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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Tobacco International (HK) Company Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser
to the Independent Board Committee and Independent Shareholders**



A notice convening the extraordinary general meeting of China Tobacco International (HK) Company Limited to be held at 17/F, Tower A, China Life Tower, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong on Thursday, 30 December 2021 at 3 pm is set out on pages EGM-1 to EGM-2 of this circular.

Whether you are able to attend the EGM or not, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible, and in any event so that it is received not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

In order to prevent the spread of COVID-19 pandemic and to safeguard the health and safety of Shareholders, the Company will implement the following precautionary measures at the EGM:

- compulsory body temperature checks and health declarations
- compulsory wearing of surgical face masks
- no provision of refreshments and corporate gifts

Any person who does not comply with the precautionary measures will be denied entry into the EGM venue. All attendees are requested to wear surgical face masks at all times at the EGM venue. **Shareholders are reminded to exercise their voting rights at the EGM by appointing the chairman of the EGM as proxy to attend and vote on the relevant resolutions at the EGM instead of attending the EGM or any adjourned meeting in person.**

14 December 2021

CONTENTS

<u>Contents</u>	<u>Page</u>
PRECAUTIONARY MEASURES FOR THE EGM	1
DEFINITIONS	2
LETTER FROM THE BOARD	7
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	29
LETTER FROM SOMERLEY	31
APPENDIX – GENERAL INFORMATION	A-1
NOTICE OF EGM	EGM-1

PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 pandemic and recent requirements for prevention and control of its spread, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted on every attending Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person found to be suffering from a fever or otherwise unwell will be denied entry into the EGM venue or be required to leave the EGM venue.
- (ii) All attending Shareholders, proxies and other attendees are required to complete and submit at the entrance of the EGM venue a declaration form confirming their names and contact details, and be asked whether (a) they have travelled to, or to their best of knowledge had close contact with any person who has recently travelled to, areas outside of Hong Kong at any time in the preceding 14 days of the EGM; and (b) they are subject to any compulsory quarantine prescribed by the Hong Kong Government. Any person who responds affirmatively to any one of the above questions will be denied entry into the EGM venue or be required to leave the EGM venue.
- (iii) All attendees are requested to wear surgical face masks at the EGM venue at all times, and to maintain a safe distance with other attendees.
- (iv) No refreshments or corporate gifts will be provided.

To the extent permitted under applicable laws, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders' health and safety and in response to the recent guidelines on prevention and control of COVID-19 pandemic, **Shareholders are reminded that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by completing form of proxy in accordance with the instructions printed thereon, Shareholders may appoint the chairman of the EGM as proxy to attend and vote on the relevant resolutions at the EGM instead of attending the EGM or any adjourned meeting in person.**

DEFINITIONS

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

“Acquisition”	the acquisition of the entire issued and outstanding quotas of China Tabaco Internacional do Brasil Ltda., a company incorporated in Brazil on 6 June 2002 with limited liability, by the Company from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG
“Agency Business in the Sales of Tobacco Leaf Products”	the Group’s agency business whereby the Group acts as an agent in certain sale transactions of tobacco leaf products as part of the Tobacco Leaf Products Export Business
“Articles of Association”	the Amended and Restated Articles of Association of the Company passed on 17 May 2019 and effective on 24 May 2019, as may be amended from time to time
“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 (Stock Code: 6055)
“Connected Transactions Control Committee”	the connected transactions control committee of the Board

DEFINITIONS

“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, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps), or any adjournment thereof
“Group”	the Company and its subsidiary
“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)

DEFINITIONS

“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
“Latest Practicable Date”	9 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“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 circular, Hong Kong, Macau and Taiwan

DEFINITIONS

“Proposed Caps”	the proposed caps of (i) the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreements for the year ending 31 December 2022, the year ending 31 December 2023 and the period from 1 January 2024 to 16 November 2024, respectively; and (ii) the continuing connected transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements for the period from 17 November 2021 to 31 December 2021, the year ending 31 December 2022, the year ending 31 December 2023 and the period from 1 January 2024 to 16 November 2024, respectively, as set out in this circular
“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taiwan”	The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu

DEFINITIONS

“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 Group’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 Group’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 circular, 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.*

LETTER FROM THE BOARD



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)

Non-Executive Director:
SHAO Yan (Chairman)

Executive Directors:
YANG Xuemei
LI Yan
LIANG Deqing
WANG Chengrui

Independent Non-Executive Directors:
CHOW Siu Lui
WANG Xinhua
CHAU Kwok Keung
QIAN Yi

*Headquarters, Registered Office and
Principal Place of Business:*
Room 1002, 10/F, Tower A,
China Life Center,
One Harbour Gate,
18 Hung Luen Road,
Hung Hom, Kowloon,
Hong Kong

14 December 2021

To the Shareholders

Dear Sir or Madam

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 17 November 2021 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).

The Offshore Supply Framework Agreements and the Tobacco Leaf Products Export Agency Agreements have expired as of 28 November 2021 and as of 21 December 2021, respectively. As the Group intends to continue to enter into the transactions of similar nature after expiry of the Offshore Supply Framework Agreements and the Tobacco Leaf Products

LETTER FROM THE BOARD

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.

The purposes of this circular are to provide you with, 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.

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

The Offshore Supply Framework Agreements 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.

LETTER FROM THE BOARD

Parties

The Company and each of the entities under CNTC below:

- CBT; and
- CTI North America.

Reference is made to the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021 in relation to the Acquisition, which constituted a major and connected transaction of the Company. As disclosed in the announcement of the Company dated 29 November 2021, the Acquisition was completed on 26 November 2021. Prior to the completion of the Acquisition on 26 November 2021, CBT was 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). After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, CBT has become a non-wholly owned subsidiary of the Company and hence ceases to be a connected person of the Company.

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.

LETTER FROM THE BOARD

Pricing Policy

The continuing connected transactions under the 2021-2024 Offshore Supply Framework Agreements, being procurement of tobacco leaf products by the Company from the relevant counterparties that are entities under CNTC and thus connected persons of the Company, are conducted by the Company as part of the Tobacco Leaf Products Import Business, which consists of (i) procurement of tobacco leaf products by the Company from overseas suppliers; and (ii) sale of such products by the Company to CTI for onward sales to cigarette manufacturers in the PRC. Pursuant to the Approval of Matters Including the Adjustment of Commission Rates Relating to Tobacco Leaves Import by China Tobacco International Company Limited (Zhongyanban (2018) No. 135) (中國煙草總公司關於中國煙草國際有限公司進口煙葉代理費率等事項調整的批覆(中煙辦[2018]135號)) issued by CNTC on 17 July 2018 (the “**No. 135 Notice**”), the margin (the “**Margin**”) at which the Company shall add to the price at which the Company procures such products from its suppliers (the “**Procurement Price**”) in its sales of tobacco leaf products to CTI shall be 6% (except for a small portion of tobacco leaf products imported for manufacturing certain cigarette brands which are not relevant to the 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated thereunder). As disclosed in the section headed “Connected Transactions – Non-exempt Continuing Connected Transactions – Tobacco Leaf Products Import Business” of the Prospectus, the determination of the Margin under the No. 135 Notice took into account the overall transaction cost associated with the importation process born by the various parties, including the import tariff, value-added tax, our cost of operations and the risk associated with the applicable exchange rate, and the Company may apply with the State Tobacco Monopoly Administration of the PRC (國家煙草專賣局) for adjustment of the Margin based on changing international and domestic market conditions. The Procurement Price is negotiated between the parties on an arm’s length basis, taking into consideration factors including current international market condition, relationship with the relevant suppliers, past procurement prices, product quality and annual production volume. Specifically, the Procurement Price comprises: (i) suppliers’ costs of raw materials; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) suppliers’ costs associated with exchange rate (suppliers procure tobacco leaves from local tobacco farmers with local currency but sell processed tobacco leaves to the Company in U.S. dollars). The applicable taxes, for example, export tax imposed by certain countries, are usually borne by the Company. The Company applies the same pricing policies in negotiating and determining the Procurement Prices with independent third parties suppliers and suppliers that are connected persons of the Company. The determination of the Procurement Prices will not affect the margin the Company charges in the Tobacco Leaf Products Import Business (to the extent relevant to the 2021-2024 Offshore Supply Framework Agreements and transactions contemplated thereunder), which is fixed at 6% pursuant to the No. 135 Notice.

LETTER FROM THE BOARD

Historical Transaction Amounts

The table below sets forth the historical transaction amounts of the continuing connected transactions under the Offshore Supply Framework Agreements for the relevant periods as set out below.

	Historical Transaction Amounts				
	For the year ended 31 December				For the eleven months ended
	2017	2018	2019	2020	30 November 2021
	<i>(HK\$ in million)</i>				
Procurement Transactions in the Tobacco Leaf Products Import Business					
Import Business	1,476.9	1,486.1	1,134.7	856.0	794.5

Set forth below is a summary of the historical annual caps, the utilisation rates and the historical transaction amounts of the continuing connected transactions contemplated under the Offshore Supply Framework Agreements (i) for the year ended 31 December 2019, (ii) for the year ended 31 December 2020, and (iii) for the eleven months ended 30 November 2021:

	Historical Transaction Amounts		
	For the year ended		For the eleven months ended
	31 December 2019	2020	30 November 2021
	<i>(HK\$ in million)</i>		
Procurement Transactions in the Tobacco Leaf Products Import Business			
Annual cap	2,500.0	2,650.0	2,800.0
Amount of annual cap utilised	1,134.7	856.0	794.5
Utilisation rate	45%	32%	28%

LETTER FROM THE BOARD

The annual caps for the continuing connected transactions under the Group's procurement transactions in the Tobacco Leaf Products Import Business for the three years ending 31 December 2019, 2020 and 2021 are HK\$2,500 million, HK\$2,650 million and HK\$2,800 million, respectively. The actual transaction amounts of the continuing connected transactions under the Group's procurement transactions in the Tobacco Leaf Products Import Business for the years ending 31 December 2019 and 2020 were below their corresponding annual caps. The actual utilisation rates for the years ending 31 December 2019 and 2020 are 45% and 32%, respectively. The low utilisation of the historical annual caps are mainly due to the following reasons:

- In determining the annual caps for the continuing connected transactions under the Group's Procurement transactions in the Tobacco Leaf Products Import Business for the three years ending 31 December 2019, 2020 and 2021, the Group took into account the uncertainty relating to the shipping arrangement for tobacco leaf products procured by the Group, which may result in a situation where (i) a significant portion of the tobacco leaf products contracted for purchase in the previous year arrive in destination ports in the current year, and (ii) the tobacco leaf products contracted for purchase in the current year also arrive in destination ports in the current year, in which case the Group would recognise revenue in the current year for such portion of the tobacco leaf products contracted for purchase in the previous year as well as the tobacco leaf products contracted for purchase in the current year, which would result in the transaction amounts to be recorded in the current year to be higher than the case where all tobacco leaf products procured in the previous year arrive in destination ports in the previous year (and accordingly the relevant transaction amounts are recorded in the previous year). However, due to shipping arrangements, (i) in each of the years ending 31 December 2019 and 2020, the situation described in (i) above (i.e. where a significant portion of the tobacco leaf products contracted for purchase in the previous year arrive in destination ports in the current year) had not occurred to the extent contemplated by the annual cap, and (ii) a significant portion of the tobacco leaf products contracted for purchase in the year ended 31 December 2020 arrived in destination ports in 2021, resulting in the transaction amounts for such portion of tobacco leaf products to be recorded in 2021; and
- The Group had not procured any tobacco leaf products from the United States in the years ending 31 December 2019 and 2020 due to the tariff imposed on tobacco leaf products by the PRC government in July 2018 as part of the adverse material impact of the U.S.-China trade friction. This also explains the low utilisation rate of the annual caps for the years ending 31 December 2019 and 2020. Taking into account the fact that the U.S.-China trade tension has been eased since 2021 and the Group has already resumed the procurement of tobacco leaf products from the United States, the Board considers that the proposed annual caps (i) for the year ending 31 December 2022, (ii) for the year ending 31 December 2023, and (iii) for the period from 1 January 2024 to 16 November 2024 should not be affected by the low utilisation rates in 2019 and 2020.

The Group expects that the transaction amount of the continuing connected transactions under the Group's procurement transactions in the Tobacco Leaf Products Import Business for the year ending 31 December 2021 will not exceed its corresponding annual cap.

LETTER FROM THE BOARD

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 (i) for the year ending 31 December 2022, (ii) for the year ending 31 December 2023, and (iii) for the period from 1 January 2024 to 16 November 2024, respectively.

	Proposed Annual Caps		
	For the	For the	For the
	year ending	year ending	period from
	31 December	31 December	1 January
	2022	2023	2024 to
			16 November
			2024
	<i>(HK\$ in million)</i>		
Procurement Transactions in the Tobacco Leaf Products			
Import Business	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 Group 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 Latest Practicable Date 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 Group 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 Group resumed the procurement of tobacco leaf products from the United States, the Group 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 Group, 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; and
- fluctuation of international currency exchange rates.

LETTER FROM THE BOARD

With respect to the procurement of tobacco leaf products from the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business (i) for the year ending 31 December 2023 and (ii) for the period from 1 January 2024 to 16 November 2024, the Group proposes to set the relevant annual caps based on a 5% annual progressive growth rate from the proposed annual caps for the previous year. Having considered the above factors, the Board is of the view that the proposed annual caps for the 2021-2024 Offshore Supply Framework Agreements caps (i) for the year ending 31 December 2022, (ii) for the year ending 31 December 2023, and (iii) for the period from 1 January 2024 to 16 November 2024 are fair and reasonable.

After the expiry of the Offshore Supply Framework Agreements and up to 31 December 2021, the Group has not conducted, and does not expect to conduct, transactions of similar nature with the parties to the Offshore Supply Framework Agreements which are connected persons of the Company.

Reasons and Benefits of the Transactions

The Group 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 Group 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 Group 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 Group believes that the 2021-2024 Offshore Supply Framework Agreements are consistent with and important to its business and commercial objectives.

The 2021-2024 Offshore Supply Framework Agreements bring the following benefits to the Group: (i) they enable the Group to comply with the regulatory requirements in China, including those under the No. 60 Notice, as explained above; (ii) the long-term and stable tobacco leaf products procurement relationship between the Group and the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business can help the Group to further develop its business in the future; and (iii) the 2021-2024 Offshore Supply Framework Agreements can help the Group to satisfy the domestic market demand of tobacco leaf products from overseas. The Board does not consider there to be any material disadvantage to the Group in relation to the 2021-2024 Offshore Supply Framework Agreements and the respective transactions contemplated thereunder.

LETTER FROM THE BOARD

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
- Viniton 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.

LETTER FROM THE BOARD

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 Group). The Group 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. For cut tobacco, the minimum commission rate that the Group expects to receive is 0.25% of the selling price. The minimum commission rate is determined based on the gross margin that the Group expects to generate from the sale of such products, which is (i) 0.25% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price of USD20,000 per metric ton or above, and (ii) 0.5% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price below USD20,000 per metric ton, respectively.

Historical Transaction Amounts

The table below sets forth the historical amounts of the commission received by the Group 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 year ended 31 December				For the eleven months ended
	2017	2018	2019	2020	30 November 2021
Commission received by the Group 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	0.9

(HK\$ in million)

LETTER FROM THE BOARD

Set forth below is a summary of the historical annual caps, the utilisation rates and the historical transaction amounts of the continuing connected transactions contemplated under the Tobacco Leaf Products Export Agency Agreements (i) for the year ended 31 December 2019, (ii) for the year ended 31 December 2020, and (iii) for the eleven months ended 30 November 2021:

	For the year ended	For the eleven	months ended
	31 December	30 November	2021
	2019	2020	2021
	<i>(HK\$ in million)</i>		
Commission received by the Group			
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			
Annual cap	3.9	4.3	4.7
Amount of annual cap utilised	2.7	1.4	0.9
Utilisation rate	69%	33%	19%

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 Group) 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 actual amounts of such transactions for the years ending 31 December 2019 and 2020, respectively, were below their corresponding annual caps. The actual utilisation rates decreased from 69% in 2019 to 33% in 2020. This decrease was primarily due to the negative influence of the Covid-19 pandemic on the Southeast Asia region starting in the year ending 31 December 2020, which caused a shortfall in the volume of production of tobacco leaf products by our customers, leading to a decrease in their demand for our supplies as part of the Agency Business in the Sales of Tobacco Leaf Products. However, the decreasing utilisation rates would not affect the determination of the proposed annual caps for the commission to be received by the Group 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, because with the expectation that the impact of COVID-19 will become less severe in 2022, the Group determines the proposed annual cap for 2022 based on the actual shipment volume in 2019. The Group expects that the amount of such transactions for the year ending 31 December 2021 will not exceed its corresponding annual cap.

LETTER FROM THE BOARD

Proposed Annual Caps and Basis of Determination

The table below sets forth the proposed annual caps for the commission to be received by the Group 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 (i) for the period from 17 November 2021 to 31 December 2021, (ii) for the year ending 31 December 2022, (iii) for the year ending 31 December 2023, and (iv) for the period from 1 January 2024 to 16 November 2024, respectively.

Commission to be received by the Group 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	Proposed Annual Caps			
	For the period from 17 November 2021 to 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023	For the period from 1 January 2024 to 16 November 2024
	<i>(HK\$ in million)</i>			
	0.4	3.0	3.3	3.6

With respect to the commission to be received by the Group 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 Group 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 Group 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 (i) for the year ending 31 December 2023 and (ii) for the period from 1 January 2024 to 16 November 2024, respectively, which represents a 10% annual progressive growth rate from the annual caps for the previous year.

In setting such annual caps, the Group 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.

LETTER FROM THE BOARD

Having considered the above factors, the Board is of the view that the proposed annual caps for the 2021-2024 Tobacco Leaf Products Export Agency Agreements (i) for the period from 17 November 2021 to 31 December 2021, (ii) for the year ending 31 December 2022, (iii) for the year ending 31 December 2023, and (iv) for the period from 1 January 2024 to 16 November 2024 are fair and reasonable.

After the expiry of the Tobacco Leaf Products Export Agency Agreements and up to 31 December 2021, the Group has conducted, and expects to continue to conduct, transactions of similar nature with the parties to the Tobacco Leaf Products Export Agency Agreements which are connected persons of the Company. The Group will closely monitor the transaction amounts of the transactions conducted during such period, and will ensure that the transactions conducted during such period are exempt from the circular and shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules. In the event that the 2021-2024 Tobacco Leaf Products Export Agency Agreements were approved by the Independent Shareholders at the EGM, transactions conducted and/or to be conducted during the period from 17 November 2021 to 31 December 2021 will automatically be subject to the terms of the 2021-2024 Tobacco Leaf Products Export Agency Agreements, and the relevant transaction amounts have been taken into account in determining the proposed annual cap of the 2021-2024 Tobacco Leaf Products Export Agency Agreements for the period from 17 November 2021 to 31 December 2021 as disclosed above. The Group expects that the amounts of such transactions for the period from 17 November 2021 to 31 December 2021 will not exceed the proposed annual cap for such period as disclosed above. In the event that the 2021-2024 Tobacco Leaf Products Export Agency Agreements were not approved by the Independent Shareholders at the EGM, please refer to the section headed "Listing Rules Implications" of this circular for further information on (i) the transactions to be conducted with the relevant connected persons after the expiry of the Tobacco Leaf Products Export Agency Agreements; and (ii) how the Company expects to comply with the requirements with respect to such transactions under Chapter 14A of the Listing Rules in such circumstance.

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 Group acts as an agent in such transactions and receives a commission for the services it provides in connection with such transactions.

The 2021-2024 Tobacco Leaf Products Export Agency Agreements bring the following benefits to the Group: (i) they enable the Group to comply with the regulatory requirements in China, including those under the No. 60 Notice, as explained above; (ii) the long-term and stable tobacco leaf products procurement relationship between the Group and the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products can help the Group to further develop its business in the future; and (iii) the 2021-2024 Tobacco Leaf Products Export Agency Agreements can help the Group to generate more revenue by

LETTER FROM THE BOARD

satisfying the overseas demand of tobacco leaf products in the global market. The Board does not consider there to be any material disadvantage to the Group in relation to the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

In connection with its continuing connected transactions, the Group 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 Group 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 Group’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 Group. 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 Group’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 Group received from the sales of tobacco leaf products, the Company’s management team has considered, and will continue to consider, the resources the Group devotes to the business and the unit prices of the tobacco leaf products under such agency business. In addition, historical commissions the Group 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.

LETTER FROM THE BOARD

- 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 Group; (ii) on normal commercial terms or better to the Group; 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 Group; (ii) on normal commercial terms or better to the Group; 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 Group to understand such transactions entered into during the reporting period; (ii) on a semi-annual basis, review transaction documents for the Group'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 Group 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

LETTER FROM THE BOARD

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 Group, were not, in all material respects, in accordance with the pricing policies of the Group; (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 Group 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 Group 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 Latest Practicable Date. 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.

LETTER FROM THE BOARD

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 are set out in "*Letter from the Independent Board Committee*" in this circular)) 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 Group and the Shareholders as a whole.

In the event that the 2021-2024 Offshore Supply Framework Agreements were not approved by the Independent Shareholders at the EGM, the Group expects to continue to conduct transactions of similar nature with the relevant connected persons of the Company on and/or after 1 January 2022. In such circumstance, the Group will closely monitor the transaction amounts of the relevant transactions on and/or after 1 January 2022, and expects to comply with the requirements under Chapter 14A of the Listing Rules by (i) ensuring that such transactions are exempt from the circular and shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules; and (ii) complying with the announcement requirement (if applicable) and all other applicable requirements under Chapter 14A of the Listing Rules.

In the event that the 2021-2024 Tobacco Leaf Products Export Agency Agreements were not approved by the Independent Shareholders at the EGM, the Group expects to continue to conduct transactions of similar nature with the relevant connected persons of the Company after 21 December 2021 (the "**Expiry Date**"). In such circumstance, the Group will closely monitor the transaction amounts of the relevant transactions during the period from the Expiry Date to 31 December 2021 and each of the years thereafter, and expects to comply with the

LETTER FROM THE BOARD

requirements under Chapter 14A of the Listing Rules by (i) ensuring that such transactions are exempt from the circular and shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules; and (ii) complying with the announcement requirement (if applicable) and all other applicable requirements under Chapter 14A of the Listing Rules.

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 a non-wholly owned subsidiary of the Company. As at the Latest Practicable Date, CBT is principally engaged in procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production. 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 circular.

CTI North America is a company incorporated in the State of North Carolina, the United States, on 16 July 2012. As at the Latest Practicable Date, 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.

LETTER FROM THE BOARD

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 in December 1999. As at the Latest Practicable Date, 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 Latest Practicable Date, 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 Latest Practicable Date, 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 Latest Practicable Date, 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.* (云南烟草国际有限公司) (as to 15%) and 30% by Yanlord International Investment Co., Ltd. and principally engaged in the production of tobacco products. As at the Latest Practicable Date, 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 Latest Practicable Date, 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 Latest Practicable Date, 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.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed pursuant to the Listing Rules. After considering the advice from the Independent Financial Adviser, the Independent Board Committee will 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. Each of the independent non-executive Directors has confirmed that he has no 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). A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out in “*Letter from the Independent Board Committee*” in this circular.

Somerley has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out in “*Letter from Somerley*” in this circular.

EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed, a copy of which can also be obtained via the website of the Company at www.ctihk.com.hk or the website of the Stock Exchange at www.hkexnews.hk. Whether you are able to attend the EGM or not, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company’s share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible, and in any event so that it is received not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 24 December 2021 to Thursday, 30 December 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, non-registered holders for its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration not later than 4:30 pm on 23 December 2021.

LETTER FROM THE BOARD

Given that CNTC and CTIG are controlling shareholders holding approximately 72.29% of the total issued share capital of the Company as at the Latest Practicable Date, and are considered to have material interests in the 2021-2024 Offshore Supply Framework Agreements, 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.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon CTIG; and (ii) no obligation or entitlement of CTIG as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, 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.

Pursuant to Rule 13.39(4) of the Listing Rules, at any general meeting, a resolution put to the vote of Shareholders shall be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM will exercise his power under Article 74 of the Articles of Association to demand for poll voting on all the resolutions as set out in the notice of the EGM.

The results of the poll on all the resolutions as set out in the notice of the EGM in both English and Chinese will be published on the website of the Company at www.ctihk.com.hk and the website of the Stock Exchange at www.hkexnews.hk in accordance with the Listing Rules.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 29 to 30 of this circular which contains its recommendation to the Independent Shareholders in respect of 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 voting at the EGM, and (ii) the letter from Somerley set out on pages 31 to 47 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of 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).

LETTER FROM THE BOARD

On the basis of the information set out in this circular, the Directors (excluding Mr. Shao Yan but including the Independent Board Committee after considering the advice of Somerley) consider that terms and conditions of the procurement transactions in the Tobacco Leaf Products Import Business and the Agency Business in the Sales of Tobacco Leaf Products are on normal commercial terms and that the transactions are fair and reasonable, on normal commercial terms or better, and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the proposed resolutions set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular on the Company and other information required to be disclosed under the Listing Rules. You should consider carefully all the information set out in this circular before making any decision 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) at the EGM or dealing in the Shares of the Company.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of 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).



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)

14 December 2021

To the Independent Shareholders

Dear Sir or Madam

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the circular of the Company dated 14 December 2021 (the “**Circular**”), of which this letter forms part. Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those defined in the Circular.

The Independent Board Committee has been formed to consider and advise you in respect of 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), details of which are set out in the “*Letter from the Board*” contained in the Circular. Somerley has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. The text of the letter of advice from Somerley containing its recommendations and the principal factors and reasons it has taken into consideration in arriving at its recommendations is set out on pages 31 to 47 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of 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 after taking into account the principal factors and reasons and the advice of Somerley as set out in the “*Letter from Somerley*” contained in the Circular, we consider that the terms of 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) are on normal commercial terms or better and in the ordinary and usual course of business of the Group, fair and reasonable so far as the Group and the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

Accordingly, we strongly recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of 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).

Yours faithfully

For and on behalf of the
Independent Board Committee

China Tobacco International (HK) Company Limited

CHOW Siu Lui

Independent
non-executive
Director

WANG Xinhua

Independent
non-executive
Director

CHAU Kwok Keung

Independent
non-executive
Director

QIAN Yi

Independent
non-executive
Director

LETTER FROM SOMERLEY

Set out below is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps), which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

14 December 2021

To: The Independent Board Committee and the Independent Shareholders of China Tobacco International (HK) Company Limited

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2021-2024 Offshore Supply Framework Agreement (as defined below) and the 2021-2024 Tobacco Leaf Products Export Agency Agreements (the “**CCT Renewals**”) and the respective transactions contemplated thereunder (including the Proposed Caps). Details of the CCT Renewals are set out in the circular issued by the Company to the Shareholders dated 14 December 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As stated in the letter from the Board contained in the Circular, the Offshore Supply Framework Agreements and the Tobacco Leaf Products Export Agency Agreements expired on 28 November 2021 and will expire on 21 December 2021, respectively. As the Group intended 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 Agreement with CTI North America, pursuant to which, CTI North America shall provide long-term supply of tobacco leaf products to the Company for the three years from 17 November 2021 to 16 November 2024; 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, pursuant to which, the Company shall act as an agent in the sales of tobacco leaf products as part of the Tobacco Leaf Products Export Business for the three years from 17 November 2021 to 16 November 2024.

LETTER FROM SOMERLEY

CTIG is the controlling shareholder of the Company directly holding approximately 72.29% of the total issued share capital of the Company as at the Latest Practicable Date. CNTC is the sole shareholder of CTIG. CTI North America 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, are therefore connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of (i) the 2021-2024 Offshore Supply Framework Agreement; 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 Agreement 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. Since the highest applicable percentage ratio of the Proposed Caps, on an aggregated basis, exceeds 5%, the transactions contemplated under the 2021-2024 Offshore Supply Framework Agreement and the transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements together with the Proposed Caps will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. CHOW Siu Lui, Mr. WANG Xinhua, Mr. CHAU Kwok Keung and Mr. QIAN Yi, has been established to advise the Independent Shareholders on the 2021-2024 Offshore Supply Framework Agreement, the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder (including the Proposed Caps) to make recommendations as to voting. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, we have acted as an independent financial adviser to the Company in relation to (i) the major and connected transaction in relation to proposed acquisition of the entire issued and outstanding quotas of the target company (as disclosed in the Company's circular dated 29 September 2021); and (ii) the review of the continuing connected transactions of the Company for the six months ended 30 June 2021 and 2020 and for the year ended 31 December 2020 and 2019 (as disclosed in the Company's interim reports for the six months ended 30 June 2021 and 2020 and the Company's annual reports for the year ended 31 December 2020 and 2019 (together, the "**Annual Reports**"), respectively). The past engagements were limited to providing independent advisory services to the Company, for which we received normal professional fees relevant to such type of engagements. Accordingly, we do not consider the past engagements would affect our independence to act as the independent financial adviser to the Company under the current engagement.

LETTER FROM SOMERLEY

We are not associated with the Company, CTIG, CNTC, CTI North America and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products or their respective core connected persons, close associates or associates (all as defined under the Listing Rules) and accordingly are considered eligible to give independent advice on the above matters. Apart from normal professional fees payable to us in connection with this or similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, CTIG, CNTC, CTI North America and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products or their respective core connected persons, close associates or associates.

In formulating our opinion, we have reviewed, among other things, the 2021-2024 Offshore Supply Framework Agreement, the 2021-2024 Tobacco Leaf Products Export Agency Agreements, the interim report of the Company for the six months ended 30 June 2021, the Annual Reports, the Prospectus and the information as set out in the Circular. We have also discussed with the management of the Group (the “**Management**”) regarding the business of the Group and the prospect of conducting the transactions contemplated under the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the Management and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have considered the principal factors and reasons set out below:

(1) Information of the parties

(a) 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 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.

LETTER FROM SOMERLEY

Set out below is a summary of the Company's financial information for the years ended 31 December 2019 and 2020 and the six months ended 30 June 2020 and 2021.

	For the six months ended		For the year ended	
	30 June		31 December	
	2021	2020	2020	2019
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Revenue	3,694.3	1,884.6	3,480.9	8,977.0
Profit for the period/year	129.7	57.2	95.2	318.9
	As at 30 June		As at 31 December	
	2021		2020	
	<i>(HK\$ million)</i>		<i>(HK\$ million)</i>	
	<i>(HK\$ million)</i>		<i>(HK\$ million)</i>	
Net assets	1,690.0	1,588.0	1,588.0	1,603.4

The Company's business was severely affected by the outbreak of the COVID-19 pandemic in 2020 and the Company's revenue shrank by approximately 61.2% to approximately HK\$3,480.9 million for the year ended 31 December 2020. The Company's profit for the year ended 31 December 2020 also recorded a decrease of approximately 70.1% from that for the prior year. During the first half of 2021, the global economy had gradually returned to normal order despite the COVID-19 pandemic persisted. As such, the Company's business had recovered and recorded a revenue and a profit of approximately HK\$3,694.3 million and HK\$129.7 million, respectively, for the six months ended 30 June 2021, representing increases of approximately 96.0% and approximately 126.7%, respectively, from those for the corresponding period in 2020. Net assets of the Company remained stable as at 31 December 2019 and 2020. Slight increase in the net assets of the Company as at 30 June 2021 was mainly contributed to net cash generated from operating activities during the first half of 2021.

(b) 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.

LETTER FROM SOMERLEY

(c) CTI North America

CTI North America is a company incorporated in the State of North Carolina, the United States. CTI North America is 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.

For further details of CTI North America, please refer to the letter from the Board contained in the Circular.

(d) Relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products

Bang Kang Cigarette Factory, Myanmar is incorporated in the Republic of the Union of Myanmar and principally engaged in the production, processing and sales of cigarettes.

Golden Leaf (Macau) Tobacco's Manufacturing Ltd. is incorporated in Macau and principally engaged in the production and sales of cigarettes.

Hong Kong Hongta International Tobacco Company Limited is incorporated in Hong Kong and principally engaged in the production of tobacco products.

Lao-China Hongta Good Luck Tobacco Co., Ltd. is incorporated in Lao People's Democratic Republic and principally engaged in the farming of tobacco leaves and production, processing and sales of tobacco leaf products and cigarettes.

Viniton Group Co., Ltd. is incorporated in the Kingdom of Cambodia and principally engaged in the production of tobacco products and production, processing, sales and export of cigarettes.

For further details of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products, please refer to the letter from the Board contained in the Circular.

(2) Procurement transactions in the Tobacco Leaf Products Import Business

(a) Principal terms of the 2021-2024 Offshore Supply Framework Agreement

Set out below are the principal terms of the 2021-2024 offshore tobacco leaf products long-term supply framework agreement entered into between the Company and CTI North America in the procurement transactions in the Tobacco Leaf Products Import Business on 17 November 2021 (the "**2021-2024 Offshore Supply Framework Agreement**"):

Date

17 November 2021

LETTER FROM SOMERLEY

Parties

- (i) The Company; and
- (ii) CTI North America (an entity under CNTC).

Term

Three years from 17 November 2021 to 16 November 2024

Subject matter

CTI North America shall provide long-term supply of tobacco leaf products, primarily including tobacco leaf, stem, scrap, reconstituted tobacco and cut tobacco, to the Company in accordance with the specific terms of procurement separately agreed with the Company through arm's length negotiation in good faith.

Pricing policy

The Company's procurement price comprises: (i) suppliers' costs of raw materials; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) suppliers' costs associated with exchange rate (suppliers procure tobacco leaves from local tobacco farmers with local currency but sell processed tobacco leaves to the Company in U.S. dollars). We have obtained and reviewed transaction documents of three procurement transactions in the Tobacco Leaf Products Import Business entered into between the Group and independent third-party suppliers and compared with the relevant transactions entered into between the Group and a connected person supplier (the "**Reviewed Import Documents**"). The Reviewed Import Documents account for approximately 2.2% of all transactions carried out under the Offshore Supply Framework Agreements during the period between 1 January 2019 and up to 30 November 2021 (the "**2019-2021 Import Transactions**"). While the sample size is relatively small, we note, together with our discussions with the Management, that the 2019-2021 Import Transactions (including the reviewed samples) adopted the same transaction procedures and the same set of standard transaction documents including, but not limited to, contracts, invoices and customs documents. We also note that the reviewed samples adhered to the price policy as mentioned above and the pricing of transactions with the connected person suppliers, after taking into account product quality and market status of the products, were comparable to those of the independent third-party suppliers. Accordingly, the pricing of the relevant transactions carried out under the Offshore Supply Framework Agreements are considered no less favourable than those offered to the Group by independent third parties.

For further details of the principal terms of the 2021-2024 Offshore Supply Framework Agreement, please refer to the letter from the Board contained in the Circular.

LETTER FROM SOMERLEY

(b) Reasons for and the benefits of entering into the 2021-2024 Offshore Supply Framework Agreement

As stated in the letter from the Board contained in the Circular, the Group 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 Group has a long-term and stable tobacco leaf products procurement relationship with CTI North America, which is one of the offshore subsidiaries of CNTC strategically located in preferred tobacco leaf products planting zones. It has been one of the 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 CTI North America sells its tobacco leaf products to CTI through the Company. Therefore, the Group needs to carry on transactions with CTI North America in connection with tobacco leaf products import to CTI.

The Company expects the 2021-2024 Offshore Supply Framework Agreement will bring the following benefits to the Group: (i) it enables the Group to comply with the regulatory requirements in China, including those under the No. 60 Notice, as explained above; (ii) the long-term and stable tobacco leaf products procurement relationship between the Group and CTI North America can help the Group to further develop its business in the future; and (iii) the 2021-2024 Offshore Supply Framework Agreement can help the Group to satisfy the domestic market demand of tobacco leaf products from overseas.

As stated in the Prospectus, the tobacco industry in the PRC is regulated by the state tobacco monopoly regime of the PRC prescribed by the Tobacco Monopoly Law and the Implementation Measures, in accordance to which the production, sale, import and export of tobacco monopoly commodities in the PRC are subject to state monopoly under law (the “**State Monopoly Regime**”). Accordingly, the Company was established to be the designated offshore platform for capital markets operation and international business expansion for CTIG, which is a wholly-owned subsidiary of CNTC. Therefore, being the exclusive entity for the Tobacco Leaf Products Import Business, the Company conducts the procurement transactions of imported tobacco leaf products with both connected and independent overseas suppliers as its ordinary course of business.

Having considered the above and the nature of the tobacco industry in the PRC, we concur with the Directors that entering into the 2021-2024 Offshore Supply Framework Agreement is important to the Group’s business and in the interests of the Company and the Shareholders as a whole.

LETTER FROM SOMERLEY

(3) The Agency Business in the Sales of Tobacco Leaf Products

(a) Principal terms of the 2021-2024 Tobacco Leaf Products Export Agency Agreements

Set out below are the principal terms of the 2021-2024 Tobacco Leaf Products Export Agency Agreements:

Date

17 November 2021

Parties

The Company and each of the entities under CNTC below:

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

Term

Three years from 17 November 2021 to 16 November 2024

Subject matter

The Company shall act as an agent in the sales of tobacco leaf products, primarily including tobacco leaf, stem, scrap, reconstituted tobacco and cut tobacco, 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.

Price policy

The rate of commission rate 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

LETTER FROM SOMERLEY

commission rate for the tobacco leaf products carrying lower unit price and vice versa to derive reasonable profit. These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to the Group). The Group currently expects to receive a commission of not less than 1% for tobacco leaf products (excluding cut tobacco) and less than 1% for cut tobacco, respectively, of the contract amount as revenue in such transactions. For cut tobacco, the minimum commission rate that the Group expects to receive is 0.25% of the selling price. The minimum commission rate is determined based on the gross margin that the Group expects to generate from the sale of such products, which is (i) 0.25% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price of US\$20,000 per metric ton or above, and (ii) 0.5% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price below US\$20,000 per metric ton, respectively. We have obtained and reviewed transaction documents of three transactions of the Agency Business in the Sales of Tobacco Leaf Products entered into between the Company and independent third parties and compared with the relevant transactions entered into between the Company and a connected person (the “**Reviewed Agency Business Documents**”). The Reviewed Agency Business Documents account for approximately 0.5% of all transactions carried out under the Tobacco Leaf Products Export Agency Agreements during the period between 1 January 2019 and up to 30 November 2021 (the “**2019-2021 Agency Transactions**”). While the sample size is relatively small, we note, together with our discussions with the Management, that the 2019-2021 Agency Transactions (including the reviewed samples) adopted the same transaction procedures and the same set of standard transaction documents including, but not limited to, contracts, invoices and customs documents. We also note that reviewed samples adhered to the price policy as mentioned above and the commission rate charged to the connected person was comparable to those charged to the independent third parties. Accordingly, the pricing of the relevant transactions carried out under the Tobacco Leaf Products Export Agency Agreements are considered no less favourable than those offered to the Group by independent third parties.

For further details of the principal terms of the 2021-2024 Tobacco Leaf Products Export Agency Agreements, please refer to the letter from the Board contained in the Circular.

(b) Reasons for and benefits of entering into the 2021-2024 Tobacco Leaf Products Export Agency Agreements

As stated in the letter from the Board contained in this Circular, pursuant to No. 60 Notice, after the Reorganisation 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 Reorganisation Completion Date, such tobacco leaf product suppliers continue to negotiate all terms of sales

LETTER FROM SOMERLEY

including prices, quantities and grades of tobacco leaf products with such customers directly, while the Group acts as an agent in such transactions and receives a commission for the services it provides in connection with such transactions.

The Company expects the 2021-2024 Tobacco Leaf Products Export Agency Agreements will bring the following benefits to the Group: (i) they enable the Group to comply with the regulatory requirements in China, including those under the No. 60 Notice, as explained above; (ii) the long-term and stable tobacco leaf products procurement relationship between the Group and the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products can help the Group to further develop its business in the future; and (iii) the 2021-2024 Tobacco Leaf Products Export Agency Agreements can help the Group to generate more revenue by satisfying the overseas demand of tobacco leaf products in the global market.

As discussed in the sub-section (2)(b) headed “Reasons for and the benefits of entering into the 2021-2024 Offshore Supply Framework Agreement” above, the tobacco industry in the PRC is heavily regulated and subject to the State Monopoly Regime. As such, being the exclusive entity for the Tobacco Leaf Products Export Business, the Company operates the agency business in the sales of tobacco leaf products as its ordinary course of business. Therefore, we consider it fair and reasonable for the entering into the 2021-2024 Tobacco Leaf Products Export Agency Agreements in order to carry out business and trading activities as mentioned above.

(4) Internal control measures

As disclosed in the letter from the Board contained in the Circular, the Company has adopted, among others, the following internal control measures (the “**Internal Control Measures**”) for the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements and the respective transactions contemplated thereunder:

- (i) 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 Group’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 Group. 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 Agreement, to ensure that such principals and terms are consistent with those set out in the Group’s contracts with other third party suppliers.

LETTER FROM SOMERLEY

- (ii) In relation to the Agency Business in the Sales of Tobacco Leaf Products, when determining the commission the Group received from the sales of tobacco leaf products, the Company's management team has considered, and will continue to consider, the resources the Group devotes to the business and the unit prices of the tobacco leaf products under such agency business. In addition, historical commissions the Group 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.
- (iii) 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, to review the pricing policies and principal terms of continuing connected transactions.
- (iv) The Company will engage an independent financial adviser to review the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements 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 Group; (ii) on normal commercial terms or better to the Group; and (iii) according to the 2021-2024 Offshore Supply Framework Agreement 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.
- (v) The independent non-executive Directors and external auditors of the Company will review the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements on a regular basis.
- (vi) The Group has formulated internal guidelines (the "**Internal Guidelines**"), which provide relevant pricing policies for procurement of tobacco leaf products and agency commission of tobacco leaf products as well as price negotiation procedures for the procurement of tobacco leaf products from overseas suppliers. In addition, the Group has put in place an internal policy (the "**Internal Policy**") to ensure fairness and reasonableness of the connected transactions to be conducted.

We have obtained and reviewed the Internal Policy and the Internal Guidelines in relation to the procurement transactions in the Tobacco Leaf Products Import Business and the Agency Business in the Sales of Tobacco Leaf Products, which require, among other things, (i) making reference to the terms and pricing of the tobacco leaf products provided by independent third parties for procurement transactions and the commissions received from independent third parties for the sales of tobacco leaf products; and (ii) regular reviews by the Connected

LETTER FROM SOMERLEY

Transactions Control Committee, independent non-executive Directors and auditors of the Company. In view of the above, we consider the Internal Control Measures provide a safeguard to the interests of the Company and the Shareholders as a whole.

(5) The Proposed Caps

(a) The proposed annual caps for the 2021-2024 Offshore Supply Framework Agreement

Set out below are the historical transaction amounts of the continuing connected transactions under the Offshore Supply Framework Agreements for the years ended 31 December 2019 and 2020 and for the eleven months ended 30 November 2021 and annual caps for the continuing connected transactions under the Offshore Supply Framework Agreements for the years ended 31 December 2019 and 2020 and ending 31 December 2021.

	Historical transaction amount		
	for the year ended		for the eleven
	31 December		months ended
	2019	2020	30 November
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Procurement transactions in the Tobacco			
Leaf Products Import Business	1,134.7	856.0	794.5
	Annual cap for the year ended/ending		
	31 December		
	2019	2020	2021
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Procurement transactions in the Tobacco			
Leaf Products Import Business	2,500.0	2,650.0	2,800.0
Utilisation rate	45%	32%	28%
			<i>(Note)</i>

Note: The utilisation rate for the year ending 31 December 2021 is based on historical transaction amount for the eleven months ended 30 November 2021.

The transactions in the table above were conducted by the Company with CBT and CTI North America. As stated in the letter from the Board contained in the Circular and discussed with the Management, the low utilisation rates of the annual caps for the years ended 31 December 2019 and 2020 were mainly due to:

- (i) the annual caps for the years ended 31 December 2019 and 2020 were determined after taking into account the uncertainty relating to the shipping arrangement for tobacco leaf products procured by the Group, which may

LETTER FROM SOMERLEY

result in a situation where (i) a significant portion of the tobacco leaf products contracted for purchase in the previous year arrive in destination ports in the current year; and (ii) the tobacco leaf products contracted for purchase in the current year also arrive in destination ports in the current year. As discussed with the Management, the timing of completion of the manufacturing of tobacco leaf products generally occurs between August to October each year and varies according to the crop season of tobacco leaves, subject to climate and other cultivating conditions, and together with the arrangement of shipping may cause the delivery of tobacco leaf products and recognition of transaction to occur after the year end. Thus, buffers were included in the annual caps to cater for the possible delay in completion of the manufacturing process and/or shipment. However, in each of the years ended 31 December 2019 and 2020, the situation described in (i) above (i.e. where a significant portion of the tobacco leaf products contracted for purchase in the previous year arrive in destination ports in the current year) had not occurred to the extent contemplated by the annual cap; and (ii) a significant portion of the tobacco leaf products contracted for purchase in the year ended 31 December 2020 arrived in destination ports in 2021, resulting in the transaction amounts for such portion of tobacco leaf products recorded in 2021; and

- (ii) the Group had not procured any tobacco leaf products from the United States for the years ended 31 December 2019 and 2020 due to the tariff imposed on tobacco leaf products by the PRC government in July 2018 as part of the adverse material impact of the U.S.-China trade friction, which added to the low utilisation rates of the annual caps.

Set out below are the proposed annual caps for the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreement for the years ending 31 December 2022 and 2023 and for the period from 1 January 2024 to 16 November 2024.

	Proposed annual cap		for the period from 1 January 2024 to 16 November 2024
	for the year ending 31 December 2022	2023	16 November 2024
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Procurement transactions in the			
Tobacco Leaf Products			
Import Business	444.6	466.9	490.2

As disclosed in the announcement of the Company dated 29 November 2021, the Acquisition was completed on 26 November 2021. Since then, CBT has become a non-wholly owned subsidiary of the Company and ceased to be a connected person of the Company. Therefore, in determining the proposed annual caps for the continuing connected transactions contemplated under the 2021-2024 Offshore Supply Framework Agreement, the Company only considered the relevant transactions to be conducted with CTI North America.

LETTER FROM SOMERLEY

We note that there is no proposed annual cap for the procurement of tobacco leaf products under the 2021-2024 Offshore Supply Framework Agreement for the period from 17 November 2021 to 31 December 2021. As advised by the Management, they expected no such procurement transaction would be conducted during the abovementioned period and therefore no annual cap for that period was proposed. Based on the above, we are of the view that no proposed annual cap for the procurement of tobacco leaf products under the 2021-2024 Offshore Supply Framework Agreement for the period from 17 November 2021 to 31 December 2021 is reasonable.

As advised by the Management, the proposed annual caps for the procurement of tobacco leaf products from CTI North America for the year ending 31 December 2022 of HK\$444.6 million was determined with reference to the followings:

- (i) The estimated procurement price of US\$9,450 per tonne. We have obtained and reviewed the transaction listings of procurement of tobacco leaf products of the Company from CTI North America for the nine months ended 30 September 2021 provided by the Management and note that the average procurement price was approximately US\$9,000 per tonne. A buffer of 5% (i.e. US\$450 per tonne) was added on the average procurement price for inflation and potential business growth.
- (ii) The estimated procurement volume of 6,032 tonnes. We have obtained and reviewed the transaction listings of procurement of tobacco leaf products of the Company from CTI North America for the year ended 31 December 2017 provided by the Management and understand that the aforesaid estimated procurement volume is equal to the procurement volume of the tobacco leaf products from CTI North America for 2017. As stated in the letter from the Board contained in the Circular, the Group ceased to procure any tobacco leaf products from the United States due to the tariff imposed on tobacco leaf products by the PRC government caused by the U.S.-China trade friction, which resulted in material adverse impact on the procurement volume of tobacco leaf products from CTI North America since 2018. As the U.S.-China trade tension has been eased in 2021, the Group resumed the procurement of tobacco leaf products from the United States in 2021 and expected that its procurement of tobacco leaf products from CTI North America might gradually resume to the pre-trade friction level in 2017. Despite the low levels of procurement of tobacco leaf products from CTI North America in the past few years, given the Group has resumed the procurement in 2021, it is reasonable to estimate the procurement volume in determining the proposed annual caps based on the historical procurement volume of such products in the pre-trade friction level.
- (iii) The exchange rate of U.S. dollar to Hong Kong dollar, in which the Company used US\$1.0 to HK\$7.8 in determining the proposed annual caps.

LETTER FROM SOMERLEY

As stated in the letter from the Board contained in the Circular, the proposed annual caps for the procurement transactions in the Tobacco Leaf Products Import Business for the year ending 31 December 2023 and for the period from 1 January 2024 to 16 November 2024 are based on a 5% annual progressive growth rate from the corresponding proposed annual caps for the previous year. Taking into account inflation, natural business growth of the Group and a buffer providing flexibility in the above transactions, we are of the view that the 5% annual progressive growth rate is fair and reasonable.

(b) The proposed annual caps for the Tobacco Leaf Products Export Agency Agreements (in terms of commission)

Set out below are the historical transaction amounts of the continuing connected transactions under the Tobacco Leaf Products Export Agency Agreements (in terms of commission) for the years ended 31 December 2019 and 2020 and for the eleven months ended 30 November 2021 and annual caps for the continuing connected transactions under the Tobacco Leaf Products Export Agency Agreements (in terms of commission) for the years ended 31 December 2019 and 2020 and ending 31 December 2021.

	Historical transaction amount		
	for the year ended 31 December		for the eleven months ended
	2019	2020	30 November 2021
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Commission received by the Group 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	2.7	1.4	0.9
	Annual cap for the year ended/ending 31 December		
	2019	2020	2021
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Annual caps for commission received by the Group 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	3.9	4.3	4.7
Utilisation rate	69%	33%	19%
			<i>(Note)</i>

Note: The utilisation rate for the year ending 31 December 2021 is based on historical transaction amounts for the eleven months ended 30 November 2021.

LETTER FROM SOMERLEY

Set out below are the proposed annual caps for the continuing connected transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements (in terms of commission) for the period from 17 November 2021 to 31 December 2021, the years ending 31 December 2022 and 2023 and the period from 1 January 2024 to 16 November 2024.

	Proposed annual cap			
for the period from 17 November 2021 to 31 December 2021 <i>(HK\$ million)</i>	for the year ending 31 December 2022		2023	for the period from 1 January 2024 to 16 November 2024 <i>(HK\$ million)</i>
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	
Commission to be received by the Group 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	0.4	3.0	3.3	3.6

As stated in the letter from the Board contained in the Circular, the Group has taken into account the following factors in determining the above proposed annual caps: (i) historical transaction amount 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.

As advised by the Management, the proposed annual cap for the continuing connected transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements (in terms of commission) for the period from 17 November 2021 to 31 December 2021 was determined with reference to the contracted amount of tobacco leaf products that were expected to be delivered before the year ending 31 December 2021 of approximately HK\$0.4 million.

We have also discussed with the Management and understand that the proposed annual cap for the continuing connected transactions contemplated under the 2021-2024 Tobacco Leaf Products Export Agency Agreements (in terms of commission) for the year ending 31 December 2022 was calculated based on the historical transaction amount of such transactions for the year ended 31 December 2019 of approximately HK\$2.7 million with an approximately 10% increment. The Company made reference to transaction amount for the year ended 31 December 2019 as the relevant transactions in the following one year and eleven months were significantly affected by the outbreak of COVID-19 pandemic. As advised by the Management, the Company set the proposed annual cap

LETTER FROM SOMERLEY

based on the expectation that the impact of COVID-19 pandemic would subside in 2022 and transactions of tobacco leaf products would gradually resume to the pre-pandemic level in 2019. As mentioned in the sub-section (1)(a) headed “The Company”, the Company’s business had gradually recovered from the impact of COVID-19 pandemic and recorded surges of approximately 96.0% and 126.7% in revenue and profit, respectively, for the six months ended 30 June 2021 as compared to those for the corresponding period in 2020. In addition, the revenue of tobacco leaf products export business of the Company had been increased from approximately HK\$1,022.1 million for the six months ended 30 June 2019 to approximately HK\$1,074.2 million for the six months ended 30 June 2021, representing an increase of approximately 5.1%. In view of the general recovery of the business of the Company, the proposed annual cap under the 2021-2024 Tobacco Leaf Products Export Agency Agreements (in terms of commission) for the year ending 31 December 2022, which was determined based on the historical amount of such transactions for the year ended 31 December 2019 with an approximately 10% increment, is considered reasonable.

The proposed annual caps under the 2021-2024 Tobacco Leaf Products Export Agency Agreements (in terms of commission) for the year ending 31 December 2023 and for the period from 1 January 2024 to 16 November 2024 were determined based on an approximately 10% annual progressive growth rate from the corresponding proposed annual caps for the previous year. Taking into account inflation, natural business growth of the Group and a buffer providing flexibility in the above transactions, we are of the view that the 10% annual progressive growth rate is fair and reasonable.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the entering into the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements (including the Proposed Caps thereof) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the 2021-2024 Offshore Supply Framework Agreement and the 2021-2024 Tobacco Leaf Products Export Agency Agreements at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Danny Cheng
Director

Mr. Danny Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, who is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 15 years of experience in the corporate finance industry.

1 RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2 DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO); (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders and other persons

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors and the chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares of the Company (i) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (ii) which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the Shares as at the Latest Practicable Date

Name of Shareholder	Capacity	Number of Shares Held	Approximate Percentage of Shareholding
CTIG	Beneficial owner	500,010,000	72.29%
CNTC*	Interest in a controlled corporation	500,010,000	72.29%

* CNTC directly holds 100% of the equity interest of CTIG.

Saved as disclosed above, so far as was known to the Directors, as at the Latest Practicable Date, no person had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company (i) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (ii) which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or was a substantial shareholder of the Company.

So far as was known to the Directors, as at the Latest Practicable Date, save for Mr. Shao Yan, a non-executive Director and chairman of the Board, who also concurrently holds executive positions at CTIG, none of the Directors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3 DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company referred to in Rule 13.68 of the Listing Rules which does not expire or is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

4 DIRECTORS' INTEREST IN ASSETS, CONTRACTS AND OTHER INTERESTS

(a) Interest in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, the Company since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up.

(b) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by the Company subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Company.

(c) Interests in competing business

As at the Latest Practicable Date, save for Mr. Shao Yan, a non-executive Director and chairman of the Board, who also concurrently holds executive positions at CTIG, a wholly-owned subsidiary of CNTC, none of the Directors nor any of their respective close associates was interested in any business, apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the business of the Company.

5 NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up.

6 EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinions or advice on the information contained or referred to in this circular:

Name	Qualification
Somerley Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Somerley Capital Limited:

- (i) had no direct or indirect shareholdings in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company; and
- (ii) had no interests, direct or indirect, in any assets which had been, since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company.

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name in the form and context in which it appears herein.

7 GENERAL

- (i) The registered office, headquarters and principal place of business of the Company is at Room 1002, 10/F, Tower A, China Life Centre, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong.
- (ii) The joint company secretaries of the Company are Mr. Wang Chengrui and Mr. Cheung Kai Cheong Willie. Mr. Cheung Kai Cheong Willie is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

- (iii) The Company's share registrar and transfer office is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (iv) This circular has been printed in English and Chinese; in the event of inconsistency, the English version shall prevail.

8 DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Company at www.ctihk.com.hk and the website of the Stock Exchange at www.hkexnews.hk from the date of this circular up to and including 30 December 2021:

- (i) the 2021-2024 Offshore Supply Framework Agreements;
- (ii) the 2021-2024 Tobacco Leaf Products Export Agency Agreements;
- (iii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in "*Letter from the Independent Board Committee*" in this circular;
- (iv) the letter from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out in "*Letter from Somerley*" in this circular;
- (v) the written consent referred to in the paragraph headed "*Expert's Qualification and Consent*" above in this Appendix; and
- (vi) this circular.

NOTICE OF EGM

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of China Tobacco International (HK) Company Limited (the “**Company**”) will be held at 17/F, Tower A, China Life Tower, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong on Thursday, 30 December 2021 at 3 pm for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions of the Company.

ORDINARY RESOLUTIONS

1. “**THAT** the terms of the 2021-2024 Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements, the transactions contemplated thereunder and the relevant proposed annual caps as described in the circular of the Company to its shareholders dated 14 December 2021 be and are hereby generally and unconditionally approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such transactions; and”
2. “**THAT** the terms of the 2021-2024 Tobacco Leaf Products Export Agency Agreements, the transactions contemplated thereunder and the relevant proposed annual caps as described in the circular of the Company to its shareholders dated 14 December 2021 be and are hereby generally and unconditionally approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such transactions.”

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

Hong Kong, 14 December 2021

NOTICE OF EGM

Notes:

- (a) For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 24 December 2021 to Thursday, 30 December 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 pm on Thursday, 23 December 2021.
- (b) Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he/she holds two or more shares, more person(s) as his/her proxy or proxies to attend and vote instead of him/her. A proxy needs not be a member of the Company. Completion and return of the form of proxy will not preclude the members of the Company from attending and voting in person at the EGM or any adjourned meeting should they so wish.
- (c) The form of proxy for use at the EGM is enclosed with the circular of the Company to its shareholders dated 14 December 2021. The form of proxy can also be downloaded from the website of the Company at www.ctihk.com.hk and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. To be valid, the form of proxy must be completed, signed and deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be).

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