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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)**

#### INSIDE INFORMATION KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

This announcement is made by Chiho Environmental Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to the Inside Information Provisions under part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

References are made to the announcements of the Company dated 13 January 2025 and 3 March 2025, in relation to, inter alia, the irregularities of certain subsidiaries of the Company and the commencement of the independent investigation in relation to such irregularities (collectively, the “**Previous Announcements**”). Unless otherwise stated, capitalized terms used herein shall have the same meanings as those defined in the Previous Announcements.

#### BACKGROUND

As announced in the announcement of the Company dated 13 January 2025, the following Irregularities in relation to the Subject Group Companies were revealed:

- (i) between June and July 2024, Yantai Liheng and Yantai Qisheng have advanced the Suspicious Loans from the Banks in the total sum of RMB30 million. The Suspicious Loans were paid to a supplier and a third party, who were believed to be related to or affiliated with Mr. Li and other former employee of the Group. Yantai Liheng and Yantai Qisheng have failed to report and obtain such approval;
- (ii) false Filing of the minutes of a shareholders’ meeting of Luxincheng, which was purported to be held on 24 September 2024. It was also suspected that such minutes were forged;
- (iii) Yantai Liheng and its wholly-owned subsidiary incurred abnormal huge loss during the second half of 2024; and
- (iv) Mr. Li alleged that the computers in which the financial information of Yantai Liheng was stored and the financial books and records of Yantai Liheng were confiscated by the tax authority for the purpose of tax audit.

As announced in the announcement of the Company dated 3 March 2025, an independent investigation (the “**Independent Investigation**”) led by the Audit Committee has commenced for the purpose of identifying the related issues and the personnel involved in the Irregularities and the impact of the Irregularities on the Company, financially or otherwise, if any.

On 23 May 2025, the Audit Committee received the investigation report (the “**Investigation Report**”) from the independent investigator (the “**Investigator**”), details of the Investigation Report are set out as follows:

## **THE SCOPE AND PROCEDURES OF THE INDEPENDENT INVESTIGATION**

The primary scope of the Independent Investigation includes identifying (i) the involvement of each of the executive Directors, management of the Subject Group Companies (other than Mr. Li) and the management of the subsidiaries of the Group which has business transactions with the Subject Group Companies (the “**Management**”); and (ii) whether the above-mentioned parties committed any misconduct in relation to the Irregularities.

For the purpose of the Independent Investigation, the Investigator conducted the following procedures:

- (i) obtained the relevant documents, including but not limited to, the internal control manual of the Group and the Subject Group Companies, contracts, financial information, internal approval documents of the Group, bank statements, proof of payments and receipts and relevant email correspondence;
- (ii) conducted background checks to obtain information and data of relevant companies and personnel;
- (iii) identified and conducted interviews with the relevant internal and external parties involved, including but not limited to, the current Directors, the directors of the Subject Group Companies, the relevant management and finance personnel, the relevant transaction counterparties and other third parties; and
- (iv) reviewed, compared and analyzed the information and documents obtained from (i) and (ii) above and conducted follow up interviews.

## **SUMMARY OF KEY FINDINGS OF THE INDEPENDENT INVESTIGATION**

The Investigator is of the view that:

- (i) it has not been discovered that the Management had abused their relationship within the Group to engage in any connected transaction or use other means to participate in the Irregularities or acts against the interest of the Company;
- (ii) no violation of the internal control system or material misconduct on the part of each of the Management, which led to the occurrence of this incident, has been found;
- (iii) there were inherent internal control risks regarding the Group’s then investment plan in the Subject Group Companies. In the event that the financial controller of the Subject Group Companies, who was appointed by the Group, fails to perform his duties or when the matters are outside his authority, Mr. Li could deliberately conceal the actual operating condition of the Subject Group Companies to circumvent the Group’s internal control process, act against the interest of the Group or infringe the Group’s right to control the Subject Group Companies. This led to the Group’s loss of control over the Subject Group Companies since September 2024 even though the Group remained a controlling shareholder of the Subject Group Companies, which was evidenced by various transaction documents. However, the Investigator is of the view that such risks are inherent business risks to be borne by the purchaser of a business. It did not directly infer any loopholes in internal control and management system of the Group;
- (iv) the former financial controller of the Subject Group Companies (the “**Former Subsidiary Financial Controller**”), who was appointed by the Group, failed to report the abnormalities in the operations of the Subject Group Companies that he discovered to his superiors or the Group in a timely manner and failed to take appropriate countermeasures within the scope of his authority to avoid the occurrence of Irregularities, which delayed the Group’s response to the Irregularities. The possibility of the Former Subsidiary Financial Controller’s own participation in some of the illegal and irregular matters in this Irregularities cannot be ruled out;

- (v) the Group's failure to timely detect the change of legal representative, executive director and general manager of Yantai Liheng created certain hurdles on the Group's remedial action; and
- (vi) no abnormalities were found in the financial data of the Subject Group Companies for the three financial years ended 31 December 2023 in relation to the Irregularities.

### **KEY LIMITATIONS OF THE INDEPENDENT INVESTIGATION**

Since certain records and documents of the Subject Group Companies were allegedly confiscated by the local tax authority, the Investigator could not obtain some of the contemporaneous records and documents it requested and considered material. The Investigator had alternatively performed, including but not limited to, computer forensics work with additional keywords and attempted more interviews with relevant personnel.

As at the date of the Investigation Report, given that certain key personnel of the Subject Group Companies were no longer employed by the Group, the Investigator was unable to obtain positive responses from the key personnel of the Subject Group Companies, including Mr. Li and the Former Subsidiary Financial Controller to conduct complete interviews involved in the Irregularities despite of various interview invitations from the Investigator.

### **OPINION OF THE AUDIT COMMITTEE**

The Audit Committee has reviewed the Investigation Report (including the limitations of the Investigation). After due and detailed discussion, the Audit Committee is of the view that the content and findings in the Investigation Report are reasonable and acceptable. Accordingly, the Audit Committee has recommended that the Board adopts the findings of the Investigation.

Having considered the Investigation Report, the Audit Committee noted that the Irregularities began from July 2024, which were not related to and did not affect the Company or its subsidiaries (other than the Subject Group Companies). Therefore, the Irregularities did not affect the financial statements of the Subject Company prior to July 2024 or the financial statements of the Company or its subsidiaries (other than the Subject Group Companies). The Audit Committee is of the view that the Group should hold those involved in the Irregularities that harmed the interests of the Company accountable and recommend the Group to strengthen its risk control of the joint venture companies to avoid the reoccurrence of similar incidents.

### **OPINION OF THE BOARD**

The Board has reviewed the Investigation Report and considers that the Investigation Report has adequately addressed the issues raised by the Auditor in relation to the 2024 Audit. The Board has also reviewed the recommendations made by the Audit Committee and concurs with the view of the Audit Committee that the Irregularities began from July 2024, which were not related to and did not affect the Company or its subsidiaries (other than the Subject Group Companies). Therefore, the Irregularities did not affect the financial statements of the Subject Company prior to July 2024 or the financial statements of the Company or its subsidiaries (other than the Subject Group Companies). The Board also concurs with the Investigation Committee's observations that the Group's risk control of the joint venture companies should be strengthened to avoid the reoccurrence of similar incidents.

The Board has resolved to adopt forthwith the findings of the Investigation and the other recommendations of the Audit Committee mentioned above and is of the view that the issues identified in the Investigation Report do not affect the business operation of the Group. The Group's business operation continues as usual despite the suspension of trading of Shares since 1 April 2025.

### **REMEDIAL ACTIONS TAKEN BY THE BOARD**

In order to enhance the monitoring of the joint venture companies of the Group, particularly in respect of intra-group loans and enable early detection of any potential repayment shortfall, the Company has imposed the following new risk management and internal control policies:

- the Group finance department is responsible for overall monitoring of all intra-group loans,
- negotiation of repayment or renewal of intra-group loans shall commence at least six months prior to the end of the loan term for intra-group loans with a term of one year or more or when less than half of the loan term is left for intra-group loans with a term less than one year;
- perform regular reconciliation of intra-group balances on a monthly basis;
- subsidiaries of the Company are required to provide more supporting documents and detailed description of the use of proceeds when applying for intra-group loan;
- when renewing intra-group loans, more detailed cashflow forecast, explanation of renewal, description of use of proceeds and repayment schedule shall be provided to the Group finance department to review;
- intra-group loan can only be renewed for a maximum of three times;
- certain portion of the intra-group loan shall be repaid during the next financial year every time an intra-group loan is renewed; and
- the Group finance department will conduct regular site visits and internal audit of the financial books and records of each subsidiary of the Company to ensure the accuracy of the financial statements of each subsidiaries.

As disclosed in the announcement of the Company dated 3 March 2025, after having taken into account the applicable requirements under the International Financial Reporting Standards in relation to the 2024 Annual Results, the Board considers that the Subject Group Companies shall be deconsolidated from the Group with effect from 1 September 2024.

Further, the Investigator has filed complaints to the Banks and the National Financial Regulatory Administration Yantai Branch on behalf of the Company on the Bank's failure to conduct proper procedures in approving the Suspicious Loans. The Investigator also reported the False Filing and the fraudulent nature of the Forged Document to the Yantai Branch of the Administration of Market Regulation of the PRC and requested the Forged Documents to be removed from public record and the declare the Forged Document invalid. As of the date of this announcement, the Company has not received any decision from the local tax authority about the alleged tax audit against the Yantai Liheng, which should have been handed down by April 2025 if there was a genuine tax audit pursuant to the relevant tax rules and regulations of the PRC, as advised by the PRC legal adviser of the Company.

A new greater china manager and a new investment department manager of the Group have been newly appointed in May 2025. The Company reserves its right to commence legal proceedings in the PRC against Mr. Li to sue for damages suffered by the Group as a result of the Irregularities and to seek further legal advice on whether other staff of the Subject Group Companies who is or are believed to have assisted Mr. Li in the Irregularities, including the Former Subsidiary Financial Controller will also be liable.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, the trading in the Shares of the Company on the Stock Exchange has been suspended from 9:00 a.m. on 1 April 2025 and will remain suspended until further notice.

The Company will make further announcement(s) to keep its shareholders and potential investors informed of any progress on the resumption of trading as and when appropriate.

**Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

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

Hong Kong, 9 June 2025

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

*Executive Directors:*

Mr. Tu Jianhua  
Mr. Qin Yongming (*Chairman*)  
Mr. Yao Jietian  
Mr. Liu Yongxin

*Independent Non-Executive Directors:*

Prof. Li Zhiguo  
Mr. Szeto Yuk Ting  
Ms. Leung Pui Yee