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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)

CONTINUING CONNECTED TRANSACTIONS
EXTENSION OF FRAMEWORK AGREEMENTS IN RELATION TO
SALE AND PURCHASE TRANSACTIONS WITH ALLIANCE ONE GROUP

BACKGROUND

Reference is made to the 2021 Circular and the 2022 Announcement in respect of, among others, the Acquisition and the Framework Agreements. As disclosed in the 2021 Circular and the 2022 Announcement, prior to the Acquisition, CBT, a non-wholly owned subsidiary of CTIB, has historically entered into transactions with Alliance One Group in relation to (i) the sale of tobacco transactions, and (ii) the purchase of agricultural materials, tobacco and services transactions in the ordinary course of its business. The Company has also historically entered into transactions with Alliance One International in relation to the sale and purchase of tobacco in the ordinary course of its business.

Immediately upon closing of the Acquisition on 26 November 2021, CTIB has become a wholly-owned subsidiary of the Company, and Alliance One Brazil has become a connected person of the Company at the subsidiary level by virtue of holding 49% of the total issued share capital of CBT. Accordingly, such existing transactions with Alliance One Group carried out by the Company and CBT have become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

To regulate such existing transactions with Alliance One Group following closing of the Acquisition and to comply with relevant requirements under the Listing Rules, on 23 September 2021, four Framework Agreements have been entered into, including (i) the Framework Tobacco Sales Agreement between the Company and Alliance One International, (ii) the CBT Framework Tobacco Sales Agreement between CBT and Alliance One International, (iii) the Framework Tobacco Purchase Agreement between the Company and Alliance One International and (iv) the CBT Framework Tobacco and Services Purchase Agreement between CBT and Alliance One Brazil.

EXTENSION OF THE FRAMEWORK AGREEMENTS

Pursuant to the terms of the Framework Agreements, the initial term of each of the Framework Agreements commenced upon closing of the Acquisition, being 26 November 2021, and will end on 31 December 2022 and the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws.

On 29 December 2022, the Group and the Alliance One Group entered into the Extension Agreements to extend the term of each of (i) the Framework Tobacco Sales Agreement, (ii) the CBT Framework Tobacco Sales Agreement, (iii) the Framework Tobacco Purchase Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement, for a period of one year from 1 January 2023 to 31 December 2023.

Save for the extension of term, the transactions under each of (i) the Framework Tobacco Sales Agreement, (ii) the CBT Framework Tobacco Sales Agreement, (iii) the Framework Tobacco Purchase Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement will be conducted on the same terms and pricing policies as disclosed in the 2021 Circular and the 2022 Announcement during the Extended Term.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CTIB is a wholly-owned subsidiary of the Company, and CBT is a non-wholly owned subsidiary of the Company and is owned as to 51% by the Company through CTIB and 49% by Alliance One Brazil, a wholly owned subsidiary of Alliance One International. As such, each of Alliance One International and Alliance One Brazil is a connected person of the Company at the subsidiary level by virtue of holding 49% of the total issued share capital of CBT, and the Extension Agreements and the transactions thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that (i) each of Alliance One International and Alliance One Brazil is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules and transactions carried out in the ordinary course of business of the Group under the Framework Agreements are continuing connected transactions of the Company under Chapter 14A of the Listing Rules; (ii) one or more of the applicable percentage ratios of the annual caps (on an aggregated basis) under the Listing Rules for both (a) the sale of tobacco transactions, and (b) the purchase of agricultural materials, tobacco and services transactions under the Framework Agreements are 5% or more; and (iii) the Board (including all the independent non-executive Directors) has approved the Extension Agreements and transactions thereunder (including the annual caps) and all the independent non-executive Directors have confirmed that the relevant terms of the Extension Agreements and the transactions thereunder (including the annual caps) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Extension Agreements and the transactions thereunder (including the annual caps) are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

BACKGROUND

Reference is made to the 2021 Circular and the 2022 Announcement in respect of, among others, the Acquisition and the Framework Agreements. As disclosed in the 2021 Circular and the 2022 Announcement, prior to the Acquisition, CBT, a non-wholly owned subsidiary of CTIB, has historically entered into transactions with Alliance One Group in relation to (i) the sale of tobacco transactions, and (ii) the purchase of agricultural materials, tobacco and services transactions in the ordinary course of its business. The Company has also historically entered into transactions with Alliance One International in relation to the sale and purchase of tobacco in the ordinary course of its business.

Immediately upon closing of the Acquisition on 26 November 2021, CTIB has become a wholly-owned subsidiary of the Company, and Alliance One Brazil has become a connected person of the Company at the subsidiary level by virtue of holding 49% of the total issued share capital of CBT. Accordingly, such existing transactions with Alliance One Group carried out by the Company and CBT have become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

To regulate such existing transactions with Alliance One Group following closing of the Acquisition and to comply with relevant requirements under the Listing Rules, on 23 September 2021, four Framework Agreements have been entered into, including (i) the Framework Tobacco Sales Agreement between the Company and Alliance One International, (ii) the CBT Framework Tobacco Sales Agreement between CBT and Alliance One International, (iii) the Framework Tobacco Purchase Agreement between the Company and Alliance One International and (iv) the CBT Framework Tobacco and Services Purchase Agreement between CBT and Alliance One Brazil.

EXTENSION OF THE FRAMEWORK AGREEMENTS

Pursuant to the terms of the Framework Agreements, the initial term of each of the Framework Agreements commenced upon closing of the Acquisition, being 26 November 2021, and will end on 31 December 2022 and the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws.

On 29 December 2022, the Group and the Alliance One Group entered into the Extension Agreements to extend the term of each of (i) the Framework Tobacco Sales Agreement, (ii) the CBT Framework Tobacco Sales Agreement, (iii) the Framework Tobacco Purchase Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement, for a period of one year from 1 January 2023 to 31 December 2023.

Save for the extension of term, the transactions under each of (i) the Framework Tobacco Sales Agreement, (ii) the CBT Framework Tobacco Sales Agreement, (iii) the Framework Tobacco Purchase Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement will be conducted on the same terms and pricing policies as disclosed in the 2021 Circular and the 2022 Announcement during the Extended Term.

SALE OF TOBACCO TRANSACTIONS PURSUANT TO THE FRAMEWORK TOBACCO SALES AGREEMENT AND THE CBT FRAMEWORK TOBACCO SALES AGREEMENT

Historical transaction amounts

Below sets forth the historical amounts of the sale of tobacco transactions under the Framework Tobacco Sales Agreement and the CBT Framework Tobacco Sales Agreement which constituted connected transactions of the Company for the period ended 31 December 2021* and for the eleven months ended 30 November 2022, respectively.

	For the period ended 31 December 2021* <i>(US\$ million)</i>	For the eleven months ended 30 November 2022 <i>(US\$ million)</i>
Framework Tobacco Sales Agreement	2.3	75.3
CBT Framework Tobacco Sales Agreement	5.2	56.9
Total	7.5	132.2

* For the period commenced on the closing of the Acquisition (i.e. 26 November 2021) and ended on 31 December 2021

Annual caps

The annual caps in respect of the sale of tobacco transactions under the Framework Tobacco Sales Agreement and the CBT Framework Tobacco Sales Agreement during the Extended Term which constituted connected transactions of the Company shall be the following:

	For the year ending 31 December 2023 <i>(US\$ million)</i>
Framework Tobacco Sales Agreement	114.4
CBT Framework Tobacco Sales Agreement	148.0
Total	262.4

The above annual caps for the sale of tobacco leaves for the year ending 31 December 2023 are determined with reference to the following factors:

- (a) the historical transaction volume and amounts in relation to the sale of tobacco leaves to Alliance One Group;
- (b) the expected demand for tobacco leaves of end customers who procure through Alliance One Group, taking into account average historical growth rates in such end customers' demands and the depreciation of R\$, which is expected to lead to an increase in the global demand for Brazil's tobacco leaves and consequently an increase in our production volume;
- (c) the current grading policies and historical requirement of end customers in relation to specific grades of tobacco leaves, taking into account the risk of any change in the end customers' preferences, as well as their production plans and orders for the year ahead;
- (d) the estimated growth of the international tobacco industry and the trends in relation to the grading, supply and demand of various grades of tobacco leaves;
- (e) the current and expected production capacity of tobacco leaves producers who supply to the Group, taking into account their historical performance and expected expansion in the number of tobacco leaves producers who may supply to the Group;
- (f) the expected cost of procurement from tobacco leaves producers, taking into account the average historical costs;
- (g) the expected increase in the price of the tobacco leaves sold to the Alliance One Group due to the tightening of supply by domestic suppliers, the increase in demand of overseas customers and the trend of international tobacco leaves price;
- (h) for transactions under the Framework Tobacco Sales Agreement, the sales volume is expected to remain the same or decrease slightly in 2023 but the delivery of certain tobacco leaves sold in 2022 may be delayed until 2023, so that the overall delivery volume in 2023 is expected to remain the same as that in 2022; and
- (i) for transactions under the CBT Framework Tobacco Sales Agreement, the sales volume is expected to remain the same or increase slightly in 2023. As the delivery of certain tobacco leaves sold in 2022 may be delayed until 2023, the overall delivery volume in 2023 is expected to increase compared to that in 2022.

PURCHASE OF AGRICULTURAL MATERIALS, TOBACCO AND SERVICES TRANSACTIONS PURSUANT TO THE FRAMEWORK TOBACCO PURCHASE AGREEMENT AND THE CBT FRAMEWORK TOBACCO AND SERVICES PURCHASE AGREEMENT

Historical transaction amounts

Below sets forth the historical amounts of the purchase of agricultural materials, tobacco and services transactions under the Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement which constituted connected transactions of the Company for the period ended 31 December 2021* and the eleven months ended 30 November 2022, respectively.

	For the period ended 31 December 2021* <i>(US\$ million)</i>	For the eleven months ended 30 November 2022 <i>(US\$ million)</i>
Framework Tobacco Purchase Agreement	30.5	115.2
CBT Framework Tobacco and Services Purchase Agreement	1.5	47.8
Total	32.0	163.0

* For the period commenced on the closing of the Acquisition (i.e. 26 November 2021) and ended on 31 December 2021

Annual caps

The annual caps in respect of the purchase of agricultural materials, tobacco and services transactions under the Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement which constituted connected transactions of the Company during the Extended Term shall be the following:

	For the year ending 31 December 2023 <i>(US\$ million)</i>
Framework Tobacco Purchase Agreement	475.5
CBT Framework Tobacco and Services Purchase Agreement	108.0
Total	583.5

The above annual caps for the purchase of agricultural materials, tobacco leaves and processing services for the year ending 31 December 2023 are determined with reference to the following factors:

- (a) the historical transaction volume and amounts in relation to the purchased agricultural materials, tobacco leaves and processing services, including the historical seasonal trend that the majority of tobacco leaves purchases will be concentrated during the year end, due to the growth and shipping cycle of tobacco leaves;
- (b) the expected demand for tobacco leaf products of end customers, taking into account average historical growth rates in demands and their current and expected requirements in relation to the quality and grade of tobacco leaf products, as well as their production plans and orders for the year ahead;
- (c) the estimated growth of the tobacco market and the trends in relation to the preference and demand for Brazilian tobacco leaf products, taking into account the depreciation of R\$, which is expected to lead to an increase in the global demand for Brazil's tobacco leaves;
- (d) in relation to the purchase of agricultural materials and tobacco leaves, the current and expected production capacity of Alliance One Group, taking into account its historical production volume and production quality;
- (e) in relation to processing services, the current and expected processing capacity of Alliance One Brazil, taking into account its current processing capability and expected expansion in processing facilities, as well as the CBT's expected demand of such services, taking into account an expected increase of 5% to 10% of tobacco producers engaged by CBT in 2023;
- (f) the expected increase in the amount of tobacco leaves sourced in the United States to be purchased from the Alliance One Group. While the Company historically purchased from the Alliance One Group tobacco leaves sourced in Brazil and other countries around the world, from 2021, the Group has begun to purchase tobacco leaves sourced in the United States from the Alliance One Group, and expects to further increase the amount of such purchases as trade frictions ease between the PRC and the United States, as well as to complement the variety of tobacco leaves offered to the Group's customers;
- (g) the delivery of certain tobacco leaves purchased in 2022 will be delayed until 2023 due to delay in shipment of American tobacco leaves while American tobacco leaves purchased in 2023 are expected to be delivered in the same year;
- (h) due to delay in sample checking and negotiation in relation to certain African tobacco leaves, such tobacco leaves produced in both 2022 and 2023 will be delivered in 2023; and
- (i) the expected 5% increase in unit price.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EXTENSION AGREEMENTS

The Directors (including all the independent non-executive Directors) are of the view that: (i) in respect of the Group's import businesses, as the Group has established a long-term and stable procurement relationship with the relevant counterparties of the procurement transactions under the tobacco leaf products import business, entering into the Extension Agreements will help the Group meet the domestic market demand for overseas tobacco leaf products; and (ii) in respect of the Group's export businesses, a long-term and stable sales relationship with the relevant counterparties of the sales transactions under the tobacco leaf products export business can help the Group further develop its business in the future, which can also generate more revenue for the Group by satisfying the overseas demand for tobacco leaf products in the global markets.

The Directors (including all the independent non-executive Directors) believe that the Extension Agreements are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms or better, and the terms of the Extension Agreements (including the annual caps) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

To the best knowledge of the Company, none of the Directors has any material interest in the Extension Agreements and the transactions thereunder and therefore no Director was required to abstain from voting on the Board resolutions approving the Extension Agreements and the transactions thereunder (including the annual caps). The Directors (including all the independent non-executive Directors) have unanimously approved the resolution approving the Extension Agreements and the transactions thereunder (including the annual caps).

LISTING RULES IMPLICATIONS

As at the date of this announcement, CTIB is a wholly-owned subsidiary of the Company, and CBT is a non-wholly owned subsidiary of the Company and is owned as to 51% by the Company through CTIB and 49% by Alliance One Brazil, a wholly owned subsidiary of Alliance One International. As such, each of Alliance One International and Alliance One Brazil is a connected person of the Company at the subsidiary level by virtue of holding 49% of the total issued share capital of CBT, and the Extension Agreements and the transactions thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that (i) each of Alliance One International and Alliance One Brazil is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules and transactions carried out in the ordinary course of business of the Group under the Framework Agreements are continuing connected transactions of the Company under Chapter 14A of the Listing Rules; (ii) one or more of the applicable percentage ratios of the annual caps (on an aggregated basis) under the Listing Rules for both (a) the sale of tobacco transactions, and (b) the purchase of agricultural materials, tobacco and services transactions under the Framework Agreements are 5% or more; and (iii) the Board (including all the independent non-executive Directors) has approved the Extension Agreements and transactions thereunder (including the annual caps) and all the independent non-executive Directors have confirmed that the relevant terms of the Extension Agreements and the transactions thereunder (including the annual caps) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Extension Agreements and the transactions thereunder (including the annual caps) are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

INFORMATION ON THE PARTIES

The Company

As at the date of this announcement, 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 Chinese Mainland 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 Group directly to the duty-free outlets in the Kingdom of Thailand, the Republic of Singapore, Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of Chinese Mainland or sales of cigarettes from CNTC Group through distributors; (iv) export of new tobacco products to overseas market worldwide; and (v) procurement, processing, sale of tobacco leaves and procurement of agricultural materials inherent to tobacco production in Brazil and from Brazil to regions around the world (except Chinese Mainland).

CBT

CBT is a company incorporated under the laws of Brazil on 15 September 2011. As at the date of this announcement, CBT is a non-wholly owned subsidiary of the Company and is owned as to 51% by the Company through its wholly owned subsidiary, CTIB, and 49% by Alliance One Brazil, a wholly owned subsidiary of Alliance One International. As at the date of this announcement, CBT is principally engaged in the procurement, processing, sale and export of tobacco leaves and the procurement and sale of agricultural materials inherent to tobacco production.

Alliance One International

Alliance One International is a company organized under the laws of North Carolina, United States in August 2018. As at the date of this announcement, Alliance One International is an indirectly wholly-owned subsidiary of Pyxus International, Inc. (formerly known as and successor of Alliance One International Inc.) and is principally engaged in the production, processing, procurement and sale of tobacco leaves. As at the date of this announcement, Pyxus International, Inc. is a company incorporated under the laws of Virginia, United States in August 2020 and trading on the New York OTC Market (OTC: PYYX) and is principally engaged in providing tobacco agricultural products, ingredients and related services.

Alliance One Brazil

Alliance One Brazil is a company incorporated under the laws of Brazil on 28 October 1971. As at the date of this announcement, Alliance One Brazil is a wholly-owned subsidiary of Alliance One International and is principally engaged in the growing, procurement, processing and sale of tobacco leaves.

DEFINITIONS

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

“2021 Circular”	the circular of the Company dated 29 September 2021 in respect of, among others, the Acquisition and the Framework Agreements;
“2022 Announcement”	the announcement of the Company dated 30 May 2022 in respect of, among others, the revision of annual caps of the continuing connected transactions under the Framework Agreements;
“Acquisition”	the Company’s acquisition of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the quota purchase agreement dated 23 September 2021 entered into by the Company and CTIG, which was completed on 26 November 2021;
“Alliance One Brazil”	Alliance One Brasil Exportadora de Tabacos Ltda., a company incorporated in Brazil on 28 October 1971 with limited liability;
“Alliance One Group”	Alliance One International and its subsidiaries, including Alliance One Brazil;
“Alliance One International”	Alliance One International, LLC, a company organized under the laws of North Carolina, United States in August 2018;
“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 on 15 September 2011 with limited liability;
“CBT Framework Tobacco and Services Purchase Agreement”	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the purchase of agricultural materials, tobacco and services entered into between CBT and Alliance One Brazil;
“CBT Framework Tobacco Sales Agreement”	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the sale of tobacco entered into between CBT and Alliance One International;
“Chinese Mainland”	PRC excluding Hong Kong and Macao Special Administrative Region;

“CNTC”	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC, and the ultimate controlling shareholder of the Company;
“CNTC Group”	CNTC and its subsidiaries;
“Company”	China Tobacco International (HK) Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (stock code: 6055);
“CTIB”	China Tabaco Internacional do Brasil Ltda. (中煙國際巴西有限公司), a company incorporated in Brazil on 6 June 2002 with limited liability and a wholly-owned subsidiary of the Company since completion of the Acquisition;
“CTIG”	China Tobacco International Group Limited (中煙國際集團有限公司), the controlling shareholder of the Company and a wholly-owned subsidiary of CNTC;
“Directors”	the directors of the Company;
“Extension Agreements”	collectively, the extension agreements dated 29 December 2022 entered into between the Group and the Alliance One Group to extend the term of each of (i) the Framework Tobacco Sales Agreement, (ii) the CBT Framework Tobacco Sales Agreement, (iii) the Framework Tobacco Purchase Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement for a period of one year from 1 January 2023 to 31 December 2023;
“Framework Tobacco Purchase Agreement”	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the purchase of tobacco entered into between the Company and Alliance One International;
“Framework Tobacco Sales Agreement”	the framework agreement dated 23 September 2021 in relation to the continuing connected transactions for the sale of tobacco entered into between the Company and Alliance One International;
“Framework Agreements”	collectively, (i) the Framework Tobacco Sales Agreement, (ii) the CBT Framework Tobacco Sales Agreement, (iii) the Framework Tobacco Purchase Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement;
“Group”	the Company and its subsidiaries;

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC” or “China”	the People’s Republic of China;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	percent.

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

Hong Kong, 29 December 2022

As at the date of this announcement, the Board comprises Mr. Shao Yan, as Chairman and non-executive Director, Ms. Yang Xuemei, Mr. Wang Chengrui, Mr. Xu Zengyun and Ms. Mao Zilu as executive Directors, and Mr. Chow Siu Lui, Mr. Wang Xinhua, Mr. Chau Kwok Keung and Mr. Qian Yi as independent non-executive Directors.