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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)

**FURTHER ANNOUNCEMENT ON
AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

AUDITED CONSOLIDATED ANNUAL RESULTS

Reference is made to (i) the announcement of Chiho Environmental Group Limited (the “**Company**”) dated 31 March 2022 in relation to the unaudited annual results (“**Unaudited Annual Results**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2021 (the “**2021 Results Announcement**”); (ii) the announcement dated 29 April 2022 in relation to, among other matters, the expected publication date of the audited annual results of the Group for the year ended 31 December 2021; (iii) the announcement dated 12 May 2022 in relation to the further delay in publication of the audited annual results and despatch of the annual report of the Company for the year ended 31 December 2021; and (iv) the announcement dated 31 May 2022 in relation to the date of board meeting for the purpose of considering and approving the audited annual results of the Group for the year ended 31 December 2021 and its publication. Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined in the 2021 Results Announcement.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce that the Company’s auditor, PricewaterhouseCoopers, has completed its audit of the consolidated financial statements of the Group for the year ended 31 December 2021 (the “**Audited Annual Results**”) in accordance with Hong Kong Standards on Auditing (“**HKSA**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Save for the amendments made to the disclosure in note 2.1.1 to the Unaudited Annual Results (the “**Amendments**”), there are no other changes in the Audited Annual Results as compared to the Unaudited Annual Results.

The figures in respect of the Group’s consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the 2021 Results Announcement (including the Amendments as disclosed in this announcement) have been agreed by PricewaterhouseCoopers to the amounts set out in the Group’s audited consolidated financial statement for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with HKSA, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the 2021 Results Announcement or this announcement.

EXTRACT OF NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following is the extract of the notes to the Audited Annual Results:

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

2.1.1 Going concern basis

As at 31 December 2021, the Group had borrowings of HK\$1,661.9 million, of which HK\$1,611.1 million are current borrowings due within twelve months from 31 December 2021, while its cash and cash equivalents amounted to HK\$782.3 million only.

Included in current borrowings as at 31 December 2021 was a secured syndicated term loan (the “**Syndicated Term Loan**”) with an outstanding loan balance of HK\$1,112.8 million scheduled to be fully repayable in January 2022, and the Group failed to repay upon its maturity. Such non-repayment constituted an event of default under the loan agreement.

The above condition indicated the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern.

In view of such circumstance, the Directors have given careful consideration to the future liquidity and performance of the Group, taking into account the potential impact arising from the surge of metal commodity prices and new waves of COVID-19 pandemic, if any, and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

- (i) Subsequent to 31 December 2021, the Group repaid an amount of HK\$316.3 million of the Syndicated Term Loan, including accumulated accrued interest of HK\$65.8 million, resulting in a remaining outstanding loan principal of HK\$842.2 million as of the date of approval of these consolidated financial statements. In June 2022, the Group has successfully agreed with the lenders of the Syndicated Term Loan to extend the maturity date of the remaining Syndicated Term Loan to March 2023 with four partial repayment instalments of HK\$23.4 million, HK\$39.0 million, HK\$78.0 million and HK\$93.6 million on or before end of June, July and October 2022 and January 2023, respectively. The interest rate, certain guarantors and collaterals of the Group associated with the Syndicated Term Loan were also revised. The Group plans to finance such partial repayment instalments through internal resources as well as financial and operational measures as mentioned in (ii) to (vi) below. The Group will continue to monitor its compliance with the undertaking requirements and the Directors expect the Group would be in compliance throughout the remaining term of the Syndicated Term Loan.

- (ii) The Group is pursuing plans for potential disposal of certain assets in specific regions to raise additional cash to finance the repayment of borrowings.
- (iii) The Group maintains continuous communication with other banks and management believes that the existing other borrowings available to the Group, amounting to approximately HK\$550 million as at 31 December 2021, will be successfully renewed when their current terms expire given the long standing relationship the Group has with the relevant counter parties and the fact that majority of these facilities are secured by the Group's properties and other assets. See Note 30 for more details.
- (iv) Subsequent to 31 December 2021, the Group obtained short term borrowings of HK\$57.1 million from lenders in the PRC and management expects that such borrowings will be successfully renewed when their current terms expire in September 2022.
- (v) The Group continues its efforts to ramp up the production capability of the new recycling facilities in Asia, implement measures in Europe and North America to generate cash flow from operations including further control capital and operating expenditures to strength its working capital.
- (vi) The Group is actively looking for other sources of financing including other debt or equity financing to enhance the capital structure and reduce the overall financing expenses.

The Directors have assessed the Group's cash flow projection covering a period of not less than twelve months from 31 December 2021. They are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the consolidated balance sheet. Accordingly, the Directors are satisfied that it is appropriate to prepare the Group's consolidated financial statements on a going concern basis.

Notwithstanding the above, a material uncertainty exists as to whether the Group can achieve the plans and measures described in (i) to (vi) above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to continuously comply with undertaking requirements of the Syndicated Term Loan, successfully dispose of assets in specific regions to raise additional cash, renew existing borrowings and banking facilities when their current terms expire, successfully ramp up the Group's production capability in Asia and implement measures in Europe and North America to generate cash inflow from operations, and secure various sources of financing as and when required.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from PricewaterhouseCoopers:

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that, as at 31 December 2021, the Group had borrowings of HK\$1,661.9 million, of which HK\$1,611.1 million are current borrowings due within twelve months from 31 December 2021 while its cash and cash equivalents amounted to HK\$782.3 million only. Included in current borrowings as at 31 December 2021 was a secured syndicated term loan with an outstanding loan balance of HK\$1,112.8 million scheduled to be fully repayable in January 2022, which the Group failed to repay upon its maturity. Such non-repayment constituted an event of default under the loan agreement. This condition, along with other matters as set forth in Note 2.1.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

DATE OF ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on 21 July 2022 and a notice convening the AGM will be published and despatched to the shareholders of the Company in accordance with the Company's Articles of Association and the Listing Rules on 13 June 2022.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 18 July 2022 to Thursday, 21 July 2022, both days inclusive. In order to qualify to attend and vote at the AGM, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 15 July 2022.

By Order of the Board
Chiho Environmental Group Limited
Li Linhui
Chairman

Hong Kong, 13 June 2022

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

Executive Directors:

Mr. Tu Jianhua
Mr. Li Linhui (*Chairman*)
Mr. Miao Yu
Mr. Yao Jietian
Mr. Wang Li

Independent Non-Executive Directors:

Prof. Li Zhiguo
Prof. Yan Guowan
Mr. Szeto Yuk Ting