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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)

CONTINUING CONNECTED TRANSACTIONS
INDUSTRIAL WASTE SERVICE AGREEMENT
AND PRODUCTION WATER SUPPLY AGREEMENT

ENTERING INTO THE INDUSTRIAL WASTE SERVICE AGREEMENT

The Board announces that, on 31 January 2019, the Company and Beihai Solid Waste entered into the Industrial Waste Service Agreement for a term commencing on 31 January 2019 and ending on 31 December 2021, 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 31 January 2019, Shandong Hongqiao and Weiqiao Chuangye Group entered into the Production Water Supply Agreement for a term commencing on 31 January 2019 and ending on 31 December 2021, 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 indirectly wholly-owned subsidiary of the Company. Beihai Solid Waste is owned as to 51.00% by Weiqiao Chuangye Group, which is in turn held as to 31.59% by Mr. Zhang Shiping, an executive Director and controlling shareholder of the Company. 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%, the Continuing Connected Transactions are 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

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

1. Date

31 January 2019

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 held as to 31.59% by Mr. Zhang Shiping, an executive Director and controlling shareholder of the Company. Therefore, Beihai Solid Waste is a connected person of the Company under the Listing Rules.

Beihai Solid Waste is approved by the Environmental Protection Bureau of Binzhou City Beihai Economic Development District 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 31 January 2019 for a term commencing on 31 January 2019 and ending on 31 December 2021, 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 approximately RMB1,931.03 per ton (VAT exclusive) for electrolytic cell residue and approximately RMB3,017.24 per ton (VAT exclusive) for combustible waste for the period from 31 January 2019 to 31 December 2019, 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 2020 and the financial year ending 31 December 2021 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

The Company confirms that there were no historical transaction values available since the Company did not enter into any transaction agreement with Beihai Solid Waste in relation to industrial waste collection, transport, storage and disposal services in the past.

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 31 January 2019 to 31 December 2021:

		For the period from 31 January 2019 to 31 December 2019	For the financial year ending 31 December 2020	For the financial year ending 31 December 2021
Estimated maximum volumes of industrial waste (<i>ton</i>)	Electrolytic cell residue	100,000	100,000	100,000
	Combustible waste	0	4,000	4,000
Annual caps (<i>RMB</i>) (<i>VAT exclusive</i>)		193,103,000	205,172,000	205,172,000

Electrolytic cell residue and combustible waste are industrial waste generated in the production process of the Group. The annual caps for the period from 31 January 2019 to 31 December 2021 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 under the Industrial Waste Service Agreement for the period from 31 January 2019 to 31 December 2019, i.e. approximately RMB1,931.03 per ton (VAT exclusive) for electrolytic cell residue and approximately RMB3,017.24 per ton (VAT exclusive) for combustible waste. It is expected that the market prices of industrial waste collection, transport, storage and disposal services will remain stable for the next three years.

B. THE PRODUCTION WATER SUPPLY AGREEMENT

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

1. Date

31 January 2019

2. Parties

- (i) Shandong Hongqiao (an indirectly wholly-owned 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

Weiqliao Chuangye Group is held as to 31.59% by Mr. Zhang Shiping, an executive Director and controlling shareholder of the Company. Therefore, Weiqliao Chuangye Group is a connected person of the Company under the Listing Rules.

4. Transaction nature

Shandong Hongqliao and Weiqliao Chuangye Group entered into the Production Water Supply Agreement on 31 January 2019 for a term commencing on 31 January 2019 and ending on 31 December 2021, pursuant to which Weiqliao Chuangye Group will supply water to the production bases of Shandong Hongqliao located in Zouping City and Weiqliao Town for production use.

5. Pricing basis and payment terms

The prices of production water supplied by Weiqliao Chuangye Group to Shandong Hongqliao shall be approximately RMB1.553 per ton (VAT exclusive) for the production water supplied to the production base of Shandong Hongqliao located in Zouping City and approximately RMB1.359 per ton (VAT exclusive) for the production water supplied to the production base of Shandong Hongqliao located in Weiqliao Town for the period from 31 January 2019 to 31 December 2019, which are determined with reference to the market prices of production water supplied by other independent third parties in Zouping City and Weiqliao Town. Weiqliao Chuangye Group shall provide the evidence of such market prices to Shandong Hongqliao upon the request of Shandong Hongqliao. The prices of production water supplied by Weiqliao Chuangye Group to Shandong Hongqliao for the financial year ending 31 December 2020 and the financial year ending 31 December 2021 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 Weiqliao Town. Weiqliao Chuangye Group shall obtain the prices of such production water from at least three other independent third parties in Zouping City and Weiqliao Town and provide the evidence to Shandong Hongqliao. Weiqliao Chuangye Group, has agreed that, in principle, the prices of production water supplied by Weiqliao Chuangye Group to Shandong Hongqliao shall not be higher than the then market prices of production water supplied by other independent third parties in Zouping City and Weiqliao 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 Weiqliao Town to ensure that the prices of such production water supplied by Weiqliao 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 Weiqliao Chuangye Group and Shandong Hongqliao for supply of production water to the production bases of Shandong Hongqliao located in Zouping City and Weiqliao 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

The Company confirms that there were no historical transaction values available since Shandong Hongqiao did not enter into any transaction agreement with Weiqiao Chuangye Group in relation to water supply in the past.

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 31 January 2019 to 31 December 2021:

	For the period from 31 January 2019 to 31 December 2019	For the financial year ending 31 December 2020	For the financial year ending 31 December 2021
Estimated maximum purchase volumes (<i>ton</i>)	32,520,000	32,520,000	32,520,000
Annual caps (<i>RMB</i>) (<i>VAT exclusive</i>)	46,440,000	46,440,000	46,440,000

The annual caps for the period from 31 January 2019 to 31 December 2021 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 under the Production Water Supply Agreement for the period from 31 January 2019 to 31 December 2019, i.e. approximately RMB1.553 per ton (VAT exclusive) for the production water supplied to the production base of Shandong Hongqiao located in Zouping City and approximately RMB1.359 per ton (VAT exclusive) for the production water supplied to the production base of Shandong Hongqiao located in Weiqiao Town. It is expected that the market prices of production water supplied by other independent third parties in Zouping City and Weiqiao Town will remain stable for the next three years.

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 Environmental Protection Bureau of Binzhou City Beihai Economic Development District 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 indirectly wholly-owned subsidiary of the Company. Beihai Solid Waste is owned as to 51.00% by Weiqiao Chuangye Group, which is in turn held as to 31.59% by Mr. Zhang Shiping, an executive Director and controlling shareholder of the Company. 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%, the Continuing Connected Transactions are 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 Mr. Zhang Shiping, Ms. Zheng Shuliang, Mr. Zhang Bo, Mr. Yang Congsen and Mr. Zhang Jinglei had abstained from voting on the relevant resolutions of the Board approving the Continuing Connected Transactions as they 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 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 Continuing Connected Transactions 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 Industrial Waste Service Agreement and the Production Water Supply Agreement 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 Environmental Protection Bureau of Binzhou City Beihai Economic Development District 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 31 January 2019 for a term commencing on 31 January 2019 and ending on 31 December 2021
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“PRC”	the People’s Republic of China
“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
“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 indirectly wholly-owned 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 held as to 31.59% by Mr. Zhang Shiping, an executive Director and the controlling shareholder of the Company
“%”	per cent

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

Shandong, the PRC
31 January 2019

As at the date of this announcement, the Board comprises ten Directors, namely Mr. Zhang Shiping, Ms. Zheng Shuliang, Mr. Zhang Bo and Ms. Zhang Ruilian as executive Directors, Mr. Yang Congsen, Mr. Zhang Jinglei and Mr. Chen Yisong (Mr. Zhang Hao as his alternate) as non-executive Directors, and Mr. Xing Jian, Mr. Han Benwen and Mr. Dong Xinyi as independent non-executive Directors.