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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)

CONTINUING CONNECTED TRANSACTIONS

The Board hereby announces that the Company and Loncin International have entered into the Agreement on 22 January 2020 (which is effective from 22 January 2020 to 31 December 2020), and set the Annual Cap for the continuing connected transactions contemplated under the Agreement for the year ending 31 December 2020.

As at the date of this announcement, Mr. Tu, a Director and controlling shareholder of the Company, holds 98% equity interests in Loncin Group, which in turn holds 98% equity interests in Loncin Holdings. Loncin International is wholly-owned by Loncin Holdings. Therefore, Loncin International is a connected person of the Company under the Listing Rules by virtue of being an associate of Mr. Tu. The transactions contemplated under the Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios for the proposed Annual Cap in respect of the Agreement exceeds 0.1% but is less than 5%, the Agreement as well as the proposed Annual Cap for the continuing connected transactions contemplated thereunder are subject to reporting, annual review and announcement requirements but are exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcements of the Company dated 11 January 2017 and 23 January 2017 in relation to, among others, the Sales Framework Agreement entered into between the Company and Loncin International. The Sales and Framework Agreement expired on 31 December 2019.

The Company and Loncin International have entered into the Agreement on 22 January 2020 (which is effective from 22 January 2020 to 31 December 2020), and set the Annual Cap for the continuing connected transactions contemplated under the Agreement for the year ending 31 December 2020.

THE AGREEMENT

Parties:	(i) the Company; and (ii) Loncin International
Term:	The term of the Agreement shall be effective from 22 January 2020 and end on 31 December 2020.
Nature of transactions:	Relevant member(s) of the Group will supply certain Products to Loncin International, including but not limited to, nonferrous metal.
Pricing and its determination:	The price at which the Group will supply the Products to Loncin International will be determined based on: (1) the government-prescribed price; or (2) if there is no applicable government-prescribed price, the Market Price
Time and method of payment:	Based on market practice

Access to records: Loncin International undertakes to the Company to allow the Company's auditors sufficient access to the records of Loncin International for the purpose of reporting on the transactions under the Agreement so as to enable the Company to comply with its relevant obligations under the Listing Rules.

PROPOSED ANNUAL CAP AND BASIS OF DETERMINING THE ANNUAL CAP

Historical Transaction Amounts

The historical transaction amounts under the Sales Framework Agreement for the three years ended 31 December 2019 are set out below:

	Year ended 31 December 2017 <i>(US\$ million)</i>	Year ended 31 December 2018 <i>(US\$ million)</i>	Year ended 31 December 2019 <i>(US\$ million)</i>
Historical Transaction Amount	80.87	51.95	15.39

Historical Annual Caps

The annual caps for the transactions contemplated under the Sales Framework Agreement for the three years ended 31 December 2019 are set out below:

	Year ended 31 December 2017 <i>(US\$ million)</i>	Year ended 31 December 2018 <i>(US\$ million)</i>	Year ending 31 December 2019 <i>(US\$ million)</i>
Historical Annual Caps	150	250	350

The proposed Annual Cap in respect of the transactions contemplated under the Agreement is US\$3,800,000 for the year ending 31 December 2020.

Basis of Determining the Annual Cap

The proposed Annual Cap of the transactions contemplated under the Agreement are determined with reference to the following factors:

- (i) the estimated number of purchase orders to be placed by Loncin International with the Group;
- (ii) historical transaction amounts with Loncin International based on the transaction records in the past;
- (iii) the estimated volume and Market Prices of the Products to be sold to Loncin International; and
- (iv) expected increase in the price of raw materials and labour costs in the next year.

INTERNAL CONTROL MEASURES

To ensure that the terms offered by the Group to Loncin International are no less favourable than those entered into between the Group and independent third parties and that the proposed Annual Caps are not exceeded, the Group will adopt the following internal control measures:

- (i) the relevant business departments of the Company will continuously monitor the pricing terms, receipt arrangements and actual transaction amounts, and the compliance department of the Company will review the implementation of the connected transaction management system of the Company during the assessment of the internal control system every six months, and conduct sampling review of the above information, so as to ensure all transactions under the Agreement conform with the connected transaction management system of the Company, and also ensure the relevant transactions are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the Agreement;

- (ii) the finance department of the Company is responsible for collecting and aggregating the transaction amount of the Group's continuing connected transactions on a monthly basis based on the respective transaction amounts reported by the relevant business departments, and is responsible for preparing the summary sheet of the Group's continuing connected transactions. If relevant business departments, discover any imminent or possible exceeding of the annual caps of any continuing connected transactions, they shall report as soon as possible to the finance department of the Company. If the relevant business departments confirm the necessity to revise the annual caps, they shall make an application regarding the revision of annual caps, including but not limited to the amount of the revised annual caps as well as the basis for adjustment, and submit such application to the board of managers of the Company for review and discussion after obtaining the approval of the head of business. The Board will finally decide whether to put forward the revision of the annual caps of relevant continuing connected transactions for approval at a shareholders' meeting and proceed with the relevant disclosure procedures. Before completion of all Board and Shareholders' approval and disclosure procedures, the person in charge of the relevant business departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the relevant annual caps;
- (iii) pursuant to the connected transaction management rules of the Company, the Company will implement, amend and improve the relevant rules and the requirements, and specify that the Company will comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under the Agreement;
- (iv) the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions under the Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the Agreement; and
- (v) the auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

Taking into account: (i) the above methods and procedures are necessary components of an internal control system, including designated department and responsible officer, clear approval process, monitoring system and detailed and explicit assessment criteria; and (ii) the above mentioned review procedures and approval process against the explicit assessment criteria can ensure that the transactions will be executed in compliance with the terms of the Agreement, the Directors are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Agreement will broaden the revenue base of the Group. It is expected that Loncin International's demand for a constant supply of Products from the Group will last for the next year. The entering into of the Agreement will allow Loncin International to purchase the Products from the Group on an uninterrupted basis during the term of the Agreement, thereby generating revenue for the Group. Due to Mr. Tu's interests in Loncin International and hence in the transactions contemplated under the Agreement, he had abstained from voting on the resolution of the Board to approve the transactions under the Agreement.

The Directors (including the independent non-executive Directors) are of the view that (i) the Agreement is on normal commercial terms and on terms no less favourable than those entered into between independent third parties and the Group and in the course of the ordinary and usual business of the Group; (ii) the terms of the Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iii) the proposed Annual Caps in respect of the Agreement are fair and reasonable.

LISTING RULES IMPLICATIONS

Mr. Tu, a Director and controlling shareholder of the Company, holds 98% equity interests in Loncin Group, which in turn holds 98% equity interests in Loncin Holdings. Loncin International is wholly-owned by Loncin Holdings. Therefore, Loncin International is a connected person of the Company under the Listing Rules by virtue of being an associate of Mr. Tu. The transactions contemplated under the Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios for the proposed Annual Cap in respect of the Agreement exceeds 0.1% but is less than 5%, the Agreement as well as the proposed Annual Cap for the continuing connected transactions contemplated thereunder are subject to reporting, annual review, and announcement requirements but are exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Save as otherwise mentioned in this announcement, none of the Directors has a material interest in the transactions contemplated under the Agreement.

INFORMATION OF THE GROUP AND THE CONNECTED PERSON

The Group principally engages in mixed metal scrap recycling, reuse and processing which involve breaking-down, demolition and separation of mixed metal scrap such as motor scrap and electric wire and cable scrap into their respective metal constituents, comprising mainly copper scrap, steel scrap, aluminum scrap and iron scrap as well as a growing business in scrap metal collection.

Loncin International is a company incorporated in Hong Kong and is principally engaged in the business of metals scrap trading.

DEFINITIONS

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

“Agreement”	the new sales framework agreement entered into between the Company and Loncin International dated 22 January 2020 in relation to the sale of the Products by the Group to Loncin International
“Annual Cap”	the maximum aggregate annual value for the transactions contemplated under the Agreement
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Chiho Environmental Group Limited, a company incorporated in the Cayman Islands and whose Shares 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
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“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 the Stock Exchange
“Loncin International”	Loncin International Limited (隆鑫國際有限公司), a company incorporated in Hong Kong
“Loncin Group”	Loncin Group Co., Limited (隆鑫集團有限公司), a limited liability company established under the laws of the PRC
“Loncin Holdings”	Loncin Holdings Limited (隆鑫控股有限公司), a limited liability company established under the laws of the PRC
“Market Price”	means such price(s) that: <ul style="list-style-type: none"> (1) the party supplying the Products provides to independent third parties in the relevant market in respect of the same or similar Products; (2) independent third parties may obtain from other independent third parties in the relevant market in respect of the same or similar Products; (3) as determined with reference to industry standards or practice for the same or similar Products in the relevant market
“members of the Group”	means the companies of the Group, or any one of them
“Mr. Tu”	Mr. Tu Jianhua, an executive Director and a controlling shareholder of the Company

“PRC”	the People’s Republic of China
“Products”	the products which may from time to time be supplied by the relevant member(s) of the Group to Loncin International, including but not limited to, nonferrous metal, under the Agreement
“Sales Framework Agreement”	the sales framework agreement entered into between the Company and Loncin International on 11 January 2017 in relation to the sale of the Products by the Group to Loncin International, which expired on 31 December 2019
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“U.S.”	The United States of America
“US\$”	US dollars, the lawful currency of the United States of America
“%”	per cent

By Order of the Board
Chiho Environmental Group Limited
Qin Yongming
Chairman

Hong Kong, 22 January 2020

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

<i>Executive Directors:</i>	Qin Yongming <i>(Chairman and Chief Executive Officer)</i> Tu Jianhua
<i>Independent non-executive Directors:</i>	Loke Yu Qian Liping Zhu Hongchao