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CHIHO ENVIRONMENTAL GROUP LIMITED

齊合環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 976)

INSIDE INFORMATION

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

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

Reference is made to the announcements of the Company dated (i) 13 January 2025 in relation to the irregularities of certain non-wholly owned subsidiaries of the Company; (ii) 31 March 2025 in relation to the delay in publication of the announcement in relation to the annual results of the Group for the year ended 31 December 2024, the postponement of the meeting of the board (the “**Board**”) of directors (the “**Directors**”) of the Company and the suspension of trading in the shares of the Company on the Stock Exchange; (iii) 30 April 2025 in relation to, among others, the further delay in publication of the 2024 Annual Results, the delay in despatch of the 2024 annual report; (iv) 9 June 2025 in relation to the key findings of the independent investigation; (v) 30 June 2025 in relation to the resumption guidance and quarterly update on resumption progress; (vi) 15 August 2025 in relation to the establishment of Special Investigation Committee and appointment of PAL Advisory Limited (the “**Former Consultant**”) as the independent forensic investigator and independent internal control consultant; (vii) 21 May 2026 in relation to, among others, change in composition of the Special Investigation Committee; (viii) 29 August 2025 in relation to, amongst others, the delay in publication of the 2025 Interim Results and the dispatch of the 2025 Interim Report; and (ix) 30 September 2025, 31 December 2025, 31 March 2026, 21 May 2026 and 30 June 2026 on the respective quarterly updates and amongst others, the delay in publication of the 2025 Annual Results and dispatch of the 2025 Annual Report; (x) 16 July 2026 on the engagement of Ernst & Young Advisory Services Limited (the “**Current Consultant**”) as the independent forensic accountant in place of the Former Consultant; and (xi) 30 September 2026 on the key findings of the Forensic Investigation (collectively, the “**Announcements**”). Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND OF THE INTERNAL CONTROL REVIEW

As disclosed in the Announcements, the Stock Exchange had issued the Resumption Guidance to the Company requiring, among others, the Company to conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules.

In response to the Resumption Guidance, on 15 August 2025, the Special Investigation Committee, comprising the then independent non-executive Directors, was established to oversee the Forensic Investigation into the Irregularities and an independent review of the Group’s internal control system (“**Internal Control Review**”). On the same date, the Former Consultant was appointed as the independent forensic investigator and independent internal control consultant. The Former Consultant submitted draft investigation reports to the Stock Exchange on 16 March 2026 and subsequently issued its final internal control review report (“**Former Consultant’s Internal Control Report**”) to the Company on 15 May 2026.

Following the appointment of the Current Consultant with effect from 16 July 2026, the Current Consultant replaced the Former Consultant to conduct further investigation into the Irregularities and a further review of the Group’s internal control system. The Current Consultant independently conducted its review and assessment of the Group’s internal control system and did not rely upon, adopt or incorporate any work, findings or conclusion of the Former Consultant. The initial draft internal control report prepared by the Current Consultant was submitted to the Stock Exchange on 7 September 2026. The Current Consultant circulated a further draft of the internal control report on 29 September 2026 (the “**Internal Control Report**”).

Scope of the Internal Control Review

The Current Consultant’s Internal Control Review, conducted between July 2026 and September 2026 and covering the period from 1 July 2024 to 31 December 2025, covered the following:

- (i) in respect of the Company: company-level controls, comprising control environment, risk assessment, control activities, information and communication, and monitoring;
- (ii) in respect of 台州齊合天地金屬有限公司 (Taizhou Chiho-Tiande Metals Co. Ltd*) (“**Taizhou Metals**”), 台州齊合天地鑄造有限公司 (Taizhou Chiho-Tiande Founding Co., Ltd.*) (“**Taizhou Casting**”), 齊合天地(台州)環保科技有限公司 (Chiho Tiande (Taizhou) Environmental Technology Company Limited*) (“**Taizhou Environmental**”) (collectively the “**Taizhou Subsidiaries**”) and Chiho-Tiande (HK) Limited (“**Chiho Tiande**”): procurement management, order-to-cash management, asset management, cash and expense management, financing and guarantee management, and financial reporting management (order-to-cash management not being applicable to Taizhou Casting, which has ceased production and sales activities since 2016); and
- (iii) a follow-up assessment of the implementation status of the remedial measures recommended by the Current Consultant.

The Current Consultant attempted to extend its review to the Subject Group Companies and Luxincheng, but was unable to do so, as those entities remained outside the Group's control and Mr. Li refused to provide the information necessary to perform an internal control assessment.

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

The Internal Control Report identified 40 internal control matters requiring attention across company-level and process-level areas, and the Current Consultant provided recommendations for remediation. As at the date of this announcement, the Company has implemented all of the recommendations made by the Current Consultant and has substantially completed the remediation of all 40 internal control deficiencies identified in the Internal Control Report. Of these, testing conducted by the Current Consultant confirmed 27 measures were operational, while the remaining 13 measures have not yet been tested due to the absence of relevant samples.

Set out below is a summary of the key findings, recommendations and rectification measures identified by the Current Consultant in respect of the companies covered by its scope of review. The Group's management has responded to and taken appropriate measures in accordance with the Current Consultant's recommendations.

Key findings related to the Forensic Investigation – Entity Level

No.	Issue identified	Relevant entities	Recommendations	Rectification status
1	Information and communication – Management accounts not circulated to all directors; scope and requirements for circulation not defined Contrary to Code Provision D.1.2 of the Corporate Governance Code, monthly management accounts for March to November 2024 were not sent to all Directors. Two executive Directors and four Audit Committee members did not receive them during their tenure. This resulted from informal instructions from the then Group Financial Controller restricting circulation to designated executive Directors, rather than a documented, uniform reporting mechanism.	Company	The Company should establish a unified management reporting mechanism specifying the content, frequency, recipients, approval requirements and retention arrangements for management accounts, aligned with the Board's information needs and governance structure.	This issue has been remediated with no test sample available. A Monthly Management Report Management Policy has been adopted (approved on 3 September 2026 and rolled out group-wide on 4 September 2026), requiring monthly reports to be prepared and approved within 10 working days of month-end closing and sent via the Company's official email to all executive, non-executive and independent non-executive directors (including all Audit Committee members), with selective or targeted distribution expressly prohibited and full retention of reports, distribution records and approvals required. As the August 2026 accounts had not yet been closed at date of Internal Control Report, no test sample of the new process was yet available.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
2	Information and communication – Online authorisation and approval records not properly retained			
	In April 2025, the Taizhou Subsidiaries migrated office automation systems without transferring or backing up historical data, leaving pre-April 2025 approval records unavailable. The subsequently issued Archive Management Measures did not specify the applicable office automation system name, the storage requirement for approval records, and backup requirements for key business data.	T a i z h o u Subsidiaries	Taizhou Subsidiaries should (i) conduct a comprehensive review of the retention and storage of key internal records; and (ii) enhance the archive management policy to specify responsible departments, storage methods, retention periods, and backup and verification arrangements for key business, approval, financial and contractual records.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. Taizhou Metals has revised its Archive Management Measures (approved on 25 August 2026, issued on 3 September 2026) to specify retention, storage and backup requirements, including monthly full data backups to a local server with a permanent, non-unauthorized overwritable update log. The backup record of August 2026 office automation data was supplied as test sample. The data of approval records and associated documents has been archived on the local server of Taizhou Metals in accordance with the Archive Management.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
3	Monitoring – Monthly subsidiary financial statements not approved in writing by the Group Financial Controller			
	Contrary to the Internal Authorisation Management Policy, sampled monthly financial statements submitted by Taizhou Metals showed no evidence of written approval or feedback from the Group Financial Controller. In addition, Taizhou Metals' financial policies did not specify the frequency, content or responsible persons for periodic reporting of financial and operating position to the Group, limiting the Group's ability to maintain ongoing oversight.	(i) Company; and (ii) Taizhou Metals	The Company should require Taizhou Metals to strictly follow the Internal Authorisation Management Policy for financial report review and approval, and should clarify responsibilities for preparation, review and approval of financial statements, with system or written review records retained.	This issue has been remediated with no test sample available. The <i>Accounting Management Measures</i> have been updated (approved on 3 September 2026) to require monthly preparation and reporting of financial statements to management. The Company has confirmed that, from August 2026, the Group CFO has been reviewing subsidiary monthly financial reports in writing, retained by email. As the Taizhou Subsidiaries' August 2026 monthly financial report was still being prepared at the date of the Internal Control Report, no sample could be provided for validation testing. However, the Company provided an example of Taizhou Subsidiaries' June 2026 monthly report, which was approved by email by the Group CFO on 3 September 2026.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
4	Control Environment – Conflict of Interest Management Policy and Disclosure Mechanism Require Improvement			
	The Company lacks a comprehensive conflict of interest management policy. Relevant provisions exist across the Articles of Association, the Hong Kong Employee Handbook and the Anti-Fraud and Anti-Corruption Policy, but none define the specific circumstances requiring disclosure, the scope of persons covered, disclosure content or process. A specific instance was identified where a procurement employee at Yantai Qisheng held directorship/management roles at a customer and had served as a supervisor at a supplier, without any policy prohibiting related-party dealings or requiring disclosure.	Company	The company should establish or enhance a conflict of interest management policy, supplementing the definition of conflicts of interest, the specific circumstances triggering disclosure, the scope of covered persons, and the disclosure content and process.	This issue has been remediated with no test sample available. The Company has adopted a <i>Conflict-of-Interest Management Policy</i> (approved by the Board on 28 September 2026 and formally issued group-wide on 29 September 2026) which defines conflicts of interest and covers all directors (including independent non-executive directors), senior management, heads of business segments/subsidiaries, employees in key roles (procurement, tendering, investment, business cooperation, contract approval, finance, legal, internal audit) and other persons designated by the Board, together with the circumstances, content and process for disclosure.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
5	Control activities – No policy or process for corporate registration changes; no oversight of subsidiary registration changes			
	Taizhou Metals and Taizhou Casting each effected changes of legal representative and senior management during the review period without any internal application or approval record retained in the Company's systems, and the Group had no policy governing registration changes beyond director/legal representative changes (for example, changes to the articles of association), nor any requirement to verify post-change registration information.	(i) Company; (ii) Taizhou Metals; and (iii) Taizhou Casting	The Company should issue a group-level policy and process governing corporate registration changes, with timely recording and verification of such changes, and should centralise management of subsidiaries' chops, certificates and licences under a designated person with formal application and approval requirements and oversight of usage.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. The Company has adopted a <i>Domestic Subsidiary Certificate and Chop Management Policy</i> establishing group-wide unified standards and oversight for all chops, requiring approval at Group President/Chairman level for the corporate chop, Group finance approval for the financial chop, and legal representative (or authorised delegate) approval for the legal representative's personal chop, generally used together with the corporate or financial chop. <i>A companion Archive Management Policy</i> has also been adopted covering retention of registration-related records. The approval record and filing related to the change of director of Chiho Tiande in September 2026 was supplied for sample testing, and no exceptions were identified.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
6	Monitoring – Identification, evaluation and reporting mechanism for internal control deficiencies/irregularities requires improvement			
	The Company's Internal Audit Charter requires risk-based audit scoping, but internal audit reports did not identify the risk and impact of findings; the compliance audit scope relied solely on the whistleblowing channel, with the log showing "no complaints received to date", giving limited coverage of actual operational, financial and production compliance; and the Company had not established an accountability mechanism, including corrective measures, for internal control breaches.	Company	The Company should (i) align the internal audit plan with the risk management policy to cover identified risks and their impact; (ii) broaden the internal audit and compliance scope accordingly; and (iii) establish an Internal Control Early-Warning and Accountability Mechanism defining responsibility for control breaches and corrective measures, with a traceability regime for key roles (e.g. subsidiary management) linking identified deficiencies to performance appraisal and remuneration.	This issue has been remediated with no test sample available. An updated <i>Annual Audit Management Measures</i> adopts a risk-based audit planning cycle. An <i>Internal Control Accountability Management Policy</i> has also been adopted (approved by the Board on 28 September 2026 and issued group-wide on 29 September 2026), defining the roles of the Board, Board Chairman, Audit Committee and its chairman, CEO, CFO and internal audit head, specifying accountability scenarios, severity levels, investigation timelines and remedial measures, and linking accountability outcomes to variable remuneration. As the 2027 internal audit plan will only be prepared in the 4th quarter of 2026, and no internal audit-triggered accountability process has yet occurred, no test samples were available.

Key findings related to the Forensic Investigation – Process Level

No.	Issue identified	Relevant entities	Recommendations	Rectification status
1	Sales and receipts – No written invoice management policy for the existing invoicing process			
	Taizhou Metals had not established a written invoice management policy defining departmental responsibilities and the invoicing process, creating risk that invoices may not match actual contract terms, or may be duplicated or improperly issued.	Taizhou Metals	Taizhou Metals should formulate and implement an invoice management policy covering invoice application, review, issuance, transmission, filing and responsibility allocation, and establish a periodic reconciliation mechanism between sales contracts, delivery records, invoice applications and issued invoices to promptly identify missing, duplicate or anomalous invoices.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. Taizhou Metals has adopted an Invoice Management Policy (approved on 25 August 2026, issued on 4 September 2026) specifying invoice application, review, issuance, transmission, filing and a monthly reconciliation process led by Finance. A sales order sample for September 2026 was reconciled against the corresponding contract, delivery and outbound documentation, confirming the invoice application, review and issuance steps required by the new policy had been performed as designed.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
2	Asset management – Office electronic equipment management process requires improvement			
	Deficiencies were identified in the Group's controls over the management and safekeeping of electronic devices. Firstly, the Company lacked adequate controls over the management of electronic devices. Computers were not uniquely identified or recorded in a centralized asset register, resulting in incomplete records of device ownership and usage. Secondly, procedures for the return, transfer and reallocation of devices upon employee departure were not formally documented, and no records were maintained to evidence device handovers. Thirdly, although periodic inventories were conducted by the Taizhou Subsidiaries, inventory records did not capture the assigned users of the devices.	(i) Company; (ii) Chiho Tiande; and (iii) Taizhou Metals	The Group should adopt a unified computer asset management policy at the group level, covering approval for issuance, return, transfer and reallocation; asset numbering and stocktaking; designated responsible departments and persons; a register recording all movements; and periodic, signed-off physical counts.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. The Company and the Taizhou Subsidiaries have each adopted an Office Computer Asset Management Policy establishing a unified numbering system, an asset register, and an annual physical count with a formal report; the Employee Handbook was also updated to require return of company property on termination. Both the group-level and Taizhou-level policies, and updated computer asset registers, were reviewed and confirmed consistent with sampled equipment issuance records at the Company and at Taizhou Metals, with no exception noted in the register entries, unique numbering or custodian details checked.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
3	Financing, loans and guarantees – Financing plans and repayment schedules not executed in accordance with policy			
	Contrary to the <i>Financing Management Measures</i> , Taizhou Metals had not prepared annual financing plans or financing proposals, and had not documented repayment schedules or repayment contingency plans in its financing register, notwithstanding significant intercompany lending activity during the review period.	Taizhou Metals	Taizhou Metals should (i) specify in policy, and implement, the approval process for financing plans and proposals; and (ii) implement the repayment schedule details and repayment contingency plans required by the financing register under the <i>Financing Management Measures</i> .	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. Taizhou Metals has revised its <i>Financing Management Measures</i> (approved on 3 September 2026) to specify required financing plan content and a multi-level approval workflow. External and intercompany loan registers reviewed included borrowing bank/ party, amount, term, rate and projected repayment/ renewal timing and reporting, confirming that financing plans and repayment schedules were being documented in accordance with the revised measures.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
4	Sales and receipts – Revenue recognition supporting documentation management requires improvement			
	Of five sampled sales transactions of Taizhou Metals, one outbound delivery note lacked customer signature confirmation, and no periodic review mechanism existed to check completeness of revenue-recognition supporting documents.	Taizhou Metals	Taizhou Metals should strengthen revenue recognition controls by establishing a review mechanism for key revenue-recognition documents to ensure the sales contract, delivery notification, outbound delivery note and customer signature are complete, accurate and traceable, with enhanced staff training, and should update the revenue recognition policy promptly if new sales models are introduced.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. The revised <i>Domestic Sales Management Policy</i> requires sales support staff to verify the identity of the collecting party, supervise on-site signature of the outbound delivery note, and hand over signed documents to Finance, with monthly spot checks by Finance and unsigned notes to be rectified within three working days. A sales sample of September 2026 showed a fully signed outbound delivery note with no exceptions noted, confirming the enhanced verification of sales supporting documents was being followed.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
5	Treasury and expense management – No chop management policy or chop-use approval process established			
	Chiho Tiande had not established a chop management policy or a chop-use approval process. Where a chop was required, staff manually completed a Chop Borrowing Record Form (recording date, chop name, document name, borrower, signature and return date) or requested use by email; other than this handwritten record, chop-use requests were not subject to any approval process, and the documents on which the chop was used were not systematically archived.	Chiho Tiande	Chiho Tiande should establish a chop management policy governing chop custody and the chop-use application and approval process. Records of chop-use applications and approvals, chop-use logs and the documents on which the chop was used should be retained electronically, and a designated employee should periodically check that chop-use records are complete and properly stored.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. The Company has adopted a <i>Domestic Subsidiary Certificate and Chop Management Policy</i> applying group-wide unified standards, requiring group-level approval or filing for the carving, activation, alteration and deactivation of any subsidiary's chop, and specifying tiered custody and use-approval requirements by chop type: the chops follows a tiered/segregated custody model with a first-approve-then-use-then-register workflow, different chops have their own approval routes, and chop-use approval records and logbooks must be retained for at least three years. Chiho Tiande has maintained a Chop Use Register since 25 August 2026 recording the date, department/handler, recipient entity, chop type, purpose, quantity and user; a sampled corporate-chop use for a business engagement letter was supported by a matching Chop Use Application Form and was approved by the Company's Executive Vice President, CEO and Board Chairman in accordance with policy, with no exception noted.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
6	Treasury and expense management – Chop use for external loan approvals completed before contract approval was finalised; Chop Use Register not completed and copies not retained as required; no approval process for taking the financial/legal-representative chop off-site			
	In respect of the Taizhou Subsidiaries, the Current Consultant found that in some instances, approval of chop use and actual chop use were completed for external loan contracts before the corresponding contract approval was finalised. For instance, an off-site chop-use application submitted the same day a RMB30 million loan contract was executed, with the contract approval only completing two days later; and an off-site chop application submitted the same day a renewed bank facility was signed, with contract approval only initiated some three weeks later and completed five days after that. The applicable Chop Use Register for the review period omitted the entry corresponding to one such off-site use, with no Chop Use Registration Form completed and no copy retained as required. The chop policy addressed off-site use of the corporate chop only, with no corresponding approval process for taking the financial chop, legal-representative chop or other chops off-site notwithstanding this occurring in practice.	T a i z h o u Subsidiaries	The Company should (i) centralise chop management under a designated group-level custodian; (ii) link the office automation contract-approval workflow to the chop-use application workflow so that chop use for contracts can only be requested once contract approval is complete; (iii) strictly enforce completion of the Chop Use Registration Form and retention of copies; and (iv) extend the off-site approval process, and the two-person escort requirement, to all categories of chop, with off-site custodian and return time logged in the office automation system and the final signed document uploaded for retention.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. The Company adopted a revised <i>Certificate and Chop Management Policy</i> in September 2026, establishing approval requirements for different types of chops and governing off-site chop use. Taizhou Metals has also linked its contract approval and chop-use workflows in the office automation system to ensure chops can only be used after the relevant contract has been approved. In addition, a Chop Use Register has been maintained since August 2026 to record and monitor chop usage, and sample testing of a stamped bank confirmation and its associated chop-use application confirmed compliance with the revised procedures, with no exception noted.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
7	Financing, loans and guarantees – Contract and payment approval for intercompany and external loans completed after signing/payment; external loan repayment lacking internal approval records			
	Samples reviewed for Taizhou Metals showed deficiencies in contract and payment approval for intercompany and external loans. For instance: (i) external bank loan and intercompany loan contracts were only approved after the contracts were signed (for example, a RMB30 million loan contract signed on 30 June 2025 was approved on 29 July 2025; a RMB5 million renewal loan contract signed on 3 December 2025 was approved on 5 December 2025); (ii) an intercompany loan contract (Taizhou Metals lending RMB20 million to Taizhou Environmental, signed on 12 November 2025) approved on 17 November 2025, after signing; (iii) an external bank loan repayment of RMB30 million made on 1 July 2025 with no corresponding payment application, reflecting an automatic bank-driven rollover with no cash movement by the Company; and (iv) two intercompany loans from Taizhou Metals to Chiho Tiande (RMB130 million and RMB110 million) where the final Board Chairman approval completed on 18 September 2025, after the funds had already been remitted (8 to 13 August and 10 to 12 September 2025 respectively).	Taizhou Metals	Taizhou Metals should (i) strictly prohibit signing a loan contract, or making payment, before the corresponding approval is complete; (ii) establish an accountability mechanism for contract and payment review, holding relevant approvers and operators responsible for breaches; and (iii) build a system control in the office automation platform to flag or block any contract-signing or payment date that precedes the corresponding approval date.	This issue has been remediated with no test sample available. Taizhou Metals has revised its <i>Financing Management Measures</i> to specify escalation and accountability arrangements for financing activities and to introduce a pre-approval request process for special scenarios (applications for approval of external bank loan contracts may only be initiated on the date the contract is executed), and a requirement that loan repayments be submitted for approval five working days before the renewal/repayment date. Taizhou Metals has confirmed the office automation contract-approval and payment workflows are now linked so payment cannot be initiated until the fully executed contract has been uploaded following completed contract and chop-use approval. As no new external loan, and no intercompany loan (owing to a frozen Taizhou Metals bank account), had occurred since the remediation exercise began, no test sample was available.

No.	Issue identified	Relevant entities	Recommendations	Rectification status
8	Financing, loans and guarantees – Intercompany loans not secured by guarantee as required by policy; post-loan monitoring requires improvement			
	Contrary to the requirement that related-party borrowers provide equivalent asset collateral or an intra-group guarantee (from a guarantor rated AA or above), 44 loans totalling approximately RMB1.019 billion made by Taizhou Metals to Chiho Tiande were not secured by any such collateral or guarantee. Group Finance had not obtained or shared with Taizhou Metals (as lender) details of Chiho Tiande's use of the borrowed funds, and post-loan monitoring correspondence between Group Finance and Taizhou Metals was limited to confirming loan contract signature and chop use for balance reconciliation, without tracking fund usage, repayment planning, or documenting the borrower's debt-servicing capacity.	(i) Company; and (ii) Taizhou Subsidiaries	The Company should enhance its policy to specify the written records and communications required for post-loan monitoring of intercompany loans (balance reconciliation, fund-usage tracking, borrower solvency and credit assessment), synchronised with the lending subsidiary; and the Group and Taizhou subsidiaries should jointly review the Group's intercompany lending position, assess each subsidiary's credit rating and operating condition, and require borrowers to provide appropriate security to protect the lending subsidiary's interests.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. The Company has adopted an Intercompany Company Loan Approval Policy (approved on 3 September 2026 and issued on 4 September 2026) covering borrower identification, use-of-proceeds review, financial condition and debt-servicing assessment, loan terms and pricing, guarantee and credit management, and post-loan/ongoing monitoring. The policy requires Group Finance to jointly review the Group's intercompany lending position with lending subsidiaries and assess each borrowing subsidiary's credit rating, and to retain monthly balance reconciliation records, monthly fund-usage and repayment tracking, quarterly/semi-annual borrower solvency and cash-flow analyses, and updated credit assessments, sharing these with the lending subsidiary. The Company and the Taizhou subsidiaries have completed and evidenced an initial exercise mapping intercompany loan amounts, lenders, borrowers and repayment dates, which was reviewed as the test sample confirming the monitoring control had begun operating.

Other internal control findings – Entity Level

No.	Issues identified	Relevant entities	Recommendations	Rectification status
1	The Company had not established formal written policies and procedures governing risk identification, assessment and response, nor had it maintained a risk register to document, monitor and periodically review key strategic, operational, financial and compliance risks.	Company	The Company should enhance its risk management framework by adopting formal risk management policies and procedures, maintaining and periodically reviewing a risk register, and conducting regular risk assessments with documented reporting to the Audit Committee.	This issue has been remediated with no test sample available. The Company has adopted a <i>Risk Management Policy</i> governing risk identification, assessment and response.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
2	The Company had not established a regular internal compliance training mechanism specifying training frequency, audience and content for directors, senior management and employees.	Company	The Company should establish a training policy with defined training objectives, plan, content, method and retained records, subject to periodic Board review, together with a regular anti-bribery, anti-corruption and whistleblowing training and communication programme extended to all subsidiaries, with defined reporting channels and escalation requirements, subject to periodic oversight.	This issue has been remediated with no test sample available. The Company has adopted an <i>Internal Compliance Training Management Policy</i> specifying the content, scope and documentation of training program.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
3	The Company's disclosure-related policy did not address (i) continuing disclosure obligations; (ii) an inside information management mechanism; (iii) protection of undisclosed information and internal data confidentiality classification; (iv) division of responsibility between the governance layer and management for communication; or (v) consequences and remedies for breach of disclosure or data protection requirements.	Company	The Company should establish a robust information communication and data protection mechanism.	This issue has been remediated with no test sample available. The Company has adopted an <i>Inside Information Management Policy</i> and a <i>Data Protection and Confidentiality Management Policy</i> to specify inside information assessment and data protection requirements. An inside information sample was supplied for testing with no exception noted. No training sample of inside information and data protection was yet available for testing.
4	Although budget preparation timetables and related communications existed, the Company could not provide evidence of Board/executive director approval of the final annual budget, nor records confirming that the approved budget had been issued to subsidiaries, contrary to the Internal Authorisation Management Policy.	Company	The Company should strictly follow the authorisation policy for annual budget approval and improve budget management procedures, including designating the department responsible for retaining and filing the budget and related approval records.	This issue has been remediated with no test sample available. A Budget Management Measures policy has been updated and approved. As the 2027 budget cycle has not yet commenced, the effectiveness of the annual budget approval control could not yet be tested.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
5	The review identified deficiencies in the design and implementation of the Company's approval authority framework: (i) inconsistencies were identified between different internal policies governing payment approvals; (ii) approval workflows had not been appropriately updated to reflect vacancies in key management positions, in particular the Group Financial Controller; and (iii) certain approval authorities were exercised pursuant to temporary management arrangements during a transitional management period.	Company	The Company should align approval authority for the same type of business across all policy documents; appoint delegate approvers in the system where an approval role is vacant, to ensure large payments receive appropriate approval; and reconcile system approval authorities against human resources records so that actual approvers hold the corresponding authorised role.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. The Company has updated its Delegation of Authority ("DOA") (approved on 22 September 2026) to align payment approval authority across policy documents and appoint delegate approvers for vacant roles, including the Group Financial Controller position. Taizhou Metals has also updated its Funds and Budget Management Measures in accordance with DOA. The Company has appointed a new Group Chief Financial Officer ("CFO") in August 2026 to execute the approval authority of Group Finance Controller. The updated office automation approval workflow was obtained and reviewed. A payment application was initiated in the office automation system as a test sample and routed to the newly designated delegate approver in accordance with the updated DOA, with no exception noted.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
6	The Taizhou Subsidiaries issued policies via signed circulation memos and internal meetings, but had not adopted a uniform system-based (e.g. office automation) formal issuance process with complete records of issuance, employee receipt and version control, nor evidence that Group headquarters had reviewed and approved the policies or retained records of such review, limiting the Group's oversight and traceability over subsidiary policy management.	T a i z h o u Subsidiaries	The Company should further standardise the management of subsidiary policy documents, specifying drafting, approval, formal issuance, version updating and retirement requirements, and establishing a uniform policy management process with proper retention of Group approval records, formally issued versions and subsequent updates.	This issue has been remediated with no test sample available. <i>A Policy Document Management Measures</i> has been adopted (approved on 4 September 2026) requiring approval structure for policy documents. As subsidiary policies are still being finalised and approved, none has yet been filed with the Group under the new process, so no test sample was available.
7	The Company had not established a legal dispute management policy or procedures, nor had it clearly defined the responsibilities for handling legal disputes and litigation. The ledger of legal disputes was not updated in a timely manner, resulting in inadequate monitoring of the impacts and risks arising from legal disputes.	Company	The Company should standardise a legal dispute management policy and clearly define the role and responsibility to monitor the legal and financial impacts caused by litigation.	This issue has been remediated and testing as at 29 September 2026 confirms the remediation measure is operational. The Company has formulated a Legal Dispute Management Policy to define the responsibility and procedures of handling legal disputes. The updated ledger of legal disputes was supplied for testing.

Other internal control findings – Process Level

No.	Issues identified	Relevant entities	Recommendations	Rectification status
1	Procurement and payment deficiencies			
	The review identified the following deficiencies in the procurement and payment process: • no written approval records were retained for procurement contracts for Taizhou Metals; • no requirement to retain supporting documentation for supplier price enquiries, comparisons, and review processes for Taizhou Metals and Chiho Tiande; • incomplete supplier assessment and evaluation process for Taizhou Metals; • inadequate supplier performance monitoring for Taizhou Metals; • lack of continuous monitoring of low-rated suppliers for Taizhou Metals; • no proper documentation of procurement policy for migrated business of Taizhou Environmental; and • deficiencies in Chiho Tiande's supplier file periodic maintenance and update mechanism, including lack of requirement on periodic review and update.	(i) Taizhou Metals ; (ii) Chiho Tiande; and (iii) Taizhou Environmental	Taizhou Metals should improve its procurement pricing management, procurement contract approval workflow, supplier onboarding assessment and performance evaluation mechanism. Taizhou Metals' existing policies should be updated to extend its scope to cover Taizhou Environmental. Chiho Tiande should enhance its review on supplier profile and improve its supplier pricing management.	8 matters have been remediated, and testing as at 29 September 2026 confirms the remediation measures are operational. Taizhou Metals has updated relevant policies to specify requirement of supplier onboarding, assessment, pricing enquiry and documentation, and contract approval workflow. Taizhou Metals has also updated its scope to cover the business operation of Taizhou Environmental. A procurement sample of September 2026, including price enquiry record and contract approval trail, was tested with no exceptions noted, confirming the enhanced and pricing documentation requirements were being followed. A supplier onboarding sample and two supplier performance rating samples were supplied for testing, confirming the enhanced supplier onboarding and monitoring requirements are followed. Chiho Tiande's supplier management responsibility has been transferred to Taizhou Metals. A sampled active supplier's records, including onboarding documentation and performance evaluation data, were reconciled to Taizhou Metals' updated supplier register without exception, confirming the transfer of responsibility had been implemented in practice. Chiho Tiande has updated relevant policies to specify supplier pricing management. A procurement sample of September 2026 was supplied for testing, confirming the pricing documentation requirements are followed.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
2	Sales and receipt The review identified the following deficiencies in the sales and receipt process: • inadequate scope of customer onboarding assessment for Taizhou Metals; • no written record of the customer quotation and price comparison process for Taizhou Metals; • no proper documentation of sales policy for migrated business of Taizhou Environmental; • Deficiencies in Chiho Tiande's customer file periodic maintenance and update mechanism, including lack of requirement on periodic review and update; and • no accounts receivable reconciliation mechanism established and no reconciliation records retained for Chiho Tiande.	(i) Taizhou Metals; (ii) Chiho Tiande; (iii) Taizhou Environmental	Taizhou Metals should establish and refine a customer onboarding management mechanism, improve its sales pricing management process, and extend its policy scope to cover Taizhou Environmental's sales operations. Chiho Tiande should specify in policy a periodic customer file review and update frequency, ensuring customer basic information and due-diligence documents are updated and retained in a timely manner. Chiho Tiande should establish an accounts receivable reconciliation mechanism.	3 matters have been remediated, and testing as at 29 September 2026 confirms the remediation measures are operational; 2 matters have been remediated with no test sample available. Taizhou Metals has updated its Domestic Sales Management Policy to specify records retention requirements for customer onboarding, customer quotation, and extended its policy scope to cover Taizhou Environmental. A customer onboarding sample including customer assessment form, business registration and background check results, and a sales sample for September 2026, including the quotation enquiry record, were tested with no exceptions noted, confirming the enhanced customer onboarding and quotation documentation requirements were being followed. Chiho Tiande's customer file management responsibility has been transferred to Taizhou Metals, which has been updated in Taizhou Metals' policy. As no review had yet occurred under the new plan, no test sample was available. Chiho Tiande has updated its Business Operation Workflow and Standard Procedure (approved on 8 September 2026) to require quarterly reconciliation with customers, including full invoice, amount and transaction-date detail, and retention of related correspondence and confirmations. As Chiho Tiande's sales has stalled, no test sample was available as of the report date.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
3	Asset management			
	Taizhou Metals' existing policy did not specify the approval authority for inventory count surplus/shortfall differences. No count records were retained in writing.	T a i z h o u Metals	Taizhou Metals should further refine its inventory count and difference-handling mechanism, and should retain complete writing records in writing.	This issue has been remediated, and testing as at 29 September 2026 confirms the remediation measure is operational. Taizhou Metals updated its Warehouse Management Measures to require approval workflow for any inventory count difference, with monthly counts jointly performed by Finance and Warehousing and a Surplus/Shortfall Schedule prepared and approved by Warehousing, Finance and General Manager. Sample testing of the surplus/shortfall schedule for August 2026 confirmed the approval chain matched policy, with no exception noted.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
4	Treasury and expense management			
	The review identified the following deficiencies in the treasury and expense management process: • Cash withdrawals were not properly approved in accordance with policy for Taizhou Metals; • Expense reimbursement policy and actual execution require improvement for Taizhou Metals; • Custody of bank tokens/password devices does not achieve segregation of duties for Taizhou Subsidiaries; and • No bank token/password device management policy established; token holder not updated on staff departure; custody and use not segregated for Chiho Tiande.	(i) Taizhou Subsidiaries; and (ii) Chiho Tiande	Taizhou Metals should update Fund and Budget Management Measures to strengthen the control of cash withdrawal activity and expense reimbursement process. Taizhou Subsidiaries should strictly implement the segregation-of-duties requirement for bank tokens and passwords in accordance with relevant policies. Chiho Tiande should establish a bank token management policy and reconcile all bank accounts against the token register and update it accordingly.	These issues have been remediated, and testing as at 29 September 2026 confirms the remediation measures are operational. The Company and Taizhou Metals have revised relevant policies to strengthen documentation of cash withdrawals and payments, to update expense reimbursement process applicable to business trips and ad hoc outing, and to require segregation of operator, reviewer and administrator roles for online banking, with tokens and passwords held separately. Samples of cash withdrawal, expense reimbursement, and online banking token usage for September 2026 were tested with no exception, confirming that token/password segregation between operator, reviewer and administrator roles, and the updated documentation requirements for cash and reimbursement transactions, were being followed in practice.

No.	Issues identified	Relevant entities	Recommendations	Rectification status
5	Financial reporting and disclosure			
	Chiho Tiande had not established a formal monthly financial closing process specifying the content, output, deadlines and responsible persons for each closing module, nor a formal closing review mechanism, relying instead on informal management practice with no review records retained.	Chiho Tiande	Chiho Tiande should establish a standardised monthly closing process with a closing checklist specifying the content, output, deadlines and responsible persons for each module, and a closing review mechanism with designated reviewers, review requirements and retained review records.	This issue has been remediated with no test sample available. Chiho Tiande has updated its <i>UFIDA System Closing Process</i> (approved and adopted on 2 September 2026) to specify timeline, review requirements, and system-retained records for monthly closing. As the financial closing for August 2026 had not yet been performed at date of the Internal Control Report, no test sample was available for validation testing.

In the event that there are other material updates after the publication of the Internal Control Announcement, the Company will make further announcement(s), as and when appropriate, in compliance with the Listing Rules.

CONTINUED SUSPENSION OF TRADING

Trading in the Company's shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2025, and will remain suspended until further notice pending the fulfilment of the Resumption Guidance. Further announcement(s) will be made by the Company as and when appropriate and in compliance with the requirements under the Listing Rules.

By Order of the Board
Chiho Environmental Group Limited
Fu Tao
Chairman and Executive Director

Hong Kong, 30 September 2026

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

Executive Directors:

Mr. Fu Tao (*Chairman*)

Ms. Zhang Aoxue

Mr. Yao Xiang

Mr. Yang Wei

Ms. Zhou Shuli

Independent Non-Executive Directors:

Mr. Ng Man Fung Walter

Ms. Wu Jian

Mr. Choi Wai Hong Clifford

* *For identification purpose only*