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## **CHIHO ENVIRONMENTAL GROUP LIMITED**

**齊合環保集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 976)**

### **DISCLOSEABLE TRANSACTION DISPOSAL OF ASSETS OF SUBSIDIARIES**

#### **The Agreements**

The Board is pleased to announce that on 1 September 2017, Chiho Foundry and Chiho Metals (as the case may be) and Taizhou Bay Committee entered into the Agreements, pursuant to which Chiho Foundry and Chiho Metals have agreed to dispose of the Assets to Taizhou Bay Committee for a consideration of an aggregate amount of RMB319,987,843.

#### **The Supplemental Agreements**

Subsequently, on 1 September 2017, Chiho Foundry and Chiho Metals (as the case may be) and Taizhou Bay Committee entered into the Supplemental Agreements, pursuant to which the parties have agreed to certain amendments to the terms and conditions of the relevant Agreements.

#### **Listing Rules Implications**

As one or more of the applicable percentage ratios for the Company in respect of the Disposal exceed 5% but are less than 25%, the Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements as set out under Chapter 14 of the Listing Rules.

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and Taizhou Bay Committee entered into the Supplemental Agreements, pursuant to which the parties have agreed to certain amendments to the terms and conditions of the relevant Agreements.

## **A. THE AGREEMENTS**

The principal terms of the Chiho Foundry Agreement and the Chiho Metals Agreements are as follows:

**Date:** 1 September 2017

**Parties:** In respect of the Chiho Foundry Agreement:

1. Taizhou Bay Committee; and
2. Chiho Foundry

In respect of the Chiho Metals Agreements:

1. Taizhou Bay Committee; and
2. Chiho Metals

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Taizhou Bay Committee and its ultimate beneficial owner are third party independent of the Company and its connected persons.

**Subject Matter:** In respect of the Chiho Foundry Agreement, the Assets to be disposed of by Chiho Foundry comprise the land located at Fengjiang Dismantling Park with an area of 30,384.08 square meters and the building thereon with an aggregate area of 32,854.07 square meters.

In respect of the Chiho Metals Agreements, the Assets to be disposed of by Chiho Metals comprise the land located at Fengjiang Dismantling Park with an area of 136,631.00 square meters and the building thereon with an aggregate area of 86,246.94 square meters.

The aggregate net book value of the Assets as shown in the unaudited account of the Group as at 30 June 2017 was approximately RMB80,000,000.

**Consideration and Payment Terms:** In respect of the Chiho Foundry Agreement, the consideration payable by Taizhou Bay Committee is RMB73,117,681. 30% of such consideration amounted to approximately RMB21,935,304 shall be paid by Taizhou Bay Committee to Chiho Foundry within 10 working days after Chiho Foundry has completed the cancellation procedures of the relevant land use right and property ownership right. The balance of the consideration shall be settled within 10 business days after Chiho Foundry has vacated the building on the land and removed and relocated all machinery and equipment (the “**Chiho Foundry Payment Terms**”).

In respect of the Chiho Metals Agreements, the aggregate consideration payable by Taizhou Bay Committee is RMB246,870,162. 30% of the such consideration amounted to approximately RMB74,061,048 shall be paid by Taizhou Bay Committee to Chiho Metals within 10 working days after Chiho Metals has completed the cancellation procedures of the relevant land use right and property ownership right. The balance of the consideration shall be settled within 10 business days after Chiho Metals has vacated the building on the land and removed and relocated all machinery and equipment (the “**Chiho Metals Payment Terms**”).

### **Basis of Determining the Consideration**

The consideration for the Assets was determined after arm’s length negotiations between the parties, with reference to the valuation reports prepared by the independent valuers, namely Taizhou City Pingzheng Land Valuation Consulting Co., Ltd.\* (台州市平正土地評估諮詢有限公司) and Zhejiang Zhongcheng Real Estate Valuation Office Co., Ltd.\* (浙江眾誠房地產評估事務所有限公司).

### **Delivery of the Assets**

Chiho Foundry and Chiho Metals (as the case may be) shall complete the delivery of all Assets to Taizhou Bay Committee by 31 October 2017 after vacating the buildings and removing and relocating the machinery and equipment.

The Assets were vacant and the Group leased the Assets to the tenants for the purpose of generating rental income in 2016. No such income was generated in 2015. The profit before and after taxation attributable to the Assets being the net rental income generated from the Assets and after deducting all related disbursements for the year ended 31 December 2016 were as follows:

	<b>For the year ended</b>	
	<b>31 December 2015</b>	<b>31 December 2016</b>
	<b>RMB’000</b>	<b>RMB’000</b>
Net profit before taxation	Nil	952
Net profit after taxation	Nil	952

## **B. THE SUPPLEMENTAL AGREEMENTS**

The principal terms of the Supplemental Chiho Foundry Agreement and the Supplemental Chiho Metals Agreements are as follows:

**Date:** 1 September 2017

**Parties:** In respect of the Supplemental Chiho Foundry Agreement:

1. Taizhou Bay Committee; and
2. Chiho Foundry

In respect of the Supplemental Chiho Metals Agreements:

1. Taizhou Bay Committee; and
2. Chiho Metals

**Amendments to the Payment Terms:** In respect of the Supplemental Chiho Foundry Agreement, the Chiho Foundry Payment Terms are amended as follows:

(i) 10% of the consideration payable by Taizhou Bay Committee amounted to approximately RMB7,311,768 shall be paid by Taizhou Bay Committee to Chiho Foundry within 10 working days after the execution of the Chiho Foundry Agreement and Chiho Foundry shall vacate the building on the land and remove and relocate all machinery and equipment within 60 days after the receipt of such consideration; (ii) 85% of the consideration payable by Taizhou Bay Committee amounted to approximately RMB62,150,029 shall be paid by Taizhou Bay Committee to Chiho Foundry within 3 working days after Chiho Foundry has vacated the building on the land and removed and relocated all machinery and equipment; (iii) within 3 working days after the receipt of the said 85% of the consideration, Chiho Foundry shall repay the borrowings pledged related to the Assets to the bank and obtain the relevant encumbrances certificate (他項權利證書) from the bank and complete the cancellation procedures of the encumbrances certificate with assistance from Taizhou Bay Committee; (iv) the balance of the consideration shall be settled by Taizhou Bay Committee within 2 working days after the cancellation of the encumbrances has been completed; and (v) Chiho Foundry shall, with assistance from Taizhou Bay Committee, commence the cancellation procedures of the relevant ownership certificate after the receipt of the said balance of the consideration.

In respect of the Supplemental Chiho Metals Agreements, the Chiho Metals Payment Terms are amended as follows:

(i) 10% of the consideration payable by Taizhou Bay Committee amounted to approximately RMB24,687,016 shall be paid by Taizhou Bay Committee to Chiho Metals within 10 working days after the execution of the Chiho Metals Agreements and Chiho Metals shall vacate the building on the land and remove and relocate all machinery and equipment within 60 days after the receipt of such consideration; (ii) 85% of the consideration payable by Taizhou Bay Committee amounted to approximately RMB209,839,638 shall be paid by Taizhou Bay Committee to Chiho Metals within 3 working days after Chiho Metals has vacated the building on the land and removed and relocated all machinery and equipment; (iii) within 3 working days after the receipt of the said 85% of the consideration, Chiho Metals shall repay the borrowings pledged related to the Assets to the bank and obtain the relevant encumbrances certificate (他項權利證書) from the bank and complete the cancellation procedures of the encumbrances certificate with assistance from Taizhou Bay Committee; (iv) the balance of the consideration shall be settled by Taizhou Bay Committee within 2 working days after the cancellation of the encumbrances has been completed; and (v) Chiho Metals shall, with assistance from Taizhou Bay Committee, commence the cancellation procedures of the relevant ownership certificate after the receipt of the said balance of the consideration.

The amendments to the terms were arrived at after arm's length negotiations among the parties to the Agreements. Save as modified by the Supplemental Agreements, all other terms and conditions of the Agreements shall remain unchanged and continue in full force and effect.

### **C. GAIN FROM THE DISPOSAL AND USE OF PROCEEDS**

Based on the difference between the consideration for the Assets and the aggregate net book value of the Assets as mentioned above, after deducting the estimated related expenses and other taxes, the Group is expected to realise a gain of approximately RMB222,000,000 as a result of the Disposal.

The net proceeds from the Disposal of approximately RMB302,000,000, after deducting the related expenses and other taxes, will firstly be used for repaying the borrowings pledged regarding the Assets and the remaining proceeds will be used as general working capital of the Group.

## **D. REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS AND THE SUPPLEMENTAL AGREEMENTS**

In order to optimize the overall layout of industrial planning and strengthen the industrial and economic development under local government's policy in recent years, Chiho Metals and Chiho Foundry relocated the production site to Renewable Metal Resources Industry Base in Luqiao District of Taizhou, the construction of the new production site was completed and all business operations were relocated in 2016. As a result, the Assets were vacant and the management of the Group decided to lease to the tenants for the purpose of generating rental income or hold for capital appreciation until return of Assets to the Taizhou government as requested. The Board is of the opinion that the Disposal provides a good opportunity for the Group to realise the Assets at a gain and enhance the financial position of the Group.

The Directors are of the view that the Disposal and the provisions of the Agreements and Supplemental Agreements are fair and reasonable and on normal commercial terms and in the interests of the Company and its shareholders as a whole.

## **E. LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios for the Company in respect of the Disposal exceed 5% but are less than 25%, the Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements as set out under Chapter 14 of the Listing Rules.

## **F. GENERAL INFORMATION OF THE PARTIES**

### **The Group**

The Group is principally engaged in the business of mixed metal scrap recycling, reuse and processing which involves the breaking down, demolition and separation of mixed metal scrap. Both Chiho Foundry and Chiho Metals are principally engaged in the processing and sales of metal scrap.

### **Taizhou Bay Committee**

Taizhou Bay Committee is a government authority of Luqiao District of Taizhou responsible for the development and management of social, economic and infrastructure of Luqiao District of Taizhou.

## G. DEFINITIONS

Unless the content requires otherwise, the following expressions shall have the following meanings:

“Agreements”	the Chiho Foundry Agreement and the Chiho Metals Agreements
“Assets”	in respect of the Chiho Foundry Agreement, the land located at Fengjiang Dismantling Park with an area of 30,384.08 square meters and the building thereon with an aggregate area of 32,854.07 square meters; and in respect of the Chiho Metals Agreements, the land located at Fengjiang Dismantling Park with an area of 136,631.00 square meters and the building thereon with an aggregate area of 86,246.94 square meters
“Board”	the board of Directors
“Chiho Foundry”	Taizhou Chiho-Tiande Foundry Company Limited (台州齊合天地鑄造有限公司), a company incorporated in the PRC and a wholly owned subsidiary of the Company
“Chiho Foundry Agreement”	the agreement dated 1 September 2017 entered into between Chiho Foundry and Taizhou Bay Committee, pursuant to which Chiho Foundry agreed to dispose of the Assets to Taizhou Bay Committee
“Chiho Metals”	Taizhou Chiho-Tiande Metals Company Limited (台州齊合天地金屬有限公司), a company incorporated in the PRC and a wholly owned subsidiary of the Company
“Chiho Metals Agreements”	the four agreements dated 1 September 2017 entered into between Chiho Metals and Taizhou Bay Committee, pursuant to which Chiho Metals agreed to dispose of the Assets to Taizhou Bay Committee
“Company”	Chiho Environmental Group Limited (齊合環保集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 976)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“Disposal”	the disposal of the Assets pursuant and subject to the terms and conditions of the Agreements
“Fengjiang Dismantling Park”	Fengjiang Dismantling Park* (峰江拆解園區)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Reminbi, the lawful currency of the PRC
“Supplemental Agreements”	the Supplemental Chiho Foundry Agreement and the Supplemental Chiho Metals Agreements
“Supplemental Chiho Foundry Agreement”	the supplemental agreement to the Chiho Foundry Agreement dated 1 September 2017, pursuant to which the parties to the Chiho Foundry Agreement agreed to certain amendments to the terms and conditions of the Chiho Foundry Agreement
“Supplemental Chiho Metals Agreements”	the four supplemental agreements to the respective Chiho Metals Agreements dated 1 September 2017, pursuant to which the parties to the Chiho Metals Agreements agreed to certain amendments to the terms and conditions of the Chiho Metals Agreements
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules



“Taizhou Bay Committee” Taizhou Bay Circular Economy Industrial Agglomeration Zone Luqiao District Management Committee Fengjiang Street Office\* (台州灣循環經濟產業集聚區路橋分區管委會峰江街道辦事處)

“%” per cent.

By order of the Board  
**Chiho Environmental Group Limited**  
**Qin Yongming**  
*Chairman*

Hong Kong, 1 September 2017

*As at the date of this announcement, the Board comprises:*

*Executive Directors:* Tu Jianhua, Qin Yongming, Zhu Patrick Xiangdong

*Independent Non-Executive Directors:* Loke Yu, Zhu Dajian, Qian Liping

\* *For identification purpose only*