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China Hongqiao Group Limited

中國宏橋集團有限公司

(Incorporated under the laws of Cayman Islands with limited liability)

(Stock Code: 1378)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
INDUSTRIAL WASTE SERVICE AGREEMENT AND
PRODUCTION WATER SUPPLY AGREEMENT**

BACKGROUND

Reference is made to the announcement dated 31 January 2019 of the Company in relation to the Previous Industrial Waste Service Agreement and the Previous Production Water Supply Agreement entered into between the Company and the relevant connected persons of the Company. The Previous Industrial Waste Service Agreement and the Previous Production Water Supply Agreement will expire on 31 December 2021, respectively. The Company intends to continue the transactions contemplated under the Previous Industrial Waste Service Agreement and the Previous Production Water Supply Agreement, respectively, for a term commencing from 1 January 2022 and ending on 31 December 2024.

ENTERING INTO THE INDUSTRIAL WASTE SERVICE AGREEMENT

The Board announces that, on 23 December 2021, the Company and Beihai Solid Waste entered into the Industrial Waste Service Agreement for a term commencing on 1 January 2022 and ending on 31 December 2024, pursuant to which Beihai Solid Waste will provide industrial waste collection, transport, storage and disposal services to the Company and its subsidiaries.

ENTERING INTO THE PRODUCTION WATER SUPPLY AGREEMENT

The Board announces that, on 23 December 2021, Shandong Hongqiao and Weiqiao Chuangye Group entered into the Production Water Supply Agreement for a term commencing on 1 January 2022 and ending on 31 December 2024, pursuant to which Weiqiao Chuangye Group will supply water to the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town for production use.

LISTING RULES IMPLICATION

Shandong Hongqiao is an indirect subsidiary of the Company. Beihai Solid Waste is owned as to 51.00% by Weiqiao Chuangye Group, which is an associate of Mr. Zhang Bo, an executive Director of the Company (who, together with his other family members, are jointly interested). Therefore, each of Weiqiao Chuangye Group and Beihai Solid Waste is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Industrial Waste Service Agreement and the Production Water Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Continuing Connected Transactions contemplated under the Industrial Waste Service Agreement and the Production Water Supply Agreement are aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Continuing Connected Transactions, on aggregate basis, is more than 0.1% but less than 5%, each of the Continuing Connected Transactions is subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A. THE INDUSTRIAL WASTE SERVICE AGREEMENT

Reference is made to the announcement dated 31 January 2019 of the Company in relation to, among other things, the Previous Industrial Waste Service Agreement entered into between the Company and Beihai Solid Waste.

The Previous Industrial Waste Service Agreement will expire on 31 December 2021. The Directors expect that the Company and its subsidiaries will continue to need the industrial waste collection, transport, storage and disposal services provided by Beihai Solid Waste. In this connection, on 23 December 2021, the Company and Beihai Solid Waste entered into the Industrial Waste Service Agreement.

The material terms of the Industrial Waste Service Agreement are set out as follows:

1. Date

23 December 2021

2. Parties

- (i) the Company (including its subsidiaries); and
- (ii) Beihai Solid Waste

3. Connected person

Beihai Solid Waste is owned as to 51.00% by Weiqiao Chuangye Group and as to 49.00% by Binzhou Beihai Jingmai Industry Development Co., Ltd. (濱州北海靜脈產業發展有限公司, an independent third party), and Weiqiao Chuangye Group is an associate of Mr. Zhang Bo, an executive Director of the Company (who, together with his other family members, are jointly interested). Therefore, Beihai Solid Waste is a connected person of the Company under the Listing Rules.

Beihai Solid Waste is approved by the Ecology and Environment Bureau of Binzhou City to provide industrial waste collection, transport, storage and disposal services.

4. Transaction nature

The Company and Beihai Solid Waste entered into the Industrial Waste Service Agreement on 23 December 2021 for a term commencing on 1 January 2022 and ending on 31 December 2024, pursuant to which Beihai Solid Waste will provide industrial waste collection, transport, storage and disposal services to the Company and its subsidiaries.

5. Pricing basis and payment terms

The prices of industrial waste collection, transport, storage and disposal services provided by Beihai Solid Waste to the Company shall be RMB943.40 per ton (VAT exclusive) for electrolytic cell residue and RMB2,830.19 per ton (VAT exclusive) for combustible waste for the period from 1 January 2022 to 31 December 2022, which are determined with reference to the market prices of the same or comparable types of services provided by other independent third parties in the PRC. Beihai Solid Waste shall provide the evidence of such market prices to the Company upon the request of the Company. The prices of such services provided by Beihai Solid Waste to the Company for the financial year ending 31 December 2023 and the financial year ending 31 December 2024 shall be re-determined by the two parties within one month prior to the end of the previous year through negotiation with reference to the then market prices of the same or comparable types of services provided by other independent third parties in the PRC. Beihai Solid Waste shall obtain the prices of the same or comparable types of services from at least three other independent third parties in the PRC and provide the evidence to the Company. Beihai Solid Waste has agreed that, in principle, the prices of such services provided by Beihai Solid Waste to the Company shall not be higher than the then market prices of the same or comparable types of services provided by other independent third parties in the PRC. The Company will also designate relevant personnel of the financial department of the Company to conduct market researches and obtain prices or quotations for the same or comparable types of services from other independent third parties in the PRC to ensure that the prices of such services provided by Beihai Solid Waste are fair to the Group. If the prices are otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted by the Industrial Waste Service Agreement.

The Directors confirmed that the pricing basis agreed between the Company and Beihai Solid Waste for providing industrial waste collection, transport, storage and disposal services is negotiated on an arm's length basis and is fair and reasonable, and constitutes a normal commercial term.

Beihai Solid Waste would, on the last business day of each calendar month, prepare an account book of the relevant expenses that shall be paid by the Company for that month. The expenses undue shall not be included in such account book. The Company shall, within the first twenty (20) business days of the following month, pay the amount due in full.

6. Termination and renewal

Either party to the Industrial Waste Service Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Industrial Waste Service Agreement is renewable for another term of three (3) years (subject to the compliance of the relevant requirements under the Listing Rules by the Company) unless either party decides not to renew it and gives at least thirty (30) days prior written notice to the counterparty accordingly. For the avoidance of doubt, the Industrial Waste Service Agreement shall not be renewed without approval from the Board and/or the independent Shareholders.

7. Historical transaction values and the annual caps

Beihai Solid Waste has been providing industrial waste collection, transport, storage and disposal services to the Company and its subsidiaries since January 2019. The historical transaction values for the services provided by Beihai Solid Waste to the Company and its subsidiaries for the period from 31 January 2019 to 30 November 2021 are as follows:

		For the period from 31 January 2019 to 31 December 2019	For the financial year ended 31 December 2020	For the period from 1 January 2021 to 30 November 2021
Historical volumes of industrial waste (<i>ton</i>)	Electrolytic cell residue	88,000	162,000	150,000
	Combustible waste ¹	N/A	N/A	N/A
Transaction values (<i>RMB</i>) (<i>VAT exclusive</i>)		169,814,000 <i>(equivalent to approximately HK\$207,942,000)</i>	183,227,000 <i>(equivalent to approximately HK\$224,367,000)</i>	141,625,000 <i>(equivalent to approximately HK\$173,424,000)</i>

Note 1: No transactions relating to combustible waste have been carried out in the past three years as the facilities relating to the treatment of combustible waste by Beihai Solid Waste are not yet in operation. It is expected that in the next three years, the relevant facilities for the treatment of combustible waste by Beihai Solid Waste will be commissioned.

Set out below are the estimated maximum volumes of industrial waste and the annual caps which are estimated to be payable by the Company to Beihai Solid Waste under the Industrial Waste Service Agreement for the period from 1 January 2022 to 31 December 2024:

		For the financial year ending 31 December 2022	For the financial year ending 31 December 2023	For the financial year ending 31 December 2024
Estimated maximum	Electrolytic cell	200,000	200,000	200,000
volumes of industrial	residue			
waste (<i>ton</i>)	Combustible	10,000	10,000	10,000
	waste			
Annual caps (<i>RMB</i>)		216,982,000	216,982,000	216,982,000
(<i>VAT exclusive</i>)				

Electrolytic cell residue and combustible waste are industrial waste generated in the production process of the Group. The annual caps for the period from 1 January 2022 to 31 December 2024 are determined with reference to (i) the volumes of industrial waste generated and estimated to be generated by the Group in the production process; (ii) the annual treatment capacity of Beihai Solid Waste; and (iii) the prices of industrial waste collection, transport, storage and disposal services provided by Beihai Solid Waste to the Company for the period from 1 January 2022 to 31 December 2022 under the Industrial Waste Service Agreement, i.e. approximately RMB943.40 per ton (VAT exclusive) for electrolytic cell residue and approximately RMB2,830.19 per ton (VAT exclusive) for combustible waste.

B. THE PRODUCTION WATER SUPPLY AGREEMENT

Reference is made to the announcement dated 31 January 2019 of the Company in relation to, among other things, the Previous Production Water Supply Agreement entered into between Shandong Hongqiao and Weiqiao Chuangye Group.

The Previous Production Water Supply Agreement will expire on 31 December 2021. The Directors expect that Shandong Hongqiao will continue to need the water supply provided by Weiqiao Chuangye Group in order to enhance the Group's operating efficiency and meet the demand of production water of the Group. In this connection, on 23 December 2021, Shandong Hongqiao and Weiqiao Chuangye Group entered into the Production Water Supply Agreement.

The material terms of the Production Water Supply Agreement are set out as follows:

1. Date

23 December 2021

2. Parties

- (i) Shandong Hongqiao (an indirect subsidiary of the Company, including its subsidiaries and related companies, if applicable); and
- (ii) Weiqiao Chuangye Group (including its subsidiaries or related companies)

3. Connected person

Weiqiao Chuangye Group is an associate of Mr. Zhang Bo, an executive Director of the Company (who, together with his other family members, are jointly interested). Therefore, Weiqiao Chuangye Group is a connected person of the Company under the Listing Rules.

4. Transaction nature

Shandong Hongqiao and Weiqiao Chuangye Group entered into the Production Water Supply Agreement on 23 December 2021 for a term commencing on 1 January 2022 and ending on 31 December 2024, pursuant to which Weiqiao Chuangye Group will supply water to the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town for production use.

5. Pricing basis and payment terms

The prices of production water supplied by Weiqiao Chuangye Group to Shandong Hongqiao shall be approximately RMB1.99 per ton (VAT exclusive) for the production water supplied to the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town for the period from 1 January 2022 to 31 December 2022, which are determined with reference to the market prices of production water supplied by other independent third parties in Zouping City and Weiqiao Town. According to the relevant water resource policy promulgated by the Binzhou local government in 2021, progressive charging system was implemented to the excess volume of water consumed by non-residents, and in consideration of the condition of local water supply, Weiqiao Chuangye Group will also include a proportion of other non-local water resources, leading to an increase in water supply costs as compared with those of the previous years. Weiqiao Chuangye Group shall provide the evidence of such market prices to Shandong Hongqiao upon the request of Shandong Hongqiao. The prices of production water supplied by Weiqiao Chuangye Group to Shandong Hongqiao for the financial year ending 31 December 2023 and the financial year ending 31 December 2024 shall be re-determined by the two parties within one month prior to the end of the previous year through negotiation with reference to the then market prices of production water supplied by other independent third parties in Zouping City and Weiqiao Town. Weiqiao Chuangye Group shall obtain the prices of such production water from at least three other independent third parties in Zouping City and Weiqiao Town and provide the evidence to Shandong Hongqiao. Weiqiao Chuangye Group has agreed that, in principle, the prices of production water supplied by Weiqiao Chuangye Group to Shandong Hongqiao shall not be higher than the then market prices of production water supplied by other independent third parties in Zouping City and Weiqiao Town. The Company will also designate

relevant personnel of the financial department of the Company to conduct market researches and obtain prices or quotations for such production water from other independent third parties in Zouping City and Weiqiao Town to ensure that the prices of such production water supplied by Weiqiao Chuangye Group are fair to the Group. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted by the Production Water Supply Agreement.

The Directors confirmed that the pricing basis agreed between Weiqiao Chuangye Group and Shandong Hongqiao for supply of production water to the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town is fair and reasonable and negotiated on an arm's length basis and constitutes a normal commercial term.

Weiqiao Chuangye Group would, on the last business day of each calendar month, prepare an account book of the relevant expenses that shall be paid by Shandong Hongqiao for that month. The expenses undue shall not be included in such account book. Shandong Hongqiao shall, within the first twenty (20) business days of the following month, pay the amount due in full.

6. Termination and renewal

Either party to the Production Water Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Production Water Supply Agreement is renewable for another term of three years (subject to the compliance of relevant requirements under the Listing Rules by the Company) unless either party decides not to renew it and gives at least thirty (30) days prior written notice to the counterparty accordingly. For the avoidance of doubt, the Production Water Supply Agreement shall not be renewed without approval from the Board and/or the independent Shareholders.

7. Historical transaction values and the annual caps

Weiqiao Chuangye Group has been supplying water to the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town for production use since January 2019. The historical transaction values for the products provided by Weiqiao Chuangye Group to Shandong Hongqiao for the period from 31 January 2019 to 30 November 2021 are as follows:

	For the period from 31 January 2019 to 31 December 2019	For the financial year ended 31 December 2020	For the period from 1 January 2021 to 30 November 2021
Historical purchase volumes (<i>ton</i>)	30,815,000	25,273,000	26,150,000
Transaction values (<i>RMB</i>) (<i>VAT exclusive</i>)	44,623,000	36,399,000	37,455,000
	<i>(equivalent to approximately HK\$54,642,000)</i>	<i>(equivalent to approximately HK\$44,572,000)</i>	<i>(equivalent to approximately HK\$45,865,000)</i>

Set out below are the estimated maximum purchase volumes of production water and the annual caps which are estimated to be payable by Shandong Hongqiao to Weiqiao Chuangye Group under the Production Water Supply Agreement for the period from 1 January 2022 to 31 December 2024:

	For the financial year ending 31 December 2022	For the financial year ending 31 December 2023	For the financial year ending 31 December 2024
Estimated maximum purchase volumes (<i>ton</i>)	32,000,000	32,000,000	32,000,000
Annual caps (<i>RMB</i>) (<i>VAT exclusive</i>)	63,689,000	63,689,000	63,689,000

The annual caps for the period from 1 January 2022 to 31 December 2024 are determined with reference to (i) the estimated volumes of water to be used in the production process by the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town; and (ii) the prices of production water supplied by Weiqiao Chuangye Group to Shandong Hongqiao for the period from 1 January 2022 to 31 December 2022 under the Production Water Supply Agreement, i.e. approximately RMB1.99 per ton (VAT exclusive).

C. REASONS FOR AND BENEFITS OF ENTERING INTO THE INDUSTRIAL WASTE SERVICE AGREEMENT AND THE PRODUCTION WATER SUPPLY AGREEMENT

The Company and Beihai Solid Waste entered into the Industrial Waste Service Agreement after considering, among others, the following reasons:

- (i) the close location of Beihai Solid Waste to the Company's subsidiaries makes it convenient and efficient for providing industrial waste collection, transport, storage and disposal services; and
- (ii) Beihai Solid Waste is approved by the Ecology and Environment Bureau of Binzhou City to provide industrial waste collection, transport, storage and disposal services and is able to provide stable and quality services with flexible scheduling for the needs of the Group.

In order to enhance the Group's operating efficiency and meet the demand of production water of the Group, Shandong Hongqiao and Weiqiao Chuangye Group entered into the Production Water Supply Agreement after considering, among others, the following reasons:

- (i) the close location of Weiqiao Chuangye Group to the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town makes it convenient and efficient for water supply; and
- (ii) Weiqiao Chuangye Group is able to provide stable water supply with flexible scheduling for the production needs of the production bases of Shandong Hongqiao located in Zouping City and Weiqiao Town, which is favorable to the stable operation of the Group's business.

D. IMPLICATIONS UNDER THE LISTING RULES

Shandong Hongqiao is an indirect subsidiary of the Company. Beihai Solid Waste is owned as to 51.00% by Weiqiao Chuangye Group, which is an associate of Mr. Zhang Bo, an executive Director of the Company (who, together with his other family members, are jointly interested). Therefore, each of Weiqiao Chuangye Group and Beihai Solid Waste is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Industrial Waste Service Agreement and the Production Water Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Continuing Connected Transactions contemplated under the Industrial Waste Service Agreement and the Production Water Supply Agreement are aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions under the Industrial Waste Service Agreement and the Production Water Supply Agreement (on an aggregate basis), is more than 0.1% but less than 5%, each of the Continuing Connected Transactions is subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Ms. Zheng Shuliang, Mr. Zhang Bo, Mr. Yang Congsen and Mr. Zhang Jinglei had either not participated in voting or abstained from voting on the relevant resolutions of the Board approving the Industrial Waste Service Agreement and the Production Water Supply Agreement as they have a material interest in the relevant resolutions of the Board and/or concurrently have equity interests or hold relevant positions in Weiqiao Chuangye Group.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and the terms of the Industrial Waste Service Agreement and the Production Water Supply Agreement (including the annual caps for each of the Continuing Connected Transactions) have been negotiated on an arm's length basis, and are on normal commercial terms and are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

E. INTERNAL CONTROL PROCEDURES

The Company has adopted the following internal control measures to ensure that the Continuing Connected Transactions are in accordance with the pricing policies and the terms of the Industrial Waste Service Agreement and the Production Water Supply Agreement, and in compliance with the Listing Rules:

- (i) the finance department of the Company shall obtain and monitor all the quotations and/or pricing records as reference price of the Industrial Waste Service Agreement and the Production Water Supply Agreement to ensure that the prices of industrial waste collection, transport, storage and disposal services offered by Beihai Solid Waste to the Group are not higher than the prices offered by other independent third parties in the PRC to the Group for providing the same or comparable types of services, and to ensure that the prices of production water supplied by Weiqiao Chuangye Group to Shandong Hongqiao are not higher than the prices at which such water is supplied by other independent third parties in Zouping City and Weiqiao Town to the Group;
- (ii) the finance department of the Company shall monitor and ensure that the Continuing Connected Transactions are conducted in accordance with the terms of the relevant agreements and the annual caps for the Continuing Connected Transactions are not exceeded;
- (iii) the Board will continue to periodically review the Company's internal control systems and their effectiveness; and
- (iv) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions and the annual caps for the Continuing Connected Transactions in accordance with the requirements of the Listing Rules.

F. GENERAL INFORMATION

The Group is principally engaged in the manufacture and sale of aluminum products.

Shandong Hongqiao is principally engaged in the trade of bauxite and processing and sales of aluminum ingot, aluminum plate, aluminum foil, aluminum belt, aluminum products and aluminum profile.

Beihai Solid Waste is principally engaged in solid waste collection, utilization, treatment, disposal, incineration and landfill.

Weiqiao Chuangye Group is principally engaged in the processing and sale of cotton, lint cotton, cotton seed oil, fabrics, cotton yarn and print cloth, retail and distribution of cloth and supply of industrial water.

G. DEFINITIONS

In this announcement, the following expressions shall have the following respective meanings:

“Beihai Solid Waste”	Binzhou City Beihai Weiqiao Solid Waste Disposal Co., Ltd. (濱州市北海魏橋固廢處置有限公司), a limited liability company established in the PRC on 8 May 2017 which is approved by the Ecology and Environment Bureau of Binzhou City to provide industrial waste collection, transport, storage and disposal services
“Board”	the board of Directors
“Company”	China Hongqiao Group Limited (中國宏橋集團有限公司)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Industrial Waste Service Agreement and the Production Water Supply Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Industrial Waste Service Agreement”	the industrial waste service agreement entered into between the Company and Beihai Solid Waste on 23 December 2021 for a term commencing on 1 January 2022 and ending on 31 December 2024
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“Previous Industrial Waste Service Agreement”	the industrial waste service agreement entered into between the Company and Beihai Solid Waste on 31 January 2019 for a term commencing on 31 January 2019 and ending on 31 December 2021
“Previous Production Water Supply Agreement”	the production water supply agreement entered into between Shandong Hongqiao and Weiqiao Chuangye Group on 31 January 2019 for a term commencing on 31 January 2019 and ending on 31 December 2021

“Production Water Supply Agreement”	the production water supply agreement entered into between Shandong Hongqiao and Weiqiao Chuangye Group on 23 December 2021 for a term commencing on 1 January 2022 and ending on 31 December 2024
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Hongqiao”	Shandong Hongqiao New Material Co., Ltd. (山東宏橋新型材料有限公司), a limited liability company established in the PRC on 27 July 1994 and an indirect subsidiary of the Company
“Shareholder(s)”	registered holder(s) of the shares of the Company
“VAT”	value added tax at the rate of 16% for the transactions contemplated under the Industrial Waste Service Agreement and at the rate of 3% for the transactions contemplated under the Production Water Supply Agreement, which is subject to adjustment from time to time according to the tax laws and regulations in the PRC
“Weiqiao Chuangye Group”	Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司), a limited liability company established in the PRC on 14 April 1998, which is an associate of Mr. Zhang Bo, an executive Director of the Company (who, together with his other family members, are jointly interested)
“%”	per cent

By order of the Board
China Hongqiao Group Limited
Zhang Bo
Chairman

Shandong, the PRC
23 December 2021

For the purpose of this announcement, the exchange rate of HK\$1.00 = RMB0.81664 has been used for currency translation, where applicable. Such an exchange rate is for illustrative purposes and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.

As at the date of this announcement, the Board comprises twelve Directors, namely Mr. Zhang Bo, Ms. Zheng Shuliang, Ms. Zhang Ruilian and Ms. Wong Yuting as executive Directors, Mr. Yang Congsen, Mr. Zhang Jinglei, Mr. Li Zimin (Mr. Zhang Hao as his alternate) and Ms. Sun Dongdong as non-executive Directors, and Mr. Wen Xianjun, Mr. Xing Jian, Mr. Han Benwen and Mr. Dong Xinyi as independent non-executive Directors.