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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)

SUPPLEMENTAL ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 22 January 2020 (the “**Announcement**”) in relation to, among other things, the Agreement. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

The Company wishes to supplement the following:

The main types of Products anticipated to be supplied by the Group to Loncin International pursuant to the Agreement include zorba scrap, heavies, talk, shredded cable and copper scrap, all of which are categorized as nonferrous metal scrap.

PRICING, TIME AND METHOD OF PAYMENT REGARDING SUPPLY OF PRODUCTS TO LONCIN INTERNATIONAL

Pricing

Nonferrous metal scrap is not a standardized product and the metal content in the nonferrous metal scrap varies from lot to lot. Therefore, in addition to the level of demand for nonferrous metal scrap, pricing of the Products will also be affected by (and hence determined by the management of the Group after taking into consideration) the following factors:

- (i) the agreed percentages of metal constituents within the nonferrous metal scrap between the parties;

- (ii) the Market Prices of the metal constituents on the London Metal Exchange (“LME”) or Commodity Exchange (“COMEX”);
- (iii) the price of the metal constituents on the Shanghai Futures Exchange, Changjiang Nonferrous Metals Industry Portal (www.ccmn.cn) and/or Lingtong Information Provider (www.lingtong.info); and
- (iv) production costs of the customer, customs and freight charges, and presence of impurities in the Products.

The price of the Products to be supplied by member(s) of the Group to Loncin International is determined with reference to the Market Price of the metal constituents on the LME and COMEX as a basis. The Market Price of the metal constituents on the LME and COMEX can be found on their respective websites and there are real time updates on such prices.

The Directors are of the view that given the pricing of the Products will be determined after taking into consideration the abovementioned factors, including with reference to the Market Price of the metal constituents on the LME and COMEX as a basis, the pricing mechanism with respect to the supply of Products to Loncin International is fair and reasonable.

Timing and method of payment

The time and method of payment in respect of the Products supplied by member(s) of the Group to Loncin International will be as follows:

- (i) the relevant member of the Group shall arrange for delivery of the Products within two months to one year upon signing of an agreement for a supply of Products by the parties;
- (ii) upon arrangement of delivery and provision of completed shipping documents by the relevant member of the Group, Loncin International shall pay the full amount of the purchase price of the Products to the relevant member of the Group; and
- (iii) upon receipt of the purchase price in full from Loncin International, the relevant member of the Group will ship the Products to the port requested by Loncin International (which may take up to 30 to 50 days).

The Directors are of the view that given the market practice on timing of payment would be for Loncin International to pay a deposit prior to the Group’s arrangement of delivery and shipping of the Products, the payment arrangements are on normal commercial terms or better and are fair and reasonable with respect to the Group.

INTERNAL CONTROL MEASURES

The Group will also adopt the following internal control measures:

- (i) the prices for the Products will be negotiated on arm's length basis and at prices with reference to the prevailing market prices of similar products, which will be determined through periodic price research conducted by the operation department of the Company (by obtaining the prices of products charged by the independent third parties for similar products comparable to the Products under the Agreement). Research on market prices of metal constituents of which the Products are made up will also be conducted by the Company regularly. References will be made to prices of the metal constituents on the LME and COMEX. The prices for the Products will not be lower than the prevailing market prices of similar products; and
- (ii) the compliance department of the Company will closely monitor the transaction amounts in relation to the transactions under the Agreement to ensure that the proposed Annual Cap is not exceeded.

Save as stated above, all other information set out in the Announcement remains unchanged.

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

Hong Kong, 17 February 2020

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

Executive Directors: Qin Yongming (*Chairman and Chief Executive Officer*)
Tu Jianhua

Independent Non-executive Directors: Loke Yu
Qian Liping
Zhu Hongchao