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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 TRANSACTION  
DETERMINATION OF ANNUAL CAPS  
TOBACCO LEAF PRODUCTS EXPORT FRAMEWORK AGREEMENT**

On 25 August 2023, the Company entered into the Tobacco Leaf Products Export Framework Agreement with Yunnan Import and Export for a term of three years commencing from 25 August 2023 to 24 August 2026 in relation to the procurement of tobacco leaf products from Yunnan Import and Export as part of the Company's tobacco leaf products export business in the European region.

The Directors propose that the total annual transaction amount payable by the Group to Yunnan Import and Export under the Tobacco Leaf Products Export Framework Agreement shall not exceed US\$1.82 million, US\$2.18 million, US\$2.60 million and US\$3.13 million for the years ending 31 December 2023, 2024, 2025 and 2026, respectively.

Yunnan Import and Export is subsidiary of CNTC, the ultimate controlling shareholder of the Company and therefore an associate of a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of the Tobacco Leaf Products Export Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual cap under the Tobacco Leaf Products Export Framework Agreement exceed 0.1% but are all less than 5%, the entering into of the Tobacco Leaf Products Export Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## 1. INTRODUCTION

The Company announces that on 25 August 2023, the Company entered into the Tobacco Leaf Products Export Framework Agreement with Yunnan Import and Export for a term of three years commencing from 25 August 2023 to 24 August 2026 in relation to the procurement of tobacco leaf products from Yunnan Import and Export as part of the Company's tobacco leaf products export business in the European region.

## 2. TOBACCO LEAF PRODUCTS EXPORT FRAMEWORK AGREEMENT

### Summary of the principal terms of the Tobacco Leaf Products Export Framework Agreement

Date	:	25 August 2023
Parties:	:	(1) the Company (2) Yunnan Import and Export
Term	:	The term of the Tobacco Leaf Products Export Framework Agreement shall be three years commencing from 25 August 2023 to 24 August 2026.
Principal terms	:	Pursuant to the Tobacco Leaf Products Export Framework Agreement, Yunnan Import and Export will supply products required for the tobacco leaf export and distribution business operated by the Company to the Company on a long-term basis as part of the Company's tobacco leaf products export business in the European region.

Specific terms of transactions relating to the supply arrangements contemplated under the Tobacco Leaf Products Export Framework Agreement shall be separately determined through arm's length negotiation between Yunnan Import and Export and the Company in the individual agreements to be entered into pursuant to the Tobacco Leaf Products Export Framework Agreement.

- Procurement price : For our procurement transactions under the Tobacco Leaf Products Export Framework Agreement, the parties shall negotiate the procurement price with reference to the respective export sales price negotiated with independent third party purchasers. In each of such transactions, the export sales price is entirely determined based on arm's length negotiations in accordance with international market practice and industry norm with overseas tobacco leaf products buyers and in accordance with the Company's pricing policy set out in the below section "*Pricing policies and measures to ensure our connected transactions are on normal commercial terms or better*".
- Payment terms : The Company will settle the payment with Yunnan Import and Export within 30 days via telegraphic transfers remittance after the bill of lading date subject to the receipt of full set of shipping documents, commercial invoices, bills of lading, packing list, commodity inspection certificate, phytosanitary certificate, fumigation certificate, certificate of origin and other relevant documents.
- Consequence of default : If the Company becomes aware that Yunnan Import and Export has breached its obligation under the terms of the Tobacco Leaf Products Export Framework Agreement, the Company shall promptly notify Yunnan Import and Export in writing and Yunnan Import and Export shall immediately rectify such breach. After remedying such breach, the Company and Yunnan Import and Export shall discuss in good faith with respect to any losses sustained by the Company as a result of the breach and the amount of damages that Yunnan Import and Export shall pay to the Company. Where the parties fail to reach an agreement through negotiation, the parties shall submit the dispute to the Hong Kong International Arbitration Centre.
- Amendment and termination : During the term of the agreement, in the event that (i) there shall be any fundamental changes to the currently effective State Monopoly Regime, or (ii) any terms or conditions of the agreement violate any applicable rules and regulations of competent regulatory authorities, so that it becomes impossible for any party to continue carrying on the transactions contemplated in the Tobacco Leaf Products Export Framework Agreement, either party shall have the right to propose to amend the Tobacco Leaf Products Export Framework Agreement. In the event that both parties cannot agree on the amendment of the Tobacco Leaf Products Export Framework Agreement, the Company shall have the unilateral right to terminate the Tobacco Leaf Products Export Framework Agreement.

## **Pricing policies and measures to ensure our connected transactions are on normal commercial terms or better**

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

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

where:

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

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

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

### **3. PROPOSED ANNUAL CAPS**

Under Rule 14A.53 of the Listing Rules, the Company is required to set a monetary annual cap for the continuing connected transactions. The Directors propose that the total annual transaction amount payable by the Group to Yunnan Import and Export under the Tobacco Leaf Products Export Framework Agreement shall not exceed US\$1.82 million, US\$2.18 million, US\$2.60 million and US\$3.13 million for the years ending 31 December 2023, 2024, 2025 and 2026, respectively.

In determining such annual caps, the Directors have considered the following factors:

- (1) the expected demand for tobacco leaf products of end customers in the European region, taking into account the orders currently under negotiation;
- (2) the estimated growth of the tobacco market and an expected 15% year-on-year increase in demand of tobacco leaf products of end customers for the years ahead; and
- (3) the expected 5% year-on-year increase in unit price of tobacco leaf products.

### **4. REASONS FOR AND BENEFIT OF ENTERING INTO THE TOBACCO LEAF PRODUCTS EXPORT FRAMEWORK AGREEMENT**

The Company conducts the tobacco leaf products export business in its ordinary course of business, including (i) procurement transactions with the relevant counterparties thereof in the tobacco leaf products export business and (ii) sales transactions with independent third party customers. The Company has established a long-term and stable procurement relationship with the relevant counterparties of the procurement transactions in the tobacco leaf products export business, which are subsidiaries of CNTC and located in regions producing high-quality tobacco leaves in the PRC. Over the years, they have been important domestic suppliers of our tobacco leaf products export business. The suppliers that can provide such tobacco leaf products based on the requirements of potential customers for tobacco leaf products related to specific production areas and varieties of tobacco leaf products are identified as our connected persons. In order to ensure the Company's continuous and stable procurement of tobacco leaf products for specific production areas and varieties, the Company must conduct transactions with connected persons in the procurement transactions of the tobacco leaf products export business. As the potential customers are located in the European region, which does not fall within the designated operating area (Southeast Asia, Hong Kong, Macau and Taiwan) for the procurement transactions of tobacco leaf products export business of the Company which is exempted by the Stock Exchange for an indefinite term, the Company entered into the Tobacco Leaf Products Export Framework Agreement with the relevant counterparty with a term of no more than three years. The entering into of the Tobacco Leaf Products Export Framework Agreement will ensure that the relevant counterparties undertake the obligation to supply the Company with the products necessary for the Company's operation of the tobacco leaf export and distribution business in the long run, which is beneficial to the Company's future business expansion and brings useful and constructive supplements to the existing Southeast Asian market regions of the tobacco leaf products export business, establishing a more comprehensive and healthier customer portfolio, gaining reputation in a wider region to reach more potential purchasers, and increasing the Group's revenue by satisfying the demand for tobacco leaf products in the global market.

CNTC Group are the only entities legally permitted to export PRC-origin tobacco leaf products. Therefore, the Company has to transact with CNTC Group to procure tobacco leaf products for the Company's export business. The Company expects to continue procuring PRC-origin tobacco leaf products provided by CNTC and/or its associates.

The Directors (excluding Mr. Shao Yan but including all the independent non-executive Directors) believe that the Tobacco Leaf Products Export Framework Agreement was 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 Tobacco Leaf Products Export Framework Agreement (including the annual caps) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Mr. Shao Yan, a non-executive Director and chairman of the Board, who also concurrently holds executive positions at China Tobacco International Group Limited (中煙國際集團有限公司), the controlling shareholder of the Company and a subsidiary of CNTC, has abstained from voting on the relevant Board resolution in respect of the Tobacco Leaf Products Export Framework Agreement and the determination of the annual caps. Save as disclosed above, to the best knowledge of the Company, none of the other Directors has any material interest in the Tobacco Leaf Products Export Framework Agreement and the transactions thereunder and therefore no other Director was required to abstain from voting on the Board resolutions approving the Tobacco Leaf Products Export Framework Agreement and the transactions thereunder (including the annual caps).

## **5. LISTING RULES IMPLICATIONS**

Reference is made to the prospectus of the Company dated 28 May 2019. As disclosed in the section headed "Connected Transactions" in the Prospectus, the Company has applied for, and the Stock Exchange has granted the Company, a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53 and the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 in respect of the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements entered into by the Company and relevant entities under CNTC (including Yunnan Import and Export). However, such waiver was obtained for the Company's export business of tobacco leaf products, which are procured from the CNTC Group and sold to Southeast Asia, Taiwan, Hong Kong and Macau only. As such, the entering into of the Tobacco Leaf Products Export Framework Agreement by the Company for the Company's export business of tobacco leaf products which are to be procured from Yunnan Import and Export and to be sold to other geographic locations has not been exempted.

Yunnan Import and Export is subsidiary of CNTC, the ultimate controlling shareholder of the Company and therefore an associate of a connected person of the Company as defined under the Listing Rules. Accordingly, the entering into of the Tobacco Leaf Products Export Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual cap under the Tobacco Leaf Products Export Framework Agreement exceed 0.1% but are all less than 5%, the entering into of the Tobacco Leaf Products Export Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **6. INFORMATION ABOUT THE PARTIES**

### **The Group**

As at the date of this announcement, the Group 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 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 sale of agricultural materials inherent to tobacco production in the Republic of Brazil and from the Republic of Brazil to regions around the world (except the PRC).

### **Yunnan Import and Export**

China Tobacco Yunnan Import and Export Co., Ltd\* (中國煙草雲南進出口有限公司) is an enterprise incorporated in the PRC, and a subsidiary of CNTC, the ultimate controlling shareholder of the Company. It is principally engaged in selling tobacco leaf products to both the Company and other third party buyers for export purposes. CNTC owns and/or controls all industrial companies, business companies, import-export companies and certain other entities that engage in the production, supply, sale, import and export matters of the PRC tobacco industry.



## 7. DEFINITIONS

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

“Chinese Mainland”	PRC excluding Hong Kong SAR, Macau SAR and Taiwan
“CNTC”	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC, and the ultimate controlling shareholder of the Company
“China Tobacco” or “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)
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“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”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated 28 May 2019
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements”	the framework agreements dated 18 December 2018 entered into by the Company and each of the relevant entities under CNTC with respect to the procurement of tobacco leaf products from such connected persons as part of the Company’s tobacco leaf products export business in Southeast Asia, Taiwan, Hong Kong and Macau



“Tobacco Leaf Products  
Export Framework  
Agreement”

the new designated area tobacco leaf export and distribution business long-term supply framework agreement dated 25 August 2023 entered into by the Company and Yunnan Import and Export with respect to the procurement of tobacco leaf products from such connected person as part of the Company’s tobacco leaf products export business in the European region

“Yunnan Import and  
Export”

China Tobacco Yunnan Import and Export Co., Ltd\* (中國煙草雲南進出口有限公司), an enterprise incorporated in the PRC, and a subsidiary of CNTC

“%”

percent.

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

Hong Kong, 25 August 2023

*As at the date of this announcement, the board of Directors comprises Mr. Shao Yan, as Chairman and non-executive Director, Mr. Dai Jiahui, 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.*

\* *for identification purpose only*