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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 IN RELATION TO THE SUPPLEMENTAL AGREEMENT TO THE SALES FRAMEWORK AGREEMENT**

#### **INTRODUCTION**

References are made to the Announcements in relation to, among other things, the Sales Framework Agreement pursuant to which the Group shall sell certain Products to Loncin International in accordance with the terms and conditions of the Sales Framework Agreement. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

On 17 June 2020 (after trading hours), the Company and Loncin International entered into the Supplemental Agreement to, among others, extend the term of the Sales Framework Agreement for an additional two years to 31 December 2022 and revise the annual cap for the continuing connected transactions for the year ending 31 December 2020 and set the annual caps for the continuing connected transactions for the years ending 31 December 2021 and 2022.

As at the date of this announcement, Mr. Tu, a Director and a 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 Supplemental Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios for the proposed New Annual Caps in respect of the Supplemental Agreement exceeds 5%, the Supplemental Agreement as well as the proposed New Annual Caps for the continuing connected transactions contemplated thereunder are subject to reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER AND ESTABLISHMENT OF BOARD COMMITTEE**

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the independent Shareholders in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps. In this connection, VBG Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders as to whether the terms of the Supplemental Agreement and the proposed New Annual Caps are fair and reasonable and make recommendation(s) on voting.

## **EGM**

Ordinary resolutions will be proposed to the independent Shareholders at the EGM to consider and, if thought fit, to approve, among other things, the transactions contemplated under the Supplemental Agreement and the proposed New Annual Caps. The voting in relation to the Supplemental Agreement and the proposed New Annual Caps will be conducted by way of poll.

USUM Investment will (and any other Shareholder(s) who is/are involved or interested in the Supplemental Agreement will be required to) abstain from voting on the resolutions to be proposed at the EGM for approving the Supplemental Agreement and the proposed New Annual Caps. Save for USUM Investment, to the best knowledge of the Company, no other Shareholders are required to abstain from voting on the resolutions to be proposed at the EGM.

## **DESPATCH OF CIRCULAR**

The Circular containing, among other matters, (i) details of the Supplemental Agreement; (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders on the terms of the Supplemental Agreement and the proposed New Annual Caps; (iii) a letter of advice by the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders on the terms of the Supplemental Agreement and the proposed New Annual Caps; (iv) a notice convening the EGM; and (v) other information as required under the Listing Rules is expected to be dispatched to the Shareholders by 10 July 2020.

## **INTRODUCTION**

References are made to the Announcements in relation to, among other things, the Sales Framework Agreement. As disclosed in the Announcements, the Sales Framework Agreement is effective from 22 January 2020 to 31 December 2020 and the annual cap for the year ending 31 December 2020 is US\$3.8 million. Pursuant to the Sales Framework Agreement, the Group will supply certain Products to Loncin International, including but not limited to, non-ferrous metal.

On 17 June 2020 (after trading hours), the Company and Loncin International entered into the Supplemental Agreement to, among others, extend the term of the Sales Framework Agreement for an additional two years to 31 December 2022 and revise the annual cap for the continuing connected transactions for the year ending 31 December 2020 and set the annual caps for the continuing connected transactions for the years ending 31 December 2021 and 2022.

## **THE SUPPLEMENTAL AGREEMENT**

The principal terms of the Supplemental Agreement are set out below:

Date: 17 June 2020

Parties: (i) the Company; and  
(ii) Loncin International

Term: The term of the Sales Framework Agreement shall be from 22 January 2020 to 31 December 2022.

Save for the amendments to the term of the Sales Framework Agreement and the addition of the New Annual Caps as further described below, all the existing principal terms of the Sales Framework Agreement remain materially the same as disclosed in the Announcements. The Sales Framework Agreement shall be read and construed together with the amendment and/or variation contained in the Supplemental Agreement and shall continue to be binding and effective on the Company if approved at the EGM.

## **PROPOSED NEW ANNUAL CAPS AND THE BASIS OF DETERMINING THE PROPOSED NEW ANNUAL CAPS**

In the beginning of 2020, the general market conditions for the scrap metal industry was gloomy. The Board therefore decided to adopt a conservative approach when determining the annual cap under the Sales Framework Agreement and estimate an annual cap of US\$3.8 million for the year ending 31 December 2020. As the general market conditions have improved, the annual cap of US\$3.8 million under the Sales Framework Agreement was already used up by April 2020. Since then, the Group is no longer able to sell the Products to Loncin International as it awaits the shareholders' approval on the New Annual Caps. It is expected that the demand for the Products by Loncin International will increase for the three years ending 31 December 2022 and the Board therefore proposed to revise the annual cap for the year ending 31 December 2020 and set the annual caps for the years ending 31 December 2021 and 2022 by entering into the Supplemental Agreement. For details on the basis of determining the proposed New Annual Caps, please refer to the section headed "Proposed New Annual Caps and the Basis of Determining the Proposed New Annual Caps – Basis of Determining the Proposed New Annual Caps" below.

### **Historical Transaction Amounts and Annual Caps**

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

	<b>Year ended 31 December 2017 (US\$ million)</b>	<b>Year ended 31 December 2018 (US\$ million)</b>	<b>Year ended 31 December 2019 (US\$ million)</b>
<b>Historical Transaction Amounts</b>	80.87	51.95	15.39
<b>Historical Annual Caps</b>	150	250	350

## Proposed New Annual Caps

Details of the revision and the New Annual Caps are set out as below:

<b>Actual amount for the four months ended 30 April 2020 (US\$ million)</b>	<b>Existing annual cap for the year ending 31 December 2020 (US\$ million)</b>	<b>Proposed New Annual Cap for the year ending 31 December 2020 (US\$ million)</b>	<b>Proposed New Annual Cap for the year ending 31 December 2021 (US\$ million)</b>	<b>Proposed New Annual Cap for the year ending 31 December 2022 (US\$ million)</b>
3.8	3.8	18.8	35	50

### Basis of Determining the Proposed New Annual Caps

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

- (i) the actual sale amount of the Products to Loncin International for the four months ended 30 April 2020, which represents 100% of the existing annual cap for the year ending 31 December 2020 and approximately 20% of the proposed New Annual Cap for the year ending 31 December 2020;
- (ii) the expected increase in demand for the Products from Loncin International under the Sales Framework Agreement;
- (iii) the increase in selling prices of the Products to be supplied to Loncin International under the Sales Framework Agreement; and
- (iv) a buffer of approximately 5% adopted for any unforeseeable circumstances, in particular market fluctuations, fluctuations in raw material prices and increase in labour costs.

The Board confirms that, as at the date of this announcement, the existing annual cap for the transactions contemplated under the Sales Framework Agreement for the year ending 31 December 2020 has not yet been exceeded.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT**

The Group believes that the Sales Framework Agreement has been of great benefit to the Group by providing a steady stream of income to the Group. The Supplemental Agreement will further extend the strong and long-standing business relationship which the Group can utilize for the future growth of the Group. The Group believes that it is in the interests of the Group to extend the term of the Sales Framework Agreement and increase the annual cap for the transactions thereunder for the year ending 31 December 2020 and set the annual caps for the two years ending 31 December 2022.

Due to Mr. Tu's interests in Loncin International and hence in the transactions contemplated under the Supplemental Agreement, he had abstained from voting on the resolutions of the Board to approve the transactions under the Supplemental Agreement and the proposed New Annual Caps.

The Directors (excluding the independent non-executive Directors who will express their views after considering the advice of the Independent Financial Adviser) are of the view that the transactions contemplated under the Supplemental Agreement are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms, on terms no less favourable than those entered into between independent third parties and the Group and fair and reasonable; and (iii) in the interests of the Company and its Shareholders as a whole. The Directors (excluding the independent non-executive Directors who will express their views after considering the advice of the Independent Financial Adviser) also confirm that the proposed New Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Mr. Tu, a Director and a 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 Supplemental Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios for the proposed New Annual Caps in respect of the Supplemental Agreement exceeds 5%, the Supplemental Agreement as well as the proposed New Annual Caps for the continuing connected transactions contemplated thereunder are subject to reporting, annual review, announcement and independent Shareholders' approval requirements 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 Supplemental Agreement.

## **INFORMATION OF THE GROUP AND THE CONNECTED PERSONS**

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 Group and Loncin Holdings are limited liability companies established under the laws of the PRC and are both investment holding companies. Loncin International is a company incorporated in Hong Kong and is principally engaged in the business of metals scrap trading.

## **APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER AND ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE**

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the independent Shareholders in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps. In this connection, VBG Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders as to whether the terms of the Supplemental Agreement and the proposed New Annual Caps are fair and reasonable and make recommendation(s) on voting.

## **EGM**

Ordinary resolutions will be proposed to the independent Shareholders at the EGM to consider and, if thought fit, to approve, among other things, the transactions contemplated under the Supplemental Agreement and the proposed New Annual Caps. The voting in relation to the Supplemental Agreement and the proposed New Annual Caps will be conducted by way of poll.

USUM Investment will (and any other Shareholder(s) who is/are involved or interested in the Supplemental Agreement will be required to) abstain from voting on the resolutions to be proposed at the EGM for approving the Supplemental Agreement and the proposed New Annual Caps. Save for USUM Investment, to the best knowledge of the Company, no other Shareholders are required to abstain from voting on the resolutions to be proposed at the EGM.

## **DESPATCH OF CIRCULAR**

The Circular containing, among other matters, (i) details of the Supplemental Agreement; (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders on the terms of the Supplemental Agreement and the proposed New Annual Caps; (iii) a letter of advice by the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders on the terms of the Supplemental Agreement and the proposed New Annual Caps; (iv) a notice convening the EGM; and (v) other information as required under the Listing Rules is expected to be dispatched to the Shareholders by 10 July 2020.

## **DEFINITIONS**

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

“Announcements”	the announcements of the Company dated 22 January 2020 and 17 February 2020
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Circular”	a circular of the Company containing, among other matters, details of the transactions contemplated under the Supplemental Agreement, the letter from the Independent Board Committee to the independent Shareholders, and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders



“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
“EGM”	the extraordinary general meeting to be convened by the Company for the consideration and the approval of, among other things, the transactions contemplated under the Supplemental Agreement and the proposed New Annual Caps
“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
“Independent Board Committee”	an independent board committee of the Company comprising all of the independent non-executive Directors, established to advise the independent Shareholders in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps
“Independent Financial Adviser”	VBG Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the independent Shareholders in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps

“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
“Mr. Tu”	Mr. Tu Jianhua, an executive Director and a controlling shareholder of the Company
“New Annual Caps”	the new annual caps include the total amount of transactions under the Sales Framework Agreement and the Supplemental Agreement, as set out in the section headed “Proposed New Annual Caps and the Basis of Determining the Proposed New Annual Caps” in this announcement
“PRC”	the People’s Republic of China
“Previous 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
“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, non-ferrous metal, under the Sales Framework Agreement. The main types of Products anticipated to be supplied by the Group to Loncin International include zorba scrap, heavies, talk, shredded cable and copper scrap, all of which are categorized as nonferrous metal scrap

“Sales Framework Agreement”	the 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
“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
“Supplemental Agreement”	the supplemental agreement to the Sales Framework Agreement entered into between the Company and Loncin International dated 17 June 2020
“USUM Investment”	USUM Investment Group Hong Kong Limited (渝商投資集團(香港)有限公司), a company incorporated in Hong Kong and directly holds 62.85% interests of the Company as at the date of this announcement
“US\$”	US dollars, the lawful currency of the United States of America
“%”	per cent

\* *For identification purposes only*

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

Hong Kong, 17 June 2020

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

Executive Directors:	Mr. Qin Yongming ( <i>Chairman</i> ) Mr. Tu Jianhua Mr. Rafael Heinrich Suchan ( <i>Chief Executive Officer</i> )
Independent Non-executive Directors:	Dr. Loke Yu Ms. Qian Liping Mr. Ko Frankie Andrew