the United States in due course to meet the demand of the market in mainland China for imported tobacco. In respect of the Cigarettes Export Business, we will enhance the market promotion, secure a stable share in the traditional market, take the initiative to explore emerging markets, increase the percentage of the Proprietary Business, and expand sales outlets. In respect of the New Tobacco Products Export Business, we will redouble efforts to market promotion in line with the trend of market development.

We believe that the prospects on the Company's future development are on the upbeat as a whole.

OTHER INFORMATION

SPECIAL DIVIDEND

As disclosed in the Prospectus, CTIG, the then sole shareholder of the Company, has passed a resolution on 17 May 2019 for the Company to distribute a special cash dividend amounting to 100% of the Company's distributable reserves at 31 May 2019 (the "**Special Dividend**"). As of the date of this announcement, the Special Audit (as defined in the Prospectus) has been completed and the amount of the Special Dividend is determined to be HK\$192,949,668 with reference to the Company's non-statutory financial statements audited by KPMG for the five months ended 31 May 2019 prepared in accordance with HKFRSs. The Special Dividend will be paid on or around 16 December 2019.

INTERIM DIVIDEND

The Board does not recommend a payment of any other interim dividend for the six months ended 30 June 2019 to Shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Total assets of the Company amounted to HK\$2,243.25 million as at 30 June 2019 (as at 31 December 2018: HK\$2,138.56 million). The Company had cash and cash equivalents of HK\$1,622.43 million as at 30 June 2019. The Board is of the opinion that the Company has sufficient resources to support its operations and meet its foreseeable capital expenditures. Total liabilities of the Company amounted to HK\$947.08 million as at 30 June 2019 (as at 31 December 2018: HK\$1,564.81 million).

As at 30 June 2019, the Company did not have any bank borrowing (as at 31 December 2018: nil).

Gearing ratio was not applicable to the Company as the Company did not have any bank borrowing as at 30 June 2019. As at 30 June 2019, the Company had current ratio (being the current assets divided by the current liabilities) of 2.4 (as at 31 December 2018: 1.4).

SIGNIFICANT INVESTMENTS

As at 30 June 2019, the Company did not hold any significant investments.

MATERIAL ACQUISITION AND DISPOSAL

The Company had not conducted any material acquisition or disposal of any subsidiary, associate or joint venture during the six months ended 30 June 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Company did not have other plans for material investments and capital assets.

FOREIGN EXCHANGE RISK

The Company was not exposed to any significant currency risks during the six months ended 30 June 2019. The Company entered into transactions in U.S. dollars and did not enter into any hedging arrangements.

PLEDGE OF ASSET

As at 30 June 2019, the Company did not pledge any assets (31 December 2018: nil).

CONTINGENT LIABILITIES

As at 30 June 2019, the Company had no significant contingent liabilities.

EMPLOYEES

As at 30 June 2019, we had 28 (31 December 2018: 28) employees in Hong Kong.

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

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

EVENTS AFTER THE REPORTING PERIOD

Save as the issue and allotment of 25,000,000 shares of the Company on 4 July 2019 pursuant to the full exercise of the Over-allotment Option, details of which are disclosed in the announcement of the Company dated 1 July 2019, as at the date of this announcement, there is no major event after 30 June 2019 that is required to be disclosed by the Company.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

On the Listing Date, the Company initially issued 166,670,000 Shares to the public at a price of HK\$4.88 per Share, the total gross proceeds of which amounted to approximately HK\$813 million, and the Shares were listed on the Main Board of the Stock Exchange (the "**Listing**"). On 4 July 2019, the Company fully exercised the Over-allotment Option (as defined in the Prospectus) and issued 25,000,000 Shares at a price of HK\$4.88 per Share, the total gross proceeds of which amounted to approximately HK\$122 million. The net proceeds from the Listing (including the net proceeds from the issue of 25,000,000 Shares pursuant to the exercise of the Over-allotment Option and net of underwriting fees and relevant expenses) (the "**Net Proceeds**") amounted to approximately HK\$904 million.

The use of Net Proceeds during the period from the Listing Date up to 30 June 2019 is set out as follows:

Use of Net Proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds <i>(HK\$ million)</i>	Amount utilised as at 30 June 2019 <i>(HK\$ million)</i>	Unutilised amount as at 30 June 2019 <i>(HK\$ million)</i>
Making investments and acquisitions that are complementary to the Company's business	45%	406.8	–	406.8
Supporting the ongoing growth of the Company's business	20%	180.8	–	180.8
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets	20%	180.8	–	180.8
General working capital	10%	90.4	–	90.4
Improving the Company's management of purchase and sales resources and optimizing the Company's operational management	5%	45.2	–	45.2
Total	100%	904.0	–	904.0

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

During the six months ended 30 June 2019, the Company did not purchase, sell or redeem any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee reviewed the unaudited interim results of the Company for the six months ended 30 June 2019 and the accounting principles and practices adopted by the Company, and discussed internal control and financial report matters.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CORPORATE GOVERNANCE CODE

For the period from the Listing Date to 30 June 2019, 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 throughout the period from the Listing Date to 30 June 2019.

PUBLICATION OF 2019 INTERIM RESULTS AND 2019 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the website of the Stock Exchange at <http://www.hkexnews.hk> and the website of the Company at <http://www.ctihk.com.hk/>. The interim report of the Company for the six months ended 30 June 2019 will be despatched to the Shareholders and be available on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

“Audit Committee”	the audit committee of the Board;
“Board” or “Board of Directors”	the board of Directors of the Company;
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“China” or “PRC”	the People’s Republic of China; for the purpose of this announcement only, references to “China” or the “PRC” do not include Hong Kong, the Macau Special Administrative Region and Taiwan;
“CTIG”	China Tobacco International Group Limited, a controlling shareholder of the Company. The controlling shareholder of the Company changed its company name from “Tian Li International Company Limited (天利國際經貿有限公司)” to “China Tobacco International Group Limited (中煙國際集團有限公司)” on 16 August 2019;
“China Tobacco International”	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;
“CNTC”	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company;
“CNTC Group”	CNTC and its subsidiaries;
“Company”	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;
“Directors”	the directors of the Company;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong;
“Listing Date”	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;

“Operating Entity(ies)”	various subsidiaries of CNTC Group which carried out the Relevant Businesses prior to the Reorganization;
“Prospectus”	the prospectus dated 28 May 2019 issued by the Company;
“Relevant Businesses”	the four segments of business, including (i) the Tobacco Leaf Products Import Business, (ii) the Tobacco Leaf Products Export Business, (iii) the Cigarettes Export Business, and (iv) the New Tobacco Products Export Business, which were carried out by the Operating Entities prior to the Reorganization and are currently operated by the Company;
“Reorganization”	the reorganization of the businesses of the Company and other entities under CNTC, details of which are set out in the section headed “History, Corporate Structure and Reorganization – Our Corporate Structure – Reorganization” in the Prospectus;
“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;
“Shares(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“United States” or “U.S.”	the United States of America;
“U. S. dollar”	United States dollars, the lawful currency of the United States;
“%”	percent.

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

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

Hong Kong, 26 August 2019

As at the date of this announcement, the Board comprises Mr. SHAO Yan as Chairman and non-executive Director, Mr. ZHANG Hongshi, Ms. YANG Xuemei and Mr. WANG Chengrui as executive Directors and Mr. CHOW Siu Lui, Mr. WANG Xinhua, Mr. CHAU Kwok Keung and Mr. QIAN Yi as independent non-executive Directors.