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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chiho Environmental Group Limited, you should at once hand this circular, together with the accompanying form of proxy to the purchaser or the transferee, or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**(1) CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE
SUPPLEMENTAL AGREEMENT TO THE SALES FRAMEWORK AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser
to the Independent Board Committee and the independent Shareholders**



建泉融資有限公司
VBG Capital Limited

A letter from the Board is set out on pages 5 to 19 of this circular. A letter from the Independent Board Committee containing its recommendation to the independent Shareholders is set out on pages 20 to 21 of this circular.

A notice convening the EGM to be held at 23/F., Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong on Friday, 31 July 2020 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use in connection with the EGM is enclosed herewith and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chihogroup.com). Whether or not you intend to attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM (i.e. not later than 11:00 a.m. on Wednesday, 29 July 2020 or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

References to time and dates in this circular are to Hong Kong time and dates.

10 July 2020

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Announcements”	the announcements of the Company dated 22 January 2020 and 17 February 2020
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“business day(s)”	a day (other than Saturdays, Sundays and public holidays) on which licensed banks in Hong Kong are generally open for business
“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(s)”	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

DEFINITIONS

“Independent Financial Adviser” or “VBG Capital”	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 SFO, 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
“Latest Practicable Date”	8 July 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“Loncin International”	Loncin International Limited (隆鑫國際有限公司), a company incorporated in Hong Kong with limited liability
“Market Price”	means such price(s) that: <ol 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; or(2) independent third parties may obtain from other independent third parties in the relevant market in respect of the same or similar Products; or(3) as determined with reference to industry standards or practice for the same or similar Products in the relevant market
“Mr. Tu”	Mr. Tu Jianhua, an executive Director and a controlling Shareholder

DEFINITIONS

“New Annual Caps”	the proposed 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 circular
“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the 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 on 17 June 2020

DEFINITIONS

“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 circular
“US\$”	US dollars, the lawful currency of the United States of America
“%”	per cent

In case of any discrepancy between the English version and the Chinese version of this circular, the English version shall prevail.

** For identification purposes only*

LETTER FROM THE BOARD



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)

Executive Directors

Mr. Qin Yongming (*Chairman*)

Mr. Tu Jianhua

Mr. Rafael Heinrich Suchan

(Chief Executive Officer)

Mr. Martin Simon (*Chief Financial Officer*)

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

Independent Non-executive Directors

Dr. Loke Yu

Ms. Qian Liping

Mr. Ko Frankie Andrew

Principal Place of Business in

Hong Kong:

48 Wang Lok Street

Yuen Long Industrial Estate

Hong Kong

10 July 2020

To the Shareholders,

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE
SUPPLEMENTAL AGREEMENT TO THE SALES FRAMEWORK AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References are made to the announcements of the Company dated 22 January 2020 and 17 February 2020 in relation to the continuing connected transactions contemplated under the Sales Framework Agreement and the announcement of the Company dated 17 June 2020 in relation to the Supplemental Agreement.

LETTER FROM THE BOARD

Pursuant to the requirements under the Listing Rules, the Company will seek the independent Shareholders' approval in relation to the transactions contemplated under the Supplemental Agreement and the proposed New Annual Caps at the EGM.

The purposes of this circular are to provide you with (i) a letter from the Board containing further details of the Supplemental Agreement; (ii) a letter from the Independent Board Committee to the independent Shareholders giving its recommendations in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders containing its advice in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps; (iv) a notice of the EGM; and (v) other information as required under the Listing Rules.

THE SALES FRAMEWORK AGREEMENT AS AMENDED BY THE SUPPLEMENTAL 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, including but not limited to non-ferrous metal, to Loncin International in accordance with the terms and conditions of 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.

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 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. The purpose of this circular is to provide you with detailed information about the Supplemental Agreement.

LETTER FROM THE BOARD

Principal Terms of the Sales Framework Agreement as Amended by the Supplemental Agreement

The principal terms of the Sales Framework Agreement as amended by the Supplemental Agreement are set out below:

Date

22 January 2020 (as amended by the Supplemental Agreement dated 17 June 2020)

Parties

- (i) the Company; and
- (ii) Loncin International

Term

The term shall be from 22 January 2020 to 31 December 2022.

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:

- (i) the government-prescribed price; or
- (ii) if there is no applicable government-prescribed price, the Market Price.

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 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”);

LETTER FROM THE BOARD

- (iii) the Market Prices 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 customers of Loncin International, 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 above factors including but not limited to the Market Prices of the metal constituents on the LME and COMEX as a basis. The Market Prices 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 Group has historically been mostly supplying the Products to Loncin International in China and the Group is not aware of any governmental regulations that is currently applicable to the pricing of the sale of the Products in China. As such, the sale of the Products to Loncin International in China is generally based on Market Price.

Time 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).

LETTER FROM THE BOARD

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 Sales Framework Agreement (as amended by the Supplemental Agreement) so as to enable the Company to comply with its relevant obligations under the Listing Rules.

Condition Precedent

The Supplemental Agreement is conditional upon the Company having obtained the approval of the independent Shareholders at the EGM approving, among other things, the terms of the Supplemental Agreement and the proposed New Annual Caps.

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.

LETTER FROM THE BOARD

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:

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

Proposed New Annual Caps

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

Actual amount for the four months ended 30 April 2020 (US\$ million)	Existing annual cap for the year ending 31 December 2020 (US\$ million)	Proposed New Annual Cap for the year ending 31 December 2020 (US\$ million)	Proposed New Annual Cap for the year ending 31 December 2021 (US\$ million)	Proposed New Annual Cap for the year ending 31 December 2022 (US\$ million)
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

LETTER FROM THE BOARD

- (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 expected increase in demand and selling prices of the Products are based on the indication provided by Loncin International on its expected sale of the Products for each of the three years ending 31 December 2022 and the expected resumption of the global industrial production in the near future, respectively. The Company is informed by Loncin International that the indication provided is based generally on its historical sale amount of the Products for the year ended 31 December 2018. The historical transaction amount for 2018 was used instead of 2019 because Loncin International believes the figure in 2019 does not represent the sale of the Products during normal market conditions as the sale of the Products in 2019 was affected by the tightening of policies promulgated by the PRC government in relation to imported waste products as well as the US-China trade war. Amid the continuance of such tightening policies and the US-China trade war, Loncin International has diversified its customer base and expanded its sales to Asian customers located outside the PRC. As a result, it has been seeing a recovery of demand from its customers for the Products starting in March 2020. At the same time, some of its customers have adopted alternative measures to minimize the impacts of the trade war, such as setting up new plants in Southeast Asian countries outside of China to avoid the additional tariffs imposed on Chinese goods. As these new plants start to come into operation which coupled with the successful diversification of customer base and expansion of sales channels outside the PRC, Loncin International expects that its sale of the Products to its customers will start recovering by approximately one-third of the sale level in 2018 on a yearly basis and to the sale level in 2018 by the year 2022.

Further, as it is widely believed that governments around the world will endeavor to stimulate industrial activities to revive their economies after the COVID-19 pandemic, global industrial production is likely to be more vibrant, and thus the demand for metals and their market prices would increase. Indeed, positive market price development of certain key metals has already been seen since April 2020. For example, based on the price on LME, the prices of aluminum, copper and zinc increased from USD1,463.5 per tonne, USD4,772 per tonne and USD1,843 per tonne on 1 April 2020 to USD1,602 per tonne, USD6,038 per tonne and USD2,056.5 per tonne on 30 June 2020, respectively.

LETTER FROM THE BOARD

The proposed New Annual Cap for the year ending 31 December 2020 is based on the indication of the expected sale of the Products provided by Loncin International which has taken into account the sale of the Products for the four months ended 30 April 2020, the expected increase in demand and selling prices for the second half of 2020 taking into account the factors above and a buffer of approximately 5% adopted for any unforeseeable circumstances. As the annual cap of US\$3.8 million under the Sales Framework Agreement was already used up, the Group is unable to accept additional order from Loncin International since April 2020 pending the approval by the Shareholders' approval on the New Annual Caps. Accordingly, the proposed New Annual Cap for the year ending 31 December 2020 would be less than the actual demand for the Products by Loncin International for 2020, whose demand was also affected by the COVID-19 pandemic in the first quarter of 2020. Subject to obtaining the Shareholders' approval on the New Annual Caps, the Company and Loncin International expect that trading volume would restore to the normal level in 2021, together with the expected recovery in the market demand and improved market conditions as outlined above, the percentage increase in sale for 2021 (when compared to 2020) is expected to be greater than the percentage increase in sale for 2022 (when compared to 2021). For the proposed New Annual Caps for each of the year ending 31 December 2021 and 2022, they are based on the indication provided by Loncin International which included the expected steady increase of the sale of the Products by approximately one-third of the sale level in 2018 on a yearly basis as projected by Loncin International.

Having considered (i) the indication of the expected sale of the Products and the basis relied therein as mentioned above for each of the three years ending 31 December 2022 provided by Loncin International; (ii) the historical sale amount of the Products to Loncin International in 2018 and for the four months ended 30 April 2020; and (iii) the recent market recovery and positive price development since April 2020, the Directors are of the view that the indication of the expected sale of the Products provided by Loncin International is fair and reasonable and thus the proposed New Annual Caps, which are based on the indication of the expected sale of the Products provided by Loncin International, are also fair and reasonable.

The Board confirms that, as at the date of this circular, 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.

LETTER FROM THE BOARD

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 New Annual Caps are not exceeded, the Group will 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 Sales Framework Agreement (as amended by the Supplemental 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, among others, the LME and COMEX. The prices of the Products are subject to adjustment with reference to the above prices of the metal constituents as the prices of the metal constituents only represent the value of those pure metal constituents, instead of metal scraps. The adjustment is set primarily with reference to (i) the percentages of metal constituents within the Products; (ii) the purity of the Products; and (iii) the production costs of the customers of Loncin International and customs and freight charges. The authorised traders from the trading department of the Group are responsible for the negotiation of selling prices with customers directly. The head of the trading department of the Group is responsible for overseeing the pricing and profit margin. He/she will conduct sampling checks on sale transactions with extraneous pricing margin. The prices for the Products will not be lower than the prevailing Market Prices of similar products;

LETTER FROM THE BOARD

- (ii) 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 Sales Framework Agreement (as amended by the Supplemental Agreement) conform with the connected transaction management system of the Company, to ensure the pricing of the transactions under the Sales Framework Agreement (as supplemented by the Supplemental Agreement) are comparable to the pricing on sale of similar products to independent third parties, and also to 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 Sales Framework Agreement (as amended by the Supplemental Agreement);
- (iii) 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;
- (iv) the compliance department of the Company will closely monitor the transaction amounts in relation to the transactions under the Sales Framework Agreement (as amended by the Supplemental Agreement) to ensure that the proposed New Annual Caps are not exceeded;

LETTER FROM THE BOARD

- (v) 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 Sales Framework Agreement (as amended by the Supplemental Agreement);
- (vi) the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions under the Sales Framework Agreement (as amended by the Supplemental 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 Sales Framework Agreement (as amended by the Supplemental Agreement); and
- (vii) 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 Sales Framework Agreement (as amended by the Supplemental Agreement), the Directors are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the Sales Framework Agreement (as amended by the Supplemental Agreement) will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders as a whole.

LETTER FROM THE BOARD

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 (including the independent non-executive Directors after taking into account 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 (including the independent non-executive Directors after taking into account 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 circular, 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 circular, none of the Directors has a material interest in the transactions contemplated under the Supplemental Agreement.

LETTER FROM THE BOARD

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.

INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been established to advise the independent Shareholders in respect of the term of the Supplemental Agreement and the proposed New Annual Caps. In this connection, VBG Capital 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

The Company will convene the EGM to be held at 23/F., Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong on Friday, 31 July 2020 at 11:00 a.m. for the purpose of considering 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. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

USUM Investment, who is interested in 1,008,885,181 Shares which represented approximately 62.85% of the total issued Shares as at the Latest Practicable Date, 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.

LETTER FROM THE BOARD

A notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for appointing proxy is dispatched with this circular and published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chihogroup.com). Whether or not you intend to attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 11:00 a.m. on Wednesday, 29 July 2020) or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 28 July 2020 to Friday, 31 July 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the entitlement to attend and vote at the EGM, all duly completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 27 July 2020.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 20 to 21 of this circular which contains its recommendation to the independent Shareholders in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps; and (ii) the letter from the Independent Financial Adviser set out on pages 22 to 40 of this circular which contains its advice to the Independent Board Committee and the independent Shareholders in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps.

LETTER FROM THE BOARD

The Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) considers that the terms of 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 Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) also considers that the proposed New Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) recommends the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Supplemental Agreement and the transactions contemplated thereunder including the proposed New Annual Caps.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular:



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)

Independent Non-executive Directors:

Dr. Loke Yu

Ms. Qian Liping

Mr. Ko Frankie Andrew

10 July 2020

To the independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE SUPPLEMENTAL AGREEMENT TO THE SALES FRAMEWORK AGREEMENT

We refer to the circular of the Company dated 10 July 2020 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed as members of the Independent Board Committee to advise the independent Shareholders in respect of the terms of the Supplemental Agreement and the proposed New Annual Caps, details of which are set out in the “Letter from the Board” to the Circular, of which this letter forms a part.

We have reviewed the terms of the Supplemental Agreement and also taken into account the advice of the Independent Financial Adviser in relation thereto as set out on pages 22 to 40 of the Circular. We consider that the terms of the Supplemental Agreement and the proposed New Annual Caps 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the transactions contemplated under the Supplemental Agreement and the proposed New Annual Caps.

Yours faithfully,

Independent Board Committee

Dr. Loke Yu

*Independent non-executive
Director*

Ms. Qian Liping

*Independent non-executive
Director*

Mr. Ko Frankie Andrew

*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders in respect of the Supplemental Agreement and the proposed New Annual Caps for the purpose of inclusion in this circular.



建泉融資有限公司
VBG Capital Limited

18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

10 July 2020

*To: The independent board committee and the independent shareholders
of Chiho Environmental Group Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE SUPPLEMENTAL AGREEMENT TO THE SALES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in respect of the Supplemental Agreement and the proposed New Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 10 July 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

References are made to the Announcements. Pursuant to the Sales Framework Agreement, the Group shall supply certain Products to Loncin International, including but not limited to nonferrous metal, during the period from 22 January 2020 to 31 December 2020, and the annual cap for the relevant transactions for the year ending 31 December 2020 was US\$3.8 million. On 17 June 2020, the Company and Loncin International entered into the Supplemental Agreement to, among other things, extend the term of the Sales Framework Agreement for an additional two years to 31 December 2022 and revise the annual cap for the relevant transactions for the year ending 31 December 2020 and set the annual caps for the relevant transactions for the years ending 31 December 2021 and 2022. The proposed New Annual Caps are US\$18.8 million, US\$35 million and US\$50 million, respectively, for each of the three years ending 31 December 2020, 2021 and 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Letter from the Board, the transactions contemplated under the Supplemental Agreement constitute non-exempt continuing connected transactions for the Company, and are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Dr. Loke Yu, Ms. Qian Liping and Mr. Ko Frankie Andrew (all being the independent non-executive Directors) has been established to advise the independent Shareholders on (i) whether the terms of the Supplemental Agreement and the proposed New Annual Caps are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned; (ii) whether the transactions contemplated under the Supplemental Agreement are in the interests of the Company and the Shareholders as a whole; and (iii) how the independent Shareholders should vote in respect of the resolution(s) to approve the Supplemental Agreement at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries (as defined in the Listing Rules) or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Supplemental Agreement and the proposed New Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Supplemental Agreement and the proposed New Annual Caps, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Loncin Holdings, Loncin Group, Loncin International, USUM Investment, Mr. Tu or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Supplemental Agreement and the proposed New Annual Caps. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to consider events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Shareholders should note that as the proposed New Annual Caps under the Supplemental Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenues or costs to be recorded from the Supplemental Agreement. Consequently, we express no opinion as to how closely the actual revenue and cost to be incurred under the Sales Framework Agreement (as supplemented by the Supplemental Agreement) will correspond with the proposed New Annual Caps.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources but we did not conduct any independent investigation into the accuracy and completeness of such information.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Supplemental Agreement and the proposed New Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Background of the Supplemental Agreement

Business overview of the Group

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 of scrap metal collection. According to the Company's annual report for the year ended 31 December 2019 (the "**2019 Annual Report**"), the Group is one of the largest metal recyclers globally, and the only listed metal recycling corporation with major operation bases situated across three continents (Asia, Europe and North America). The key information on the Group's worldwide operating bases is as follows:

Country	Operation
The PRC	Taizhou production site:
	<ul style="list-style-type: none">Engages in aluminium ingot and copper rod foundry business, and a major metal importer and domestic metal trader
	Yantai production sites:
	<ul style="list-style-type: none">Metal recycling operation: mainly engaged in domestic metal tradingWaste-lubricant oil recycling operation: purification, distillation and addition of lubricant additives to produce lubricant base oil for lubricant oil production plants

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Country	Operation
Germany	<ul style="list-style-type: none">• Operates 80 yards, covering south-west, central and eastern Germany• Covering full scope of collection, sorting and processing with all types of equipment including the most advanced post-shredder material recovery technology• Technical equipment: Shredder: 5; Shears: >15; Employees: >1,400
Romania	<ul style="list-style-type: none">• Operates 38 yards, covering the heavily populated and well industrialised areas in Romania• Market attractive due to strong supply from industry as well as presence of old scrap• Proximity to Turkey enables significant scrap exports• High non-metals share of sales (including significant portion of wood, paper and plastics)• Technical equipment: Shredder: 2; Shears: 6; Employees: >600
Czech Republic	<ul style="list-style-type: none">• Operates 61 yards mainly situated in northern Bohemia and Prague area• A very strong market share in ferrous market (covering both old scrap and new scrap market)• Business model is comparable with Germany with a dense yard network including a large number of feeder yards and several processing yards• Technical equipment: Shredder: 2; Shears: 6; Employees: >370

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Country	Operation
Slovenia	<ul style="list-style-type: none">• Operates 18 yards, with strong nonferrous operations• Well equipped with yard network, transportation assets and processing capabilities to cover all suppliers (industry and old scrap)• Technical equipment: Shredder: 1; Shears: 3; Employees: >290
Austria	<ul style="list-style-type: none">• Operates 16 yards• Market leader for ferrous scrap trading in Austria• Strong track record in project business (e.g. power plant dismantling)• Technical equipment: Shredder: 2; Shears: 5; Employees: >300
Poland	<ul style="list-style-type: none">• Operates 5 yards, covering central and southern Poland, the most industrialised and scrap rich areas• Operations covering full scope of collection, sorting and processing with all types of equipment• Technical equipment: Shears: 2; Employees: >130
Denmark	<ul style="list-style-type: none">• Operates 4 yards• Business model with feeder and production yards• Potential in non-metals and efficient production• Technical equipment: Shears: 2; Employees: >35

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Country	Operation
The United States of America	<ul style="list-style-type: none">• Operates 7 yards• Business model includes brokerage and yard business (including feeder yards)• Supplier base with robust market position in selected areas• Technical equipment: Shredder: 3; Shears: 1; Employees: >240
Mexico	<ul style="list-style-type: none">• Operates 15 yards• Strong presence in northern part of Mexico, with strong industrial supplier base• Strong supply from industrial accounts made operations more robust than peers in North-America• Technical equipment: Shredder: 2; Shears: 2; Employees: >300

As further advised by the Directors, following the Group's business strategy amid the tightening of policies promulgated by the PRC government in relation to imported waste products in recent years (for details, please refer to the section headed "The New Annual Caps" of this letter of advice), the existing scrap metal dismantling business, such as imported scrap motors and cable scrap, operated by the Group's plant in Taizhou, the PRC has been gradually relocated to Southeast Asian countries and other countries in the "Belt and Road" initiative. In particular, the joint venture between the Group and Heng Hup Group (a leading scrap ferrous metal trader in Malaysia) commenced production in the first half of 2019, primarily engaging in the dismantling of scrap motors and other mixed scrap metal. The scrap steel and scrap aluminum produced are mostly sold to the local markets in Malaysia; whereas the copper scrap produced is mainly exported to the PRC. This joint venture is currently increasing its production.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Another joint venture formed by the Group and Century Metal Recycling Group (India's largest producer of aluminum and zinc die-casting alloys) also commenced production in November 2019. This joint venture is mainly engaged in the dismantling of scrap motors and other mixed scrap metal, and the recycled metals produced is currently sold locally. This joint venture is currently ramping up its production. In addition, a cooperation agreement was signed in November 2019 among the Group, Hidaka Yookoo Enterprises Co. Limited (the largest scrap steel and iron recycler in Thailand) and Suzuki Shokai Co. Limited (a leading resource recycling company in Japan and the Group's long-term business partner) to establish a joint venture for the metal recycling business in Thailand in 2020, focusing on the dismantling of scrap motors. This project is currently under preparation.

Information on Loncin International

As extracted from the Letter from the Board, Loncin International is a company incorporated in Hong Kong and is principally engaged in the business of scrap metal trading. Upon our further enquiry with the Directors, we understand that Loncin International is a well-recognised scrap metal trader and its customer base covers various Asian countries, for example the PRC, Malaysia, Thailand and Taiwan.

In addition, Loncin International is a wholly-owned subsidiary of Loncin Holdings, which is owned as to 98% by Loncin Group. Based on the independent research we conducted for our due diligence purpose, Loncin Group is the major shareholder of four listed companies, namely Loncin Motor Co., Ltd. (SH603766), Shanghai Fenghua Group Co., Ltd. (SH600615), Hanhua Financial Holding Co., Ltd. (HK03903) and the Company. It is also the shareholder of Chongqing Rural Commercial Bank Co., Ltd. (HK03618). Accordingly, the fields that Loncin Group operates in include manufacture, environmental protection and renewable resources utilisation, auto trade, investment and financing, etc. As of 2019, Loncin Group had nearly 30,000 employees, including around 5,000 overseas employees and it has been awarded the "Top 500 Enterprises in China" for 18 consecutive years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Reasons for and possible benefits of the Supplemental Agreement

As advised by the Directors, the Company has been providing the Products to Loncin International for many years and has established strong and long-standing business relationship with Loncin International. Back in 2017, the Company had entered into the Previous Sales Framework Agreement with Loncin International with respect to the supply of nonferrous metal and other products by member(s) of the Group to Loncin International during the period from 11 January 2017 to 31 December 2019. On 22 January 2020, the two parties entered into the Sales Framework Agreement to extend the term of the relevant transactions from 22 January 2020 to 31 December 2020. The Directors consider that the Previous Sales Framework Agreement as well as the Sales Framework Agreement have 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 utilise for the future growth of the Group. The Directors believe that it is in the interest of the Group to extend the term of the Sales Framework Agreement and increase the annual cap for the relevant transactions for the year ending 31 December 2020 and set the annual caps for the two years ending 31 December 2022.

In light of (i) the aforesaid reasons for and possible benefits of the Supplemental Agreement as represented by the Directors together with (ii) the solid background of Loncin International and Loncin Group (being the ultimate holding company of Loncin International), we concur with the Directors that the Supplemental Agreement is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Sales Framework Agreement (as supplemented by the Supplemental Agreement)

A summary of the principal terms of the Sales Framework Agreement (as supplemented by the Supplemental Agreement) is set out below:

Parties:	(1) The Company as supplier (2) Loncin International as purchaser
Term:	From 22 January 2020 to 31 December 2022.
Nature of transaction:	Relevant member(s) of the Group will supply certain Products to Loncin International, including but not limited to nonferrous metal.
Pricing mechanism:	The price at which the Group will supply the Products to Loncin International will be determined based on: (i) the government-prescribed price; or (ii) if there is no applicable government-prescribed price, the Market Price.
Time 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(s) of the Group shall arrange delivery of the Products within two months to one year upon signing of an agreement for supply of the Products by the parties; (ii) upon arrangement of delivery and provision of completed shipping documents by the relevant member(s) of the Group, Loncin International shall pay the full amount of the purchase price of the Products to the relevant member(s) of the Group; and (iii) upon receipt of the purchase price in full from Loncin International, the relevant member(s) of the Group will ship the Products to the port requested by Loncin International (which may take up to 30 to 50 days).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Supplemental Agreement, pricing of the Products will be determined based on (i) the government-prescribed price; or (ii) if there is no applicable government-prescribed price, the Market Price, which shall mean such price(s) that: (a) the party supplying the Products provides to independent third parties in the relevant market in respect of the same or similar Products; (b) independent third parties may obtain from other independent third parties in the relevant market in respect of the same or similar Products; or (c) as determined with reference to industry standards or practice for the same or similar Products in the relevant market. As advised by the Directors, nonferrous metal scrap is not a standardised 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 Price of the metal constituents on the London Metal Exchange (“**LME**”) or Commodity Exchange (“**COMEX**”);
- (iii) the Market Price of the metal constituents on the Shanghai Futures Exchange, Changjiang Nonferrous Metals Industry Portal and/or Lintong Information Provider; and
- (iv) the production costs of the customer of Loncin International, customs and freight charges, and presence of impurities in the Products.

To sum up, the price of the Products to be supplied by the relevant 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, which can be found on their respective websites, as a basis, and there are real time updates on such prices. As also advised by the Directors, historically, the Group was supplying the Products to Loncin International whose customers were based in the PRC. The Group was not aware of any governmental regulation that was applicable to the pricing of the Products in the PRC. Accordingly, the sales of the Products to Loncin International under the Previous Sales Framework Agreement as well as the Sales Framework Agreement have been based on the Market Price. However, going forward, the Group shall supply the Products to Loncin International whose customers may be located in Southeast Asian countries or other overseas markets which may have governmental regulations regulating the pricing of the Products. As such, the Group has included government-prescribed price, where applicable, as one of the factors when determining its pricing mechanism for the sales of the Products under the Supplemental Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the Directors regarding the aforesaid pricing mechanism and are of the view that the use of the Market Price of the metal constituents on the LME and COMEX, which is available on their respective websites, as a basis to determine the price of the Products is fair and reasonable. Furthermore, we have requested and reviewed (i) the historical sales contracts/invoices of the Products between the Group and Loncin International; and (ii) the historical sales contracts/invoices of similar Products between the Group and other independent third party purchasers. Based on those historical sales contracts/invoices, we noted that their major terms (such as payment and delivery terms) were largely comparable. As regards to pricing, we have further reviewed (iii) the historical sales contracts/invoices of the Products between Loncin International and its customers; and we noted that prices of similar Products under sales contracts/invoices (ii) and (iii) above were also largely comparable.

In view of the foregoing, we concur with the Directors that the terms of the Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned.

The New Annual Caps

The following table illustrates (i) the historical transaction amounts under the Previous Sales Framework Agreement and the Sales Framework Agreement (as the case may be); and (ii) the proposed New Annual Caps for the transactions contemplated under the Supplemental Agreement:

	Historical transaction amounts				The New Annual Caps		
	2017	2018	2019	For the four months ended 30 April 2020	2020	2021	2022
Total (US\$ million)	80.9	52.0	15.4	3.8	18.8	35	50

As aforementioned, back in 2017, the Company had entered into the Previous Sales Framework Agreement with Loncin International with respect to the supply of nonferrous metal and other products by member(s) of the Group to Loncin International during the period from 11 January 2017 to 31 December 2019. Under the Previous Sales Framework Agreement, the historical transaction amounts were approximately US\$80.9 million, US\$52.0 million and US\$15.4 million, respectively, for each of the three years ended 31 December 2017, 2018 and 2019. As such, there had been a substantial reduction in the historical transaction amounts under the Previous Sales Framework Agreement. We have enquired into the Directors about the reasons for such substantial reductions, and the Directors advised us that the reduction from 2017 to 2018 was mainly due to the tightening of policies promulgated by the PRC government in relation to imported waste products in recent years; whilst the further reduction from 2018 to 2019 was mainly due to the said tightening of government policies echoed with the trade war between the PRC and the United States of America (the “**Trade War**”), and plummet of the market prices of metals from 2018 to 2019.

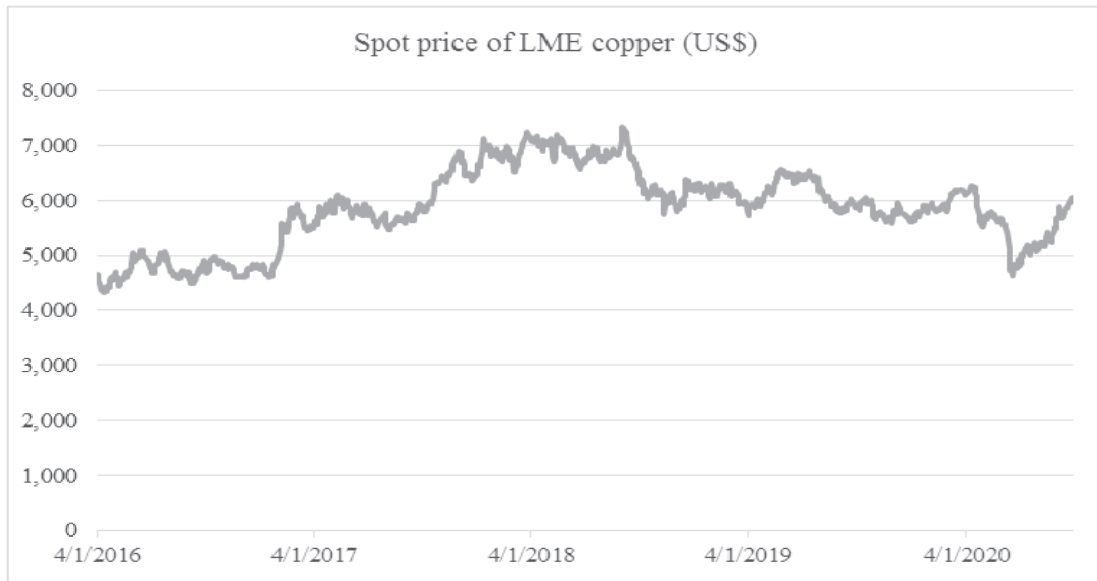
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have conducted independent research regarding the aforesaid two reasons. For the first reason, we notice that for the purpose of further regulating the administration of importation of solid waste and prevent environment pollution, the PRC government announced on 13 April 2018 that it shall make the following adjustment to the Catalogue of Solid Waste Used as Raw Materials under Restricted Import, the Catalogue of Solid Waste Used as Raw Materials under Non-Restricted Import, and the Catalogue of Banned Import Solid Waste: (1) 16 types of solid waste, including metal scraps, scrap vessels, compressed piece of scrap automobile, smelt slag, and industrial waste and scrap of plastics, listed in the Catalogue of Solid Waste Used as Raw Materials under Restricted Import shall be moved to and included in the Catalogue of Banned Import Solid Waste, effective as of 31 December 2018; and (2) 16 types of solid waste, including waste and scrap of stainless steel, titanium wastes and scraps, and wood waste and scrap, listed in the Catalogue of Solid Waste Used as Raw Materials under Restricted Import or the Catalogue of Solid Waste Used as Raw Materials under Non-Restricted Import, shall be moved to and included in the Catalogue of Banned Import Solid Waste, effective as of 31 December 2019. Given the said tightening of government policies echoed with the Trade War in 2019, Loncin International had been placing less purchase orders for the Products with the Group for sales to its customers located in the PRC.

As for reason (ii) plummet of the market prices of metals from 2018 to 2019, please refer to the charts below that illustrate the market price movement of several key metals, being aluminum, copper and zinc, from 2016 up to June 2020:



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that the demand for metals are largely triggered by industrial production, their market prices depend primarily on the level of global industrial production during the relevant time, rather than merely following any trend of previous market price movement. From our independent research, we noted that the global economies and industrial production experienced a better than expected advancement during 2017. Consequently, the average market prices of aluminum, copper and zinc rose by approximately 23%, 27% and 38%, respectively, in 2017 as compared to the prior year. After the rapid growth in 2017, global industrial production began to set back in 2018. The slowdown of global industrial production intensified and levelled off during 2019, leading to a substantial reduction in the average market prices of aluminum, copper and zinc of approximately 15%, 8% and 13%, respectively, in 2019 as compared to the prior year. The industry environment remained relatively gloomy during the first quarter of 2020 owing to the outbreak of COVID-19 pandemic. Nevertheless, the gradual resumption of global industrial production in recent months has begun to lead to positive market price movement of the aforesaid key metals.

Under the Sales Framework Agreement, the proposed annual cap for the supply of Products by relevant member(s) of the Group to Loncin International was set at US\$3.8 million for the year ended 31 December 2020 in view of the then relatively gloomy industry environment. However, based on our discussion with the Directors, we understand that due to the gradual resumption of global industrial production in recent months after the outbreak of COVID-19 pandemic, demand for the Products from Loncin International has expanded. In order to keep the relevant transaction amount between the Group and Loncin International within the original annual cap of US\$3.8 million, the Group has in fact rejected some of the bulk purchase orders from Loncin International. In light of the expanded demand for the Products from Loncin International, the Company further negotiated with the management of Loncin International in respect of the New Annual Caps. During the negotiations, the Company was informed that Loncin International shall be placing more orders for the Products with the Group in the coming future to cope with its expected business expansion. As represented by the management of Loncin International, recently, Loncin International has been actively diversifying its customer base and expanding its sales channels, especially to Asian customers located outside the PRC, to boost sales and as part of its business plan to mitigate the impact of the tightening of policies promulgated by the PRC government in relation to imported waste products. At the same time, some of its customers have adopted alternative measures to minimise the impact of the Trade War, such as setting up new plants in Southeast Asian countries outside of the PRC to avoid the additional tariffs imposed on Chinese goods.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In relation to the expected increase in demand for the Products from Loncin International, we have requested and obtained the relevant purchase indication the Company received from Loncin International for the three years ending 31 December 2022. We noted from the said purchase indication that Loncin International expects that sales of the Products to its customers will start recovering by around one-third of the sales level of 2018 on a yearly basis and attain the sales level of 2018 by 2022.

On top of the expected increase in demand for the Products from Loncin International, the New Annual Caps have also taken into account the expected increase in metal prices in the future. The Directors advised us that as it is widely believed that governments over the world will endeavor to stimulate industrial activities to revive their economies after the COVID-19 pandemic, global industrial production is likely to be more vibrant, and thus the demand for metals and their market prices would increase. As a matter of fact, the gradual resumption of global industrial production in recent months has begun to lead to positive market price movement of certain key metals. Besides, as aforementioned, the average market prices of aluminum, copper and zinc had risen significantly by approximately 23%, 27% and 38%, respectively, in 2017, during which the global economies and industrial production experienced a better than expected advancement. Hence, the Company expects that metal prices will increase by around 20% in the near future and we are of the opinion that such expectation is justifiable.

In conclusion, the proposed New Annual Cap for 2020 is primarily based on the purchase indication the Company received from Loncin International indicating an increase in demand for the Products, having also taken into account the actual transaction amount of the Products for the four months ended 30 April 2020 and the expected increase in metal prices during the second half of 2020. Nonetheless, since (i) the global industrial production has been severely affected by the outbreak of COVID-19 pandemic during the first quarter of 2020 and the demand for the Products from Loncin International has only started to expand thereafter; and (ii) the Group's sales to Loncin International in the first half of 2020 have been limited by the original annual cap of US\$3.8 million, the Company considers that the New Annual Cap for 2020 (which indeed will have less than half a year to take effect) would be less than the actual annual demand for the Products from Loncin International. As for the proposed New Annual Caps for 2021 and 2022, they are determined with reference to the purchase indication provided by Loncin International based on its expectation that sales of the Products to its customers will start recovering by around one-third of the sales level of 2018 on a yearly basis and attain the sales level of 2018 by 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account:

- (i) the actual transaction amount of the Products under the Sales Framework Agreement already represents approximately 20% of the proposed New Annual Cap for 2020;
- (ii) the purchase indication and expected increase in demand for the Products from Loncin International to cope with its expected business expansion;
- (iii) the expected increase in market prices of metals in the near future which is justifiable in view of the growth rates of metal prices in 2017 and the positive market price movement of metals in recent months owing to the gradual resumption of global industrial production after the COVID-19 pandemic;
- (iv) the proposed New Annual Caps are reasonable as compared to the historical transaction amounts of the Products under the Previous Sales Framework Agreement;
- (v) notwithstanding that the proposed New Annual Cap of US\$35 million for 2021 represents a considerable increase of around 86% as compared to the proposed New Annual Cap of US\$18.8 million for 2020, the proposed New Annual Cap for 2020 (which indeed will have less than half a year to take effect) would be less than the actual annual demand for the Products from Loncin International;
- (vi) the increase in the proposed New Annual Cap of US\$50 million for 2022 of around 43% as compared to the proposed New Annual Cap of US\$35 million for 2021 is reasonable in light of the purchase indication provided by Loncin International based on its expectation that sales of the Products to its customers will start recovering by around one-third of the sales level of 2018 on a yearly basis and attain the sales level of 2018 by 2022;
- (vii) based on our review of the 2019 Annual Report, the maximum New Annual Cap of US\$50 million (equivalent to approximately HK\$390 million using the exchange rate of US\$1: HK\$7.8) for 2022 represents merely 2.5% of the Group's total revenue in 2019; and
- (viii) the scale of the Group's worldwide operation bases as illustrated under the subsection headed "Business overview of the Group" of this letter of advice, and that the maximum New Annual Cap of US\$50 million (equivalent to approximately HK\$390 million using the exchange rate of US\$1: HK\$7.8) for 2022 represents around 25% of the Group's total inventories as at 31 December 2019 based on our review of the 2019 Annual Report,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

we are of the view the proposed New Annual Caps are fair and reasonable so far as the independent Shareholders are concerned.

3. Internal control and compliance with the Listing Rules

According to the Letter from the Board, the Group has adopted various internal control policies to supervise the transactions contemplated under the Sales Framework Agreement (as supplemented by the Supplemental Agreement).

Furthermore, the Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the Sales Framework Agreement (as supplemented by the Supplemental Agreement) must be restricted by the respective proposed annual caps for the three years ending 31 December 2022; (ii) the terms of the Sales Framework Agreement (as supplemented by the Supplemental Agreement) (together with the proposed New Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Sales Framework Agreement (as supplemented by the Supplemental Agreement) (together with the proposed New Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Sales Framework Agreement (as supplemented by the Supplemental Agreement) are carried out in accordance with the pricing policies of the Company, and the proposed New Annual Caps are not being exceeded. In the event that the total amounts of the transactions contemplated under the Sales Framework Agreement (as supplemented by the Supplemental Agreement) exceed the proposed New Annual Caps, or that there is any material amendment to the terms of the Sales Framework Agreement (as supplemented by the Supplemental Agreement) (together with the proposed New Annual Caps), the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

With the internal control policies of the Group as well as the stipulated requirements for continuing connected transaction of the Listing Rules in place, the transactions contemplated under the Sales Framework Agreement (as supplemented by the Supplemental Agreement) would be monitored and hence the interest of the independent Shareholders may be safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Supplemental Agreement and the proposed New Annual Caps are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned; and (ii) the transactions contemplated under the Supplemental Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Supplemental Agreement and we recommend the independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Deputy Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 15 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at Latest Practicable Date, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules, were as follows:

Name of Director	Capacity/ nature of interest	Total number of Shares interested (L) (Note 1)	Approximate percentage of shareholding in the Company (Note 2)
Mr. Tu	Interest in controlled corporations	1,008,885,181 (Note 3)	62.85%
Dr. Loke Yu	Beneficial owner	730,000	0.05%

Notes:

1. The letter “L” denotes the person’s long position in the shares.
2. As at the Latest Practicable Date, the total number of issued Shares was 1,605,152,291 Shares.

3. The 1,008,885,181 Shares were held by USUM Investment, a company in which Mr. Tu was indirectly interested. USUM Investment is directly wholly owned by USUM Investment Group Limited* (“**USUM Group**”), a limited liability company incorporated in the PRC. The single largest shareholder of USUM Group is Loncin Holdings, with an equity interest in USUM Group of approximately 53.29%. The remaining equity interests in USUM Group are held by 13 individuals and 27 companies, all of whom are independent third parties of Loncin Holdings and Mr. Tu, and they each hold between 0.29% to 10% equity interests in USUM Group. Loncin Holdings is 98% owned by Loncin Group and 2% owned by Mr. Tu. Loncin Group is 98% owned by Mr. Tu; 1% owned by Ms. Tu Jianmin and 1% owned by Ms. Tu Jianrong, both being sisters of Mr. Tu. USUM Investment held 1,008,885,181 Shares as at the Latest Practicable Date. Therefore, Mr. Tu was deemed to be interested in the Shares held by USUM Investment pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders’ Interests and Short Positions in Shares and Underlying Shares and Securities of the Company

As at Latest Practicable Date, to the best knowledge of the Directors, the interests and short positions of the persons, other than the Directors and chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Capacity/ nature of interest	Total number of Shares interested (L) (Note 1)	Approximate percentage of shareholding in the Company (Note 2)
USUM Investment	Beneficial owner	1,008,885,181 (Note 3)	62.85%
USUM Group	Interest in controlled corporations	1,008,885,181 (Note 3)	62.85%

Name of Shareholder	Capacity/ nature of interest	Total number of Shares interested (L) (Note 1)	Approximate percentage of shareholding in the Company (Note 2)
Loncin Holdings	Interest in controlled corporations	1,008,885,181 (Note 3)	62.85%
Loncin Group	Interest in controlled corporations	1,008,885,181 (Note 3)	62.85%
Mr. Zhang Mingjie (“ Mr. Zhang ”)	Interest in controlled corporations	143,473,990 (Notes 4&5)	8.94%
Tai Security Holding Limited (“ Tai Security ”)	Beneficial owner	98,773,990 (Note 4)	6.15%
Good Union Hong Kong Investment Limited (“ Good Union ”)	Beneficial owner	44,700,000 (Note 5)	2.78%

Notes:

1. The letter “L” denotes the person’s long position in the shares.
2. As at the Latest Practicable Date, the total number of issued Shares was 1,605,152,291 Shares.
3. The 1,008,885,181 Shares were held by USUM Investment, a company in which Mr. Tu was indirectly interested. USUM Investment is directly wholly owned by USUM Group. The single largest shareholder of USUM Group is Loncin Holdings, with an equity interest in USUM Group of approximately 53.29%. The remaining equity interests in USUM Group are held by 13 individuals and 27 companies, all of whom are independent third parties of Loncin Holdings and Mr. Tu, and they each hold between 0.29% to 10% equity interests in USUM Group. Loncin Holdings is 98% owned by Loncin Group and 2% owned by Mr. Tu. Loncin Group is 98% owned by Mr. Tu, 1% owned by Ms. Tu Jianmin and 1% owned by Ms. Tu Jianrong, both being sisters of Mr. Tu. USUM Investment held 1,008,885,181 Shares as at the Latest Practicable Date. Therefore, Mr. Tu was deemed to be interested in the Shares held by USUM Investment pursuant to the SFO.

4. The 98,773,990 Shares were held by Tai Security as beneficial owner and Tai Security was wholly-owned by Mr. Zhang as at the Latest Practicable Date. Therefore, Mr. Zhang was deemed to be interested in the same number of Shares as held by Tai Security pursuant to the SFO.
5. The 44,700,000 Shares were held by Good Union as beneficial owner and Good Union was wholly-owned by Mr. Zhang as at the Latest Practicable Date. Therefore, Mr. Zhang was deemed to be interested in the same number of Shares as held by Good Union pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates (except Mr. Tu, details of which are set out below) has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group:

Name of Director	Name of entity which business is considered to compete or likely to compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Mr. Tu	Chongqing USUM Recycling Resources Development Co., Ltd.* (“ Chongqing USUM ”)	According to the business scope as registered with the State Administration For Industry & Commerce of the PRC, this entity may engage in, <i>inter alia</i> , recycling, processing, marketing and sale of recycling resources and scrap metal related businesses.	Controlling shareholder

Although the scope of business of Chongqing USUM allows it to engage in businesses that compete or are considered likely to compete with the business of the Group, Mr. Tu reported to the Board that Chongqing USUM is currently only engaged in the disintegration of automobiles and trading of steel scrap in the PRC, which are neither the same as nor compete with the businesses of the Group. Further, Chongqing USUM has no intention to engage in businesses that compete with or are likely to compete with the Group's businesses. The Board and management team of the Company and Chongqing USUM do not overlap with each other and are independent of each other. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of Chongqing USUM in which Mr. Tu has declared interests.

4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract or appointment letter with the Company or any other member of the Group save for those expiring or determinable by the relevant employer within one year without payment of compensation, other than statutory compensation.

6. DIRECTORS' INTEREST IN ASSETS OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors of the Company had any interest in any asset which has been since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

Saved as the Sales Framework Agreement and the Supplemental Agreement, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given its advice for inclusion in this circular:

Name	Qualification
VBG Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, VBG Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name and opinion in the form and context in which it appears.

As at the Latest Practicable Date, VBG Capital did not have any shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any other member of the Group.

8. EXPERT'S INTERESTS IN ASSETS

As at the Latest Practicable Date, the expert referred to in the paragraph headed "7. Qualification and Consent of Expert" above does not have any interest in any assets which have been since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company, 23/F., Infinitus Plaza, 199 Des Voeux Road, Central, Hong Kong, during normal business hours on any business day for a period of 14 days from the date of this circular:

- (a) the Supplemental Agreement;
- (b) the Sales Framework Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- (e) the consent letter of the Independent Financial Adviser as referred to in the paragraph headed "7. Qualification and Consent of Expert" in this appendix; and
- (f) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Chiho Environmental Group Limited (the “**Company**”) will be held at 23/F., Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong on Friday, 31 July 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

“THAT

- (a) the supplemental agreement (the “**Supplemental Agreement**”) dated 17 June 2020 supplemental to the sales framework agreement entered into between the Company and Loncin International Limited dated 22 January 2020 in relation to the sale of non-ferrous metal by the Group to Loncin International Limited, and the transactions contemplated thereunder be and is hereby approved, confirmed and ratified;
- (b) the new annual caps for the maximum aggregate annual value for the transactions contemplated under the Supplemental Agreement for each of the three financial years ending 31 December 2022 as more particularly set out in the circular of the Company dated 10 July 2020 be and are hereby approved, confirmed and ratified; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) any one director of the Company be and is hereby authorised to do all such things and acts of administrative nature as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Supplemental Agreement and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he/she considers necessary or expedient in his/her opinion to implement and/or give effect to the Supplemental Agreement.”

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

Hong Kong, 10 July 2020

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:

48 Wang Lok Street
Yuen Long Industrial Estate
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company (“**Share(s)**”) may appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. Where there are joint holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority, must be deposited at the Company’s Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting (i.e. not later than 11:00 a.m. on Wednesday, 29 July 2020) or any adjournment thereof.

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. Shareholders are advised to read the circular to the shareholders of the Company (“Shareholder(s)”) dated 10 July 2020 which contains information concerning the resolutions to be proposed in this notice.
5. According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of Shareholders at a general meeting of the Company must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be vote on by a show of hands. Accordingly, the Chairman of the EGM will exercise his power under the articles of association of the Company to demand a poll in relation to all proposed resolutions at the EGM.
6. The EGM will be held on Friday, 31 July 2020 as scheduled regardless of whether or not an amber or red rainstorm warning signal is in force in Hong Kong at any time on that day. Shareholders should decide on their own whether they would attend the meeting under bad weather condition bearing in mind their own situations. However, if Typhoon Signal No. 8 or above remains hoisted or a Black Rainstorm Warning Signal is in force in Hong Kong at 9:00 a.m. on Friday, 31 July 2020, the EGM will not be held on that day but will be automatically postponed and, by virtue of this notice, be held at the same time and place on Monday, 3 August 2020.
7. References to time and dates in this notice are to Hong Kong time and dates.
8. The Register of Members of the Company will be closed from Tuesday, 28 July 2020 to Friday, 31 July 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the identity of the Shareholders who are entitled to attend and vote at the EGM, all duly completed transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 27 July 2020.

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

Executive Directors:

Mr. Qin Yongming (*Chairman*)
Mr. Tu Jianhua
Mr. Rafael Heinrich Suchan (*Chief Executive Officer*)
Mr. Martin Simon (*Chief Financial Officer*)

Independent Non-executive Directors:

Dr. Loke Yu
Ms. Qian Liping
Mr. Ko Frankie Andrew