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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE PROCUREMENT TRANSACTIONS IN THE TOBACCO LEAF PRODUCTS IMPORT BUSINESS

References are made to the section headed “Connected Transactions” in the Prospectus in relation to the procurement transactions in the Tobacco Leaf Products Import Business between the Company and each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business under the Offshore Supply Framework Agreements.

The Offshore Supply Framework Agreements will have expired as of 28 November 2021. As the Company intends to continue to enter into the transactions of similar nature after expiry of the Offshore Supply Framework Agreements, 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 on 17 November 2021 on substantially the same terms and conditions of the Offshore Supply Framework Agreements (where applicable) for a term of three years expiring on 16 November 2024.

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO AGENCY BUSINESS IN THE SALES OF TOBACCO LEAF PRODUCTS

References are made to the section headed “Connected Transactions” in the Prospectus in relation to the agency business in the sales of tobacco leaf products between the Company and each of certain entities under CNTC under the Tobacco Leaf Products Export Agency Agreements, pursuant to which the Company has acted as an agent in the sales of tobacco leaf products as part of the Tobacco Leaf Products Export Business.

The Tobacco Leaf Products Export Agency Agreements will have expired as of 21 December 2021. As the Company intends to continue to enter into the transactions of similar nature after expiry of the Tobacco Leaf Products Export Agency Agreements, the Company entered into the 2021-2024 Tobacco Leaf Products Export Agency Agreements with each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products that are entities under CNTC on 17 November 2021 on substantially the same terms and conditions of the Tobacco Leaf Products Export Agency Agreements for a term of three years expiring on 16 November 2024.

LISTING RULES IMPLICATIONS

CTIG is a controlling shareholder of the Company directly holding approximately 72.29% of the total issued share capital of the Company as at the date of this announcement. CNTC is the sole shareholder of CTIG. Each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business and the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products, all being subsidiaries and/or associates of CNTC, is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of (i) the 2021-2024 Offshore Supply Framework Agreements and (ii) the 2021-2024 Tobacco Leaf Products Export Agency Agreements will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements are aggregated for the purpose of Rule 14A.81 of the Listing Rules on the basis that these transactions are conducted with counterparties that are associates of CNTC and are parties who are connected with one another. As one or more of the applicable percentage ratios in relation to the transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements, on an aggregated basis, exceed 5%, the transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements together with the Proposed Caps will be subject to announcement, annual review, circular (including independent board committee’s and independent financial adviser’s opinions and recommendations) and Independent Shareholders’ approval requirements.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in connection with the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps) as to whether the terms of such agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole, and how to vote. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

EGM

The Company will convene an EGM for the Independent Shareholders to consider and, if thought fit, approve the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the transactions contemplated thereunder (including the Proposed Caps).

Given that CNTC and CTIG are controlling shareholders and are considered to have material interests in the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the transactions contemplated thereunder (including the Proposed Caps), CNTC, CTIG and their respective associates shall abstain from voting at the EGM in respect of resolutions relating thereto.

Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, no other Shareholder has a material interest in the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps), and thus no other Shareholder is required to abstain from voting on the proposed resolutions to approve the aforementioned matters.

DESPATCH OF CIRCULAR

The Company will despatch a circular in accordance with the requirements under the Listing Rules, which will contain, among other things: (i) further information on the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps); (ii) the letter from the Independent Board Committee with its opinion and recommendation on the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps) to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser with its advice on the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps) to the Independent Board Committee and the Independent Shareholders; and (vi) a notice of the EGM. The Company expect to despatch the circular to the Shareholders as soon as possible within 15 Business Days after the publication of this announcement.

INTRODUCTION

The Offshore Supply Framework Agreements and the Tobacco Leaf Products Export Agency Agreements will have expired as of 28 November 2021 and as of 21 December 2021, respectively. As the Company intends to continue to enter into the transactions of similar nature after expiry of the Offshore Supply Framework Agreements and the Tobacco Leaf Products Export Agency Agreements, on 17 November 2021, the Company entered into (i) the 2021-2024 Offshore Supply Framework Agreements with each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business; and (ii) the 2021-2024 Tobacco Leaf Products Export Agency Agreements with each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products that are entities under CNTC, on substantially the same terms and conditions of the Offshore Supply Framework Agreements and the Tobacco Leaf Products Export Agency Agreements (where applicable), respectively, for a term of three years expiring on 16 November 2024.

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO PROCUREMENT TRANSACTIONS IN THE TOBACCO LEAF PRODUCTS IMPORT BUSINESS

The Offshore Supply Framework Agreements will have expired as of 28 November 2021. To continue to facilitate the procurement of tobacco leaf products from the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business, 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, all being subsidiaries and/or associates of CNTC, 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 the Company in accordance with the specific terms of procurement separately agreed with the Company through arm's length negotiation in good faith.

Parties

The Company and each of the entities under CNTC below:

- CBT; and
- CTI North America.

Reference is made to the Company's announcement dated 23 September 2021 and circular dated 29 September 2021 in relation to the Company's acquisition of China Tabaco Internacional do Brasil Ltda (the "**Acquisition**"), which constituted a major and connected transaction of the Company. As at the date of this announcement, CBT is owned as to 51% by China Tabaco Internacional do Brasil Ltda, an indirectly wholly-owned subsidiary of CNTC through CTIG, and 49% by Alliance One Brasil Exportadora de Tabacos Ltda, an indirectly wholly-owned subsidiary of Pyxus (OTC: PYYX). Immediately upon completion of the Acquisition, it is expected that CBT will become a non-wholly owned subsidiary of the Company and hence cease to be a connected person of the Company. As the Acquisition is subject to a number of conditions and is yet to be completed as of the date of this announcement, the Company has set out the proposed annual caps for both scenarios where (i) CBT continues to be a connected person; and (ii) CBT ceased to be a connected person upon completion of the Acquisition. Upon completion, the Company will issue an announcement to update the Shareholders as soon as practicable, and the Company will be subject to the proposed annual caps for scenario (ii) for the fiscal years commencing after the completion of the Acquisition.

Subject

Certain tobacco leaf products, primarily including tobacco leaf, stem, scrap, reconstituted tobacco and cut tobacco.

Proposed Annual Caps and Basis of Determination

The table below sets forth the proposed annual caps for the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements for the years ending 31 December 2022, 2023 and 2024, respectively.

	Proposed Annual Caps		
	For the year ended 31 December		
	2022	2023	2024
	<i>(HK\$ in million)</i>		

Procurement Transactions in the Tobacco Leaf

Products Import Business

In scenario where CBT is a connected person of the Company	3,051.4	3,204.0	3,364.2
In scenario where CBT is not a connected person of the Company	444.6	466.9	490.2

With respect to the procurement of tobacco leaf products from the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business for the year ending 31 December 2022, the Company proposes to set the relevant annual caps as set forth above by taking into account the following factors:

- historical procurement volumes during 2017-2021 and average procurement prices at the date of this announcement in 2021;
- (i) material adverse impact of the U.S.-China trade friction on the procurement volume of tobacco leaf products from CTI North America since 2018 and (ii) expected increase in such procurement volume in 2022. In 2018, the Company ceased to procure any tobacco leaf products from the United States due to the tariff imposed on tobacco leaf products by the PRC government in July 2018. As the U.S.-China trade tension has been eased since 2021, in which year the Company resumed the procurement of tobacco leaf products from the United States, the Company expects that its procurement of tobacco leaf products from CTI North America may gradually resume to the pre-trade friction level in 2017. For more details about the impact of the U.S.-China trade friction on the Company, please refer to the section headed “Summary – Recent Development” of the Prospectus;
- flexible domestic demand for overseas tobacco leaf products due to their high cost-performance ratio;
- fluctuation of international currency exchange rates; and

- in the scenario where CBT is a connected person of the Company:
 - (i) expected significant increase in the Company's procurement volume from CBT in 2022 as one of the Company's independent third party suppliers will cease to supply tobacco leaf products to the Company in 2022, and to address the supply shortage, the Company plans to procure tobacco leaf products from CBT, among others;
 - (ii) expected slight increase in the Company's procurement prices from CBT in 2022 due to the changing international tobacco market and increasing labour costs in the supplier's local market in Brazil; and
 - (iii) year-end fluctuation of amount of procurement transactions from CBT due to different timings of revenue recognition. The timing of completion of the manufacturing of tobacco leaf products, which varies according to the crop season of tobacco leaves and is influenced by climate and other cultivating conditions, together with the arrangement of shipping, may cause the shipment to happen after the year end. As a result, the Company may recognise revenue in the subsequent year when in fact the tobacco leaf products were processed in the previous year.

With respect to the procurement of tobacco leaf products from the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business for the years ending 31 December 2023 and 2024, the Company proposes to set the relevant annual caps based on a 5% annual progressive growth rate from the proposed annual caps for the previous year.

Reasons and Benefits of the Transactions

The Company conducts the Tobacco Leaf Products Import Business in its ordinary course of business, which includes (i) procurement transactions with the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business and (ii) sales transactions with CTI. The Company has a long-term and stable tobacco leaf products procurement relationship with the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business, which are the offshore subsidiaries of CNTC strategically located in preferred tobacco leaf products planting zones. They have been important overseas suppliers to CNTC entities over the years. Pursuant to the No. 60 Notice, the Company exclusively engages in the Tobacco Leaf Products Import Business, and the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business sell their tobacco leaf products to CTI through the Company. Therefore, the Company needs to carry on transactions with each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business in connection with tobacco leaf products import to CTI, and the Company believes that the 2021-2024 Offshore Supply Framework Agreements are consistent with and important to its business and commercial objectives.

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO AGENCY BUSINESS IN THE SALES OF TOBACCO LEAF PRODUCTS

The Tobacco Leaf Products Export Agency Agreements will have expired as of 21 December 2021. To continue to facilitate the 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, the Company acts as an agent in the sales of tobacco leaf products under the 2021-2024 Tobacco Leaf Products Export Agency Agreements in accordance with the specific terms separately agreed between the Company and each of the relevant counterparties through arm's length negotiation in good faith, and generates income from commission received in connection with such transactions.

Parties

The Company and each of the entities under CNTC below:

- Bang Kang Cigarette Factory, Myanmar;
- Golden Leaf (Macau) Tobacco's Manufacturing Ltd.;
- Hong Kong Hongta International Tobacco Company Limited;
- Lao-China Hongta Good Luck Tobacco Co., Ltd.; and
- Vinton Group Co., Ltd.

Subject

Certain tobacco leaf products, primarily including tobacco leaf, stem, scrap, reconstituted tobacco and cut tobacco.

Term

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.

Pricing Policy

The rate of commission charged by the Company in connection with the transactions under 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 Company). The Company currently expect 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.

Historical Transaction Amounts

The table below sets forth the historical amounts of the commission received by the Company in connection with the transactions under the Tobacco Leaf Products Export Agency Agreements as part of the Agency Business in the Sales of Tobacco Leaf Products for the relevant periods as set out below.

	Historical Transaction Amounts				For the nine months ended 30 September 2021
	2017	For the year ended 31 December 2018	2019	2020	
Commission received by the Company in connection with the transactions under the Tobacco Leaf Products Export Agency Agreements as part of the Agency Business in the Sales of Tobacco Leaf Products	nil	3.9	2.7	1.4	0.7

(HK\$ in million)

The annual caps for the continuing connected transactions under the Tobacco Leaf Products Export Agency Agreements as part of the Agency Business in the Sales of Tobacco Leaf Products (in terms of commission received by the Company) for the years ending 31 December 2019, 2020 and 2021 are HK\$3.9 million, HK\$4.3 million and HK\$4.7 million, respectively. The historical amounts of such transactions for the years ending 31 December 2019 and 2020, respectively, were below their corresponding annual caps, and the Company expects that the amount of such transactions for the year ending 31 December 2021 will not exceed its corresponding annual cap.

Proposed Annual Caps and Basis of Determination

The table below sets forth the proposed annual caps for the commission to be received by the Company in connection with the transactions under the 2021-2024 Tobacco Leaf Products Export Agency Agreements as part of the Agency Business in the Sales of Tobacco Leaf Products for the years ending 31 December 2022, 2023 and 2024, respectively.

	Proposed Annual Caps		
	For the year ended 31 December 2022	2023	2024
Commission to be received by the Company in connection with the transactions under the 2021-2024 Tobacco Leaf Products Export Agency Agreements as part of the Agency Business in the Sales of Tobacco Leaf Products	3.0	3.3	3.6

(HK\$ in million)

With respect to the commission to be received by the Company in connection with the transactions under the 2021-2024 Tobacco Leaf Products Export Agency Agreements as part of the Agency Business in the Sales of Tobacco Leaf Products, the Company proposes to set the annual caps at HK\$3.0 million for the year ending 31 December 2022, which represents a 10% annual progressive growth rate from the historical amount of the commission received by the Company in connection with the transactions under the Tobacco Leaf Products Export Agency Agreements for the year ending 31 December 2019, namely, HK\$2.7 million, and at HK\$3.3 million and HK\$3.6 million for the years ending 31 December 2023 and 2024, respectively, which represents a 10% annual progressive growth rate from the annual caps for the previous year.

In setting such annual caps, the Company has taken into account: (i) historical transaction amounts during 2019-2021; (ii) material adverse impact of COVID-19 on transactions of tobacco leaf products in 2020 and 2021 as well as expected increase in transaction volumes in 2022 as impact of COVID-19 becomes less severe and transactions of tobacco leaf products gradually resumes to the pre-pandemic level in 2019; and (iii) fluctuation of international currency exchange rates.

Reasons and Benefits of the Transactions

Pursuant to No. 60 Notice, after the Reorganization Completion Date, export of tobacco leaf products by entities under CNTC to Southeast Asia, Taiwan, Hong Kong and Macau shall be exclusively conducted through the Company. Certain tobacco leaf product suppliers, being the Company's connected persons, historically sold a small volume of tobacco leaf products to their long-term customers in such areas. After the Reorganization Completion Date, such tobacco leaf product suppliers continue to negotiate all terms of sales including prices, quantities and grades of tobacco leaf products with such customers directly, while the Company acts as an agent in such transactions and receives a commission for the services it provides in connection with such transactions.

INTERNAL CONTROL MEASURES

In connection with its continuing connected transactions, the Company has adopted the measures as set out in the section headed "Connected Transactions – Measures to Ensure Our Connected Transactions are on Normal Commercial Terms or Better" and " – Corporate Governance Policies and other Measures to Protect the Interests of Shareholders" of the Prospectus. In particular, the Company has undergone and will undertake the following steps and measures, among others, to ensure that the terms of the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better.

- In relation to the procurement transactions in the Tobacco Leaf Products Import Business, the Company's management team has considered sample products, price quotes and performance of various suppliers, including reviewing and comparing information from the Company's historical and ongoing procurement transactions with independent third party suppliers, in order to ensure that tobacco leaf products to be procured from the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business will be made on normal commercial terms or better to the Company. Various contracts and transaction documents with independent third party suppliers have also been, and will continue to be, reviewed and considered by the Company's management team when determining the terms of the tobacco leaf products procurement transactions under the 2021-2024 Offshore Supply Framework Agreements, to ensure that such principals and terms are consistent with those set out in the Company's contracts with other third party suppliers.
- In relation to the Agency Business in the Sales of Tobacco Leaf Products, when determining the commission the Company received from the sales of tobacco leaf products, the Company's management team has considered, and will continue to consider, the resources the Company devotes to the business and the unit prices of the tobacco leaf products under such agency business. In addition, historical commissions the Company received from the sales of tobacco leaf products, including those received from independent third parties, have been reviewed and used as reference when setting the pricing policies and terms of the Agency Business in the Sales of Tobacco Leaf Products contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements.

- The Company has established the Connected Transactions Control Committee, which currently consists of four Directors, the majority of whom are independent non-executive Directors and the chairman being an independent non-executive Director. The Connected Transactions Control Committee has (i) reviewed the pricing and procedures carried out by the management of the Company for such transactions; (ii) reviewed the pricing policies and principal terms set out in the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements, respectively; and (iii) reported to the independent non-executive Directors on their views of such transactions. In addition, the Connected Transactions Control Committee will (i) review the management system for such transactions, supervise its implementation and make recommendations to the Board; (ii) review and approve such transactions and their related matters; and (iii) provide information for independent non-executive Directors and auditors to perform their periodical review of such transactions.
- the Company will engage an independent financial adviser to review the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements. The independent financial adviser will confirm in the Company's interim and annual reports whether such transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better to the Company; and (iii) according to the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements on their respective terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- The independent non-executive Directors will review the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements on a semi-annual basis, and confirm in the Company's interim and annual reports whether such transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better to the Company; and (iii) according to the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements on their respective terms that are fair and reasonable and in the interests of the Shareholders as a whole. In particular, they will (i) on a semi-annual basis, review the financial information of the Company to understand such transactions entered into during the reporting period; (ii) on a semi-annual basis, review transaction documents for the Company's compliance with the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements, the pricing policies and whether such transactions have been conducted on the normal commercial terms or better to the Company on the sampling basis; (iii) on an annual basis, review the report on such transactions during the reporting period; (iv) on an annual basis, convene the special meetings of the Connected Transactions Control Committee to discuss the review conducted by the Connected Transactions Control Committee on such transactions during the reporting period, and the review opinions on such transactions jointly with the independent financial adviser; (v) on a semi-annual basis, review the interim or audited financial statements of the Company for the reporting period with disclosure note on related party transactions included therein; and (vi) on a semi-annual basis, convene the special meetings of the Connected Transactions Control Committee to enquire the Company's management about its control measures and implementations in relation to such transactions.

- The external auditors of the Company will review and report on the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements on an annual basis, and confirm whether anything has come to their attention that causes them to believe (i) such transactions have not been approved by the Board; (ii) such transactions involving the provision of goods or services by the Company, were not, in all material respects, in accordance with the pricing policies of the Company; (iii) such transactions were not entered into, in all material respects, in accordance with the terms of the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements, respectively; and (iv) the aggregate amount of each of such transactions has exceeded their respective annual caps for the reporting period.
- The Company has formulated internal guidelines with respect to, among others, the procurement transactions in the Tobacco Leaf Products Import Business and the Agency Business in the Sales of Tobacco Leaf Products, which provide, among others, relevant pricing policies for procurement of tobacco leaf products and agency commission of tobacco leaf products, respectively, as well as price negotiation procedures for the procurement of tobacco leaf products from overseas suppliers. In addition, the Company has put in place internal policy to ensure fair and reasonable connected transactions and compliance with disclosure requirements according to the Listing Rules.

LISTING RULES IMPLICATIONS

CTIG is a controlling shareholder of the Company directly holding approximately 72.29% of the total issued share capital of the Company as at the date of this announcement. CNTC is the sole shareholder of CTIG. Each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business and the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products, all being subsidiaries and/or associates of CNTC, is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of (i) the 2021-2024 Offshore Supply Framework Agreements and (ii) the 2021-2024 Tobacco Leaf Products Export Agency Agreements will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements are aggregated for the purpose of Rule 14A.81 of the Listing Rules on the basis that these transactions are conducted with counterparties that are associates of CNTC and are parties who are connected with one another. As one or more of the applicable percentage ratios in relation to the transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements, on an aggregated basis, exceed 5%, the transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements together with the Proposed Caps will be subject to announcement, annual review, circular (including independent board committee's and independent financial adviser's opinions and recommendations) and Independent Shareholders' approval requirements.

Mr. Shao Yan, a non-executive Director and chairman of the Board, who also concurrently holds executive positions at the CTIG, has abstained from voting on the board resolutions to approve the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps). All remaining Directors (including all the independent non-executive Directors) do not have a material interest in the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements or the respective transactions contemplated thereunder (including the Proposed Caps) and they approved the above resolutions. The Board (excluding Mr. Shao Yan and the independent non-executive Directors (whose views will be set out in the letter from the Independent Board Committee to be included in the circular to be despatched in connection with this announcement) considers that the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES

The Company

The Company is principally engaged in the following businesses: (i) export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan; (ii) 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 the Republic of Zimbabwe); (iii) export of cigarettes from CNTC and its subsidiaries directly to the duty-free outlets in the Kingdom of Thailand, the Republic of Singapore, Hong Kong and Macau, as well as duty-free outlets within the borders, but outside the customs areas of mainland China of the PRC or sales of cigarettes from CNTC and its subsidiaries through distributors; and (iv) export of new tobacco products to overseas market worldwide.

CNTC

CNTC is an enterprise incorporated in the PRC on 15 December 1983, and the sole shareholder of CTI and CTIG and the ultimate controlling shareholder of the Company, the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business and the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products. CNTC is wholly owned by the State Council of the PRC. CNTC and its subsidiaries are the only entities under the State tobacco monopoly regime of the PRC to engage in the production, sale, and import and export businesses of tobacco monopoly commodities in the PRC.

Relevant Counterparties in the Procurement Transactions in the Tobacco Leaf Products Import Business

CBT is a company incorporated in Brazil on 15 September 2011 and is owned as to 51% by China Tabaco Internacional do Brasil Ltda, an indirectly wholly-owned subsidiary of CNTC through CTIG, and 49% by Alliance One Brasil Exportadora de Tabacos Ltda, an indirectly wholly-owned subsidiary of Pyxus (OTC: PYYX). As at the date of this announcement, CBT is principally engaged in procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production, and Pyxus is principally engaged in providing tobacco agricultural products, ingredients and related services. For further details of CBT, please also refer to the section headed “The Procurement Transactions In The Tobacco Leaf Products Import Business – Parties” of this announcement.

CTI North America is a company incorporated in the State of North Carolina, the United States, on 16 July 2012. As at the date of this announcement, CTI North America is an indirectly wholly-owned subsidiary of CNTC through CTIG and principally engaged in contract farming of tobacco leaves and procurement, processing, warehousing and export of raw tobacco as well as procurement of tobacco leaf products.

Relevant Counterparties in the Agency Business in the Sales of Tobacco Leaf Products

Bang Kang Cigarette Factory, Myanmar is a joint venture company incorporated in the Republic of the Union of Myanmar on in December 1999. As at the date of this announcement, Bang Kang Cigarette Factory, Myanmar is owned as to 50% by CNTC through Chongqing Tobacco Investment Management Co., Ltd.* (重慶市煙草投資管理有限公司) and 50% by Hein Yun Virginia Tobacco Industries Co., Ltd. and principally engaged in the production, processing and sales of cigarettes. As at the date of this announcement, Hein Yun Virginia Tobacco Industries Co., Ltd. is a company incorporated in the Republic of the Union of Myanmar in 2019 and principally engaged in the production, sales, import and export of tobacco products.

Golden Leaf (Macau) Tobacco's Manufacturing Ltd. is a limited liability company incorporated in Macau in December 1992. As at the date of this announcement, Golden Leaf (Macau) Tobacco's Manufacturing Ltd. is an indirectly wholly owned subsidiary of CNTC through CNTC Guangdong Company* (中國煙草總公司廣東省公司) (as to 26%), Golden Tobacco International Limited (金葉煙草國際有限公司) (as to 19%) and China Tobacco Guangdong Industrial Co., Ltd.* (廣東中煙工業有限責任公司) (as to 55%) and principally engaged in the production and sales of cigarettes.

Hong Kong Hongta International Tobacco Company Limited is a limited liability company incorporated in Hong Kong on 9 December 1998. As at the date of this announcement, Hong Kong Hongta International Tobacco Company Limited is owned as to 70% by CNTC through Hongta Tobacco (Group) Co., Ltd.* (紅塔煙草(集團)有限責任公司) (as to 55%) and Yunnan Tobacco International Co., Ltd.* (雲南煙草國際有限公司) (as to 15%) and 30% by Yanlord International Investment Co., Ltd. and principally engaged in the production of tobacco products. As at the date of this announcement, Yanlord International Investment Co., Ltd. is a company incorporated in the British Virgin Islands on 13 May 1998 and principally engaged in holding investment.

Lao-China Hongta Good Luck Tobacco Co., Ltd. is a limited liability company incorporated in Lao People's Democratic Republic in 1992. As at the date of this announcement, Lao-China Hongta Good Luck Tobacco Co., Ltd. is owned as to 91% by CNTC through Hongta Tobacco (Group) Co., Ltd.* (紅塔煙草(集團)有限責任公司) and principally engaged in the farming of tobacco leaves and production, processing and sales of tobacco leaf products and cigarettes.

Vinton Group Co., Ltd. is a limited liability company incorporated in the Kingdom of Cambodia on 12 May 1993. As at the date of this announcement, Vinton Group Co., Ltd. is owned as to 80% by CNTC through China Tobacco Guangdong Industrial Co., Ltd.* (廣東中煙工業有限責任公司) and principally engaged in the production of tobacco products and production, processing, sales and export of cigarettes.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in connection with the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps) as to whether the terms of such agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole, and how to vote. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

EGM

The Company will convene an EGM for the Independent Shareholders to consider and, if thought fit, approve the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the transactions contemplated thereunder (including the Proposed Caps).

Given that CNTC and CTIG are controlling shareholders and are considered to have material interests in the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the transactions contemplated thereunder (including the Proposed Caps), CNTC, CTIG and their respective associates shall abstain from voting at the EGM in respect of resolutions relating thereto.

Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, no other Shareholder has a material interest in the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps), and thus no other Shareholder is required to abstain from voting on the proposed resolutions to approve the aforementioned matters.

DESPATCH OF CIRCULAR

The Company will despatch a circular in accordance with the requirements under the Listing Rules, which will contain, among other things: (i) further information on the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps); (ii) the letter from the Independent Board Committee with its opinion and recommendation on the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps) to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser with its advice on the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps) to the Independent Board Committee and the Independent Shareholders; and (vi) a notice of the EGM. The Company expect to despatch the circular to the Shareholders as soon as possible within 15 Business Days after the publication of this announcement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Agency Business in the Sales of Tobacco Leaf Products”	the Company’s agency business whereby the Company acts as an agent in certain sale transactions of tobacco leaf products as part of the Tobacco Leaf Products Export Business
“Board”	the board of Directors of the Company
“Brazil”	the Federative Republic of Brazil
“CBT”	China Brasil Tabacos Exportadora S.A., a company incorporated in Brazil and owned as to 51% by China Tabaco Internacional do Brasil Ltda
“CNTC”	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC, and the sole shareholder of CTI and CTIG and the ultimate controlling shareholder of the Company. CNTC is wholly owned by the State Council of the PRC
“Company”	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 6055)
“Connected Transactions Control Committee”	the connected transactions control committee of the Board
“CTI”	China Tobacco International Inc.* (中國煙草國際有限公司), a company incorporated with limited liability in the PRC and a wholly-owned subsidiary of CNTC
“CTI North America”	China Tobacco International (North America), Inc., a company incorporated in the State of North Carolina, the United States and an indirectly wholly-owned subsidiary of CNTC
“CTIG”	China Tobacco International Group Limited* (中煙國際集團有限公司), the controlling shareholder of the Company
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps), or any adjournment thereof

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors who do not have a material interest in the relevant transactions, established to advise the Independent Shareholders in relation to the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps)
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, being independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2021-2024 Offshore Supply Framework Agreements, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps)
“Independent Shareholders”	the Shareholders, excluding those who are required to abstain from voting at the EGM to be convened in accordance with the Listing Rules and other applicable laws, rules and regulations
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“No. 60 Notice”	the Notice Regarding the Operations of China Tobacco International (HK) Company Limited (Zhongyanban [2018] No. 60) (中國煙草總公司關於中煙國際(香港)有限公司運營的通知(中煙辦[2018]60號)) issued by CNTC on 22 March 2018
“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 China Tobacco International Argentina S.A., on the other hand, as of 28 November 2018
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, Macau and Taiwan
“Proposed Caps”	the proposed maximum annual aggregate value for each of the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements in respect of 2022 to 2024 as set out in this announcement

“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 Virginia, United States in August 2020 and trading on the New York OTC Market (OTC: PYYX)
“Reorganization Completion Date”	30 June 2018, as of which date the reorganization of the businesses of the Company and other entities under CNTC was completed
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the shares of the Company
“Southeast Asia”	Indonesia, the Philippines, Malaysia, Vietnam, Cambodia, Laos, Myanmar, Thailand, Singapore, Brunei, the Democratic Republic of Timor-Leste and other countries
“Taiwan”	The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu
“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
“Tobacco Leaf Products Export Business”	the Company’s exclusively operated export business of tobacco leaf products, which are procured from CNTC and its subsidiaries and sold to Southeast Asia (including Indonesia, Philippines, Vietnam, Malaysia, Thailand, Laos, Myanmar, Cambodia, Singapore, Brunei, the Democratic Republic of Timor-Leste and others), Taiwan, Hong Kong and Macau
“Tobacco Leaf Products Import Business”	the Company’s exclusively operated import business of tobacco leaf products, which are procured from origin countries or regions around the world (other than from Zimbabwe) and sold to CTI
“U.S. dollars”	United States dollars, the lawful currency of the United States of America
“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

In this announcement, the English translation of an entity’s or a 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 companies established in the PRC and their English translations, the Chinese names shall prevail.*

By order of the board of directors of
China Tobacco International (HK) Company Limited
Shao Yan
Chairman

Hong Kong, 17 November 2021

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