Chiho-Tiande Group Limited
(Incorporated in the Cayman Islands with limited liability)

Policy regarding dealings in metal futures contracts (Revision 6.0)

Background

We generate our revenue predominantly from the sale of recycled metal products which we processed from mixed metal scraps. Accordingly, our profit comprises the margin between the selling price of our recycled metal products and the cost of the mixed metal scrap we import and related recovering and processing costs.

The pricing of mixed metal scrap generally follows the movement of the pricing of refined metals quoted on established exchanges such as the London Metals Exchange ("**LME**") and the Shanghai Futures Exchange ("**SHFE**"). Selling prices for our recycled metal products are also determined by reference to such quoted prices. We believe that fluctuation in commodity prices is one of the principal operating risks we face for the following reasons:

- Any unusual sharp movements of commodity prices during the 3 to 4 months' time-lag between our purchase of mixed metal scrap and our recycled metal products being available for sale will affect the profit/loss of our operations during the time-lag period; and

- any unexpected and sharp decline in global commodities prices may reduce the net realisable value of our inventory below the cost we paid which may result in a write-down on the value of our inventory against our profit.

As part of our treasury and risk management, we purchase and sell metal futures for various reasons including:

- **To counteract the volatility of recycled metal prices:** Our operations involves from procurement, shipping and transportation to warehousing, sorting, dismantling, and selling. The entire process will take months and is by nature a long position. Our future hedging therefore needs to be short to counter any drop in the market of our underlying commodities.

- **To fund our operations:** Sale of the physical inventory will generate cash at the full realisable value while the purchase of metal futures is normally on margin (thus requiring an upfront payment of a portion of the value of the futures contract). By selling our recycled metal products, we can free up cash flow to fund our operations.

- **To reduce our inventory at an appropriate cost:** At times when we believe we have excess physical inventory which we are unable to dispose immediately (perhaps because the inventory has not yet been translated into recycled metal products), we may sell metal futures to reduce our physical inventory.

The overriding principle in buying/selling futures is not to use such futures for speculative trading activities.

Our Board recognises that indiscriminate and unchecked use of metal futures exposes the Group to potential risks. Therefore, in preparation for our listing on the Stock Exchange of Hong Kong, we established a formal hedging policy which became effective on 23 June 2010. The intention of the formal hedging policy was to enhance our risk management of commodity price fluctuations as well as to help us in inventory management. This revision becomes effective on 29 July 2016, superseding all previous versions. This document sets out and restates our policy with regard to dealings in metal futures contracts for all legitimate purposes.

Responsibilities

The Board has the overall supervision of our policy to achieve the overall objectives of cash, inventory and risk management.

The executive Directors are principally responsible for implementing this policy.

On the day-to-day basis, the operations of the policy is delegated to a pricing committee (Pricing Committee) consisting of members of our executive directors as well as senior management with appropriate qualifications and experiences. The Pricing Committee may, if it thinks fit, delegate the decisions to buy/sell futures contracts to one of its members, provided that the Pricing Committee shall review such delegation for every six months.

As at the date of the adoption of this policy, the Pricing Committee consists of:

1. Mr. ZHU Patrick Xiangdong (Chief Operation Officer) ("**COO**")
2. Mr. QIN Yongming (Executive Vice President and Executive Director)
3. Mr. KOON Wai Hung (Chief Financial Officer) ("**CFO**")
4. Mr. GOH Kian Guan (Chief Investment Officer)
5. Mr. GAN Jun (Financial Controller of Taizhou companies)

The Pricing Committee shall be chaired by the COO.

The COO will provide the recommendations to buy/sell futures contracts, while the Finance Department under the CFO will execute the trading instructions based on such recommendations. The Finance Department will assign the various personnel authorized to execute the trades. All trades instructions from the Finance Department to any brokers or intermediaries needs to include both COO and CFO. The Group (or through its subsidiary who have maintained the futures account) will inform the brokers and intermediaries the limits authorized by any members of the Finance Department. The brokers and intermediaries will also be instructed that any trade order will only be valid with both the acknowledgement of the COO together with any one member of the Finance Department. All daily trades need to be collated and reported daily to the COO and CFO.

Procedure

The Pricing Committee will on a monthly basis determine the range of metal futures contracts that the Group may enter into during the month.

The Pricing Committee shall review the open positions of the Group on a daily basis and determine (a) the offer and sell price of our physical stock as well as our hedging requirements; and (b) the quantity and the price of the metal futures contracts that the Group is going to buy or sell.

To ensure that the Group is not buying/selling metal futures contracts for speculative trading activities, the Pricing Committee will ensure that for the purposes of hedging, the quantity of metal futures contracts that the Group holds is within the Hedging Limit (as defined below) and that for the purposes of cash flow and inventory management, the quantity of metal futures contracts that the Group holds is within the Limits (as defined below) and the Trading Limit (as defined below).

Based on current business activities, the Group will only engage in short positions for futures contracts. As the Group has greater exposures on copper prices, the key focus on hedging will be on copper, using the LME copper futures. Expansion to other commodities types will be reviewed on a quarterly basis, depending on our physical volumes.

Monitoring

The Pricing Committee shall provide a monthly report (the Pricing Committee Report) to the Board of the metal futures activities carried out during the preceding month.

Our Board will meet on a quarterly basis to review and discuss our exposure level and the corresponding procurement and inventory management strategies. In addition, our Board will also review the Hedging Limit, the Limits and the Trading Limit every half a year basing on the cash position and the risk appetite of the Group to ensure that the Hedging Limit, the Limits and the Trading Limit stay appropriate for the Group.

In order to ensure the Group is not exposed to commodity risk that exceeds its risk appetite, the Finance Department shall assess and report to our Board the open positions basing on the cash position of the Group on a monthly basis. In any case if the risk appetite of the Group is lower than the predetermined Hedging Limit and Trading Limit, the Hedging Limit and the Trading Limit will be adjusted accordingly.

Annual Review and Reporting

We will engage our external auditors or an independent accountancy firm to perform annual review on our internal control, inventory management and commodity risk management procedures to ensure compliance with this policy. The results of these reviews will be reported to our Board.

It is the responsibility of the Board to review the report and recommendations of the external auditors or the independent accountancy firm and to cause the Group to take necessary measures to rectify deficiency, if any, identified by the external auditors or the appointed firm.

Objectives

Objective 1: **To mitigate commodity price risk by seeking to lock in our profits, secure our profit margin and to protect the sales price of our products**

Policy

We will trade futures contracts in organised markets with reference to professional metal commodity traders' perception and observation of the market's outlook. We will sell futures contracts to lock in our profits and mitigate any potential for loss or diminution of our profit margin.

The decision of buying and selling of future contracts will need to be approved by our Pricing Committee. The Pricing Committee will delegate one or more of its members to perform such hedging.

The futures contracts that may be used in our hedging activities include 1 to 12-month copper futures contracts on the LME, which may include other active commodities futures traded on reputable exchanges, depending on the Group's physical commodities exposures.

To meet this objective, the Limits (as defined below) will apply and cut-loss limits will be set.

The total quantity of futures contracts (in terms of tonnage) that we may sell for hedging purposes will be pegged to a limit of not more than 100% of then latest available quantity of physical inventories ("**Hedging Limit**") and such limit may only be extended by Board approval. We currently do not intend to fully hedge and lock-in our profits by hedging our positions with future contracts. Based on 2015 volume, the Group proposes to hedge no more than 5,000 tonnes of copper. The Limits will be 15% for both gain and loss, before mandatory closing of positions are triggered.

Our Directors believe an exposure of not more than 100% is a manageable risk level for a normal operating company as any potential downside in the downward movement of net realizable prices should be leveled out by the profits that have already been locked in by our hedging activities.

Objective 2: **To enhance our cash position and maintain appropriate level of inventory**

<u>Policy</u>

We normally receive full payment for sale of physical inventory upfront or shortly after the delivery of the physical inventory. Similarly, purchases of mixed metal scraps require upfront payments.

The sale and purchase of metal futures is normally on margin (thus requiring an upfront payment of a portion of the value of the futures contract).

We may sell metal futures contracts to maintain/reduce our level of inventory and secure cash-flow prior to physical inventory being available for sale.

Such activities help us in regulate our cash flow and metal inventories.

The futures contracts that may be used in our hedging activities include 1 to 12-month copper futures contracts on the LME, which may include other active commodities futures traded on reputable exchanges, depending on the Group's physical commodities exposures.

To ensure that the Group is not buying/selling metal futures contracts for speculative trading activities:

(a) the daily quantity of futures contracts (in terms of tonnage) that we may buy or sell for the purposes of cash flow and inventory management will be pegged to Limits; and

(b) the total quantity of futures contracts (in terms of tonnage) that we may buy or sell for the purposes of cash flow and inventory management will be pegged to a limit of not more than 50% of the then latest available quantity of physical inventories (the "**Trading Limit**") and such limit may only be extended by Board approval.

The Pricing Committee will ensure that the Limits and the Trading Limit are adhered to.

With reference to our experience in procurement and sales and the volume of inventory in hand, the net amount of metal futures that we may enter daily for each type of metal (the "**Limits**") should not exceed:

Copper – 5,000 tonnes

Such limits may only be extended with Board approval. For avoidance of doubt, such limits may not be exceeded in aggregate on any single day.

We may maintain short positions as and when the Pricing Committee considers it appropriate to do so, subject to the overriding principle that we shall not be buying/selling futures for speculative trading activities. The Pricing Committee must inform our Board monthly of open positions in its Pricing Committee Report with supporting reasons on the positions taken.

Objective 3: **To maintain an appropriate level of inventory for our operations**

Policy

We aim to maintain our inventory turnover days within a threshold of not more than 160 days. Our Pricing Committee is tasked with monitoring on a daily basis various factors, including the anticipation of the market, price and other trends in the PRC domestic and overseas markets that may affect commodity prices. Through (i) our established relationship with our suppliers, customers, China metal recycling industry authorities and professional metals commodities traders; (ii) our management's expertise and experience in the China metal recycling industry; and (iii) real time price monitoring systems, we are able to obtain latest market information including commodity price movements.

Based on the updated market information and their experience and judgment in respect of commodity price trends, our management will monitor our inventory turnover days on a monthly basis and any changes to our inventory turnover day criteria will require our Board's approval, save that no such approval is required if the target inventory turnover days are not achieved in January and February owing to the intervening Chinese New Year holiday.

In the event that our management monthly review of the inventory turnover days demonstrates that we are not in strict compliance with our policy, we will put in place and implement a plan to accelerate the sale of our products within a reasonable period of time in order to comply with our policy.

In the event that the commodity market experiences a sustained and sharp decline in prices that are likely to cause a lengthening in the inventory turnover days, the Board may consider engaging and seeking relevant professional firms to advise it on the current and future market outlook of the commodities market. Based on such advice and taking into consideration any adjustments for lower liquidity, lower realisable prices for our recycled metal products and the cash flow requirements that we may need in order to continue normal operations under the prevailing conditions, our Board will consider and, if it thinks fit, grant approval for an extension of our inventory turnover criteria beyond the current 160 days.

Should our Board decide that there is no need to extend our inventory turnover criteria beyond the current 160 days despite the prevailing circumstances, we will, where necessary, put in place and implement a plan to accelerate the sale of our products within a reasonable period of time in order to comply with our policy.

In the circumstances mentioned above, we may also use metal futures to supplement our purchase or sale of physical inventory.

Adopted by the Board on 23 June, 2010
Revised by the Board on 20 January, 2014
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