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偉祿集團控股有限公司
REALORD GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1196)

**(1) CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE PROVISION OF TECHNICAL SERVICES;
AND
(2) CONNECTED TRANSACTIONS
IN RELATION TO
(A) THE LEASE OF LAND; AND
(B) THE PURCHASE OF FIXED ASSETS**

THE AGREEMENTS

After the Stock Exchange trading hours on 15 May 2020, Realord EP Japan and Tsugawa Metal entered into (i) the Service Agreement, pursuant to which Tsugawa Metal agreed to provide the Technical Services to Realord EP Japan for JPY12,300,000 (equivalent to approximately HK\$927,051) per month with workers' overtime charge on a hourly rate (if any); (ii) the Lease Agreement, pursuant to which Realord EP Japan has agreed to lease the Land from Tsugawa Metal for JPY6,400,000 (consumption tax inclusive and equivalent to approximately HK\$482,368) per month; and (iii) the Purchase Agreement, pursuant to which Realord EP Japan has agreed to purchase the Fixed Assets from Tsugawa Metal at a consideration of JPY128,083,080 (consumption tax inclusive and equivalent to approximately HK\$9,653,622) in aggregate, for carrying on the Group's dismantling and trading of scrap material business in Japan.

LISTING RULES IMPLICATIONS

Realord EP Japan is effectively owned as to approximately 54.3% by the Company and directly owned as to 10% by Mr. Liu Tao, who is also a director of Realord EP Japan and a majority shareholder holding 60% interests in Tsugawa Metal. Tsugawa Metal is therefore a connected person of the Company at the subsidiary level under the Listing Rules.

The transactions contemplated under the Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Service Agreement is subject to the announcement, annual review and reporting requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules as all applicable percentage ratios are less than 5%.

In accordance with Hong Kong Financial Reporting Standard 16 – Leases, the Group is required to recognise the lease of Land under the Lease Agreement as a right-of-use asset. As a result, the entering into of the Lease Agreement and the transactions contemplated thereunder are regarded as an acquisition of asset by the Group pursuant to the Listing Rules. As all applicable percentage ratios in respect of each of (i) the value of the right-of-use asset under the Lease Agreement; and (ii) the purchase of Fixed Assets under the Purchase Agreement, on a standalone basis, is less than 1% and these transactions are connected transactions only because they involve a connected person of the Company at the subsidiary level, the transactions contemplated under the Lease Agreement and the Purchase Agreement are fully exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules. However, as one of the applicable percentage ratios in respect of (i) the value of the right-of-use asset under the Lease Agreement; and (ii) the purchase of Fixed Assets under the Purchase Agreement, when aggregated with that of the provision of the Technical Services under the Service Agreement, is more than 1% but less than 5%, the Lease Agreement and the Purchase Agreement are also subject to announcement and reporting requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 15 May 2019 in relation to (i) the provision of certain technical services; and (ii) the leases of certain land and buildings and fixed assets by Tsugawa Metal to Realord EP Japan under the Existing Service Agreement and Existing Lease Agreement respectively. Pursuant to the respective terms of these agreements, the Existing Service Agreement and the Existing Lease Agreement will expire and has expired on 30 June 2020 and 14 May 2020 respectively.

Having taken into account the expansion of production scale of Realord EP Japan, on 15 May 2020, Realord EP Japan and Tsugawa Metal entered into (i) the Service Agreement and the Lease Agreement to govern the terms of upcoming provision of Technical Services and lease of the Land respectively; and (ii) the Purchase Agreement in relation to purchase of the Fixed Assets by Realord EP Japan from Tsugawa Metal. The parties also agreed to early terminate the Existing Service Agreement and superseded it by the Service Agreement. Principal terms of the Agreements are set out below.

THE SERVICE AGREEMENT

Date

15 May 2020

Parties

- (i) Realord EP Japan; and
- (ii) Tsugawa Metal.

Terms of service

Services to be provided by Tsugawa Metal	:	The Technical Services including the processing and dismantling of scrap materials by 41 workers and related technical and logistics support
Term	:	15 May 2020 to 31 December 2021 (both dates inclusive)
Monthly service fee	:	JPY12,300,000 (consumption tax inclusive and equivalent to approximately HK\$927,051) per month (or on a pro-rata basis based on the number of working days if the relevant period is less than one month)

The above fee was determined after arm's length negotiations between Realord EP Japan and Tsugawa Metal with reference to the staff costs of 41 workers under the Technical Services. The average monthly service fee charged by Tsugawa Metal per number of workers providing such Technical Services is (i) similar to that of the average monthly service fee charged by Tsugawa Metal per number of workers under the Existing Service Agreement; and (ii) lower than the average income of similar workers in manufacturing industry in Osaka, Japan based on government statistics.

- Overtime charge : (i) For overtime work required by Realord EP Japan during a Business Day, (a) 1.25 times of the respective Hourly Rate (as defined below) for each worker per hour in the event that the overtime work is carried out between 6 p.m. and 10 p.m.; and (b) 1.5 times of the respective Hourly Rate for each worker per hour in the event that the overtime work is carried out between 10:01 p.m. and 5 a.m.; and
- (ii) For overtime work required by Realord EP Japan during a non-Business Day, (a) 1.35 times of the respective Hourly Rate for each worker per hour in the event that the overtime work is carried out between 5:01 a.m. and 10 p.m.; and (b) 1.6 times of the respective Hourly Rate for each worker per hour in the event that the overtime work is carried out between 10:01 p.m. and 5 a.m.

The “Hourly Rate” is calculated based on the monthly salary of a worker and divided by (i) the number of working days during that month; and (ii) the number of normal working hours per working day.

The overtime charge is determined in accordance with the statutory requirements for overtime compensation according to 労働局 (translated as Labour Bureau) in Japan.

The monthly service fee, together with the overtime charge, are payable within five Business Days upon receipt of an invoice from Tsugawa Metal and will be satisfied by internal resources of the Group.

- Early termination : Either party may terminate the Service Agreement by giving a 15-day prior written notice. However, the parties are still required to fulfill their obligations and responsibilities under the Service Agreement before termination.

Processed volume requirements : Tsugawa Metal agreed that the volume of scrap materials processed under the Service Agreement shall be no less than 1,700 tonnes per month (or on a pro-rata basis based on the number of working days if the relevant period is less than one month) (the “**Minimum Monthly Volume**”). If the scrap materials provided by Realord EP Japan are less than the agreed volume, leading to the scrap materials processed being less than such agreed Minimum Monthly Volume, the monthly service fee will remain as JPY12,300,000 (equivalent to approximately HK\$927,051). Among the Minimum Monthly Volume required, (i) the copper scrap materials processed under each of the two copper rice production lines shall be no less than 350 tonnes each per month and under a shredding production line shall be no less than 500 tonnes per month respectively; and (ii) the plastic scrap materials processed under the other shredding production line shall be no less than 500 tonnes per month. The allocation of the aforesaid minimum volume of major scrap materials processed and the number of workers among each of the production lines could be adjusted at the request of Realord EP Japan.

Tsugawa Metal warrants that the content of processed major scrap materials in each tonne of processed waste residue shall not exceed 1%.

In the event that the content in the processed major scrap materials deviates from the level specified in the processing plan as previously agreed by both parties by over 1%, Tsugawa Metal shall compensate such loss in value of processed major scrap materials to Realord EP Japan according to the respective prevailing price of processed major scrap materials in the Japanese market as at the relevant completion date of processing.

Other terms : The Existing Service Agreement has been superseded by the Service Agreement and it has been early terminated with effect from the date of the Service Agreement on 15 May 2020.

ANNUAL CAPS

The Company has set the annual caps in relation to the Technical Services under the Service Agreement as follows:

Period	Annual Caps HK\$
For the year ending 31 December 2020 (i.e. from 15 May to 31 December 2020)	8,300,000
For the year ending 31 December 2021	13,300,000

The above annual caps were determined by the Company after having taken into account the term of the Service Agreement during the respective financial year, the monthly service fee and the estimate of overtime charge to be incurred for the Technical Services. The overtime charge to be incurred is estimated based on (i) the estimated number of workers' overtime hours involved to increase the volume of scrap materials processed from the agreed Minimum Monthly Volume of 1,700 tonnes per month to 1,950 tonnes per month as a result of the potential increase in machines productivity; and (ii) the average hourly rate per worker for overtime work estimated based on the monthly service fee for the Technical Services assuming each worker works eight hours per day and 25 working days per month.

In respect of the provision of certain technical services by Tsugawa Metal to Realord EP Japan under the Existing Service Agreement, the annual caps set for the years ended/ ending 31 December 2019 and 2020 are HK\$2,314,000 and HK\$2,314,000 respectively. For the year ended 31 December 2019 and the three months ended 31 March 2020, the actual service fee incurred amounted to approximately HK\$709,000 and HK\$529,000 respectively.

THE LEASE AGREEMENT

Date

15 May 2020

Parties

- (i) Realord EP Japan, as the lessee; and
- (ii) Tsugawa Metal, as the lessor.

Terms of lease

Subject assets	:	The Land comprising three pieces of land in Osaka, Japan with an aggregate gross floor area of approximately 16,000 square meters and buildings and infrastructure erected thereon
Term	:	18 months from 15 May 2020 and until 14 November 2021
Monthly lease payment	:	JPY6,400,000 (consumption tax inclusive and equivalent to approximately HK\$482,368) per month

The above charge was determined after arm's length negotiations between Realord EP Japan and Tsugawa Metal with reference to the existing rental expenses paid by Tsugawa Metal to the owner of the Land, who is an independent third party, and the depreciation charge over construction costs of the buildings and infrastructure erected on the Land in their estimated useful lives. The rental charge was no less favourable to the Group than the prevailing market rent of similar sites in the surrounding area of the Land.

Lease payment shall be payable monthly in advance. The lease payment will be satisfied by internal resources of the Group.

Early termination	:	Tsugawa Metal has the right to terminate the Lease Agreement without giving notice to Realord EP Japan in the occurrence of any of the following events: <ul style="list-style-type: none">(i) three months of rental payments are delinquent;(ii) Realord EP Japan has delayed the rental payment for more than three times during the lease term; or
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- (iii) Realord EP Japan has breached any of the terms in the Lease Agreement and failed to correct or remedy in time after Tsugawa Metal's written request.

Other terms : Tsugawa Metal has confirmed that it has the rights to use and lease the Land to Realord EP Japan.

Realord EP Japan is required to obtain a prior written consent from Tsugawa Metal in the following circumstances:

- (i) construct a new building on the Land;
- (ii) sub-lease the Land or other acts with similar purpose;
- (iii) change the usage purpose of the Land; and
- (iv) change the existing state of the Land.

A deposit of JPY20,000,000 (equivalent to approximately HK\$1,507,400) has been paid to Tsugawa Metal in accordance with the terms of the Existing Lease Agreement. Such amount shall be rolled over as the deposit for the Lease Agreement. Upon expiry of the lease term and return of the subject assets by Realord EP Japan to Tsugawa Metal, Tsugawa Metal shall, after deduction of any unpaid rent and damage fee, refund the deposit to Realord EP Japan.

THE PURCHASE AGREEMENT

Date

15 May 2020

Parties

- (i) Realord EP Japan, as the purchaser; and
- (ii) Tsugawa Metal, as the vendor.

Terms of purchase

- Subject assets : The Fixed Assets comprising of a total of 33 items, including crushing and shredder machines, claw machines, copper rice machines, loading machines, wire stripping machines, grinding machines, a power generator, a forklift, a colour sorting machine, a drying machine and a packaging machine
- Consideration and delivery of the Fixed Assets : JPY128,083,080 (consumption tax inclusive and equivalent to approximately HK\$9,653,622) in aggregate, which shall be payable by Realord EP Japan to Tsugawa Metal in the following manners:
- (i) as to a deposit of JPY56,000,000 (equivalent to approximately HK\$4,220,720) shall be payable by 1 June 2020, whereby Tsugawa Metal shall deliver the Fixed Assets (other than two claw machines and a forklift which were under mortgage as at the date of the Purchase Agreement (the “**Mortgaged Fixed Assets**”)) to Realord EP Japan within five Business Days after receipt of such payment;
 - (ii) as to the balance of JPY72,083,080 (equivalent to approximately HK\$5,432,902) shall be payable within one Business Day after Realord EP Japan’s inspection of the Fixed Assets (other than the Mortgaged Fixed Assets), which shall be performed within five Business Days after their delivery.

Tsugawa Metal shall redeem the Mortgaged Fixed Assets from the relevant mortgagees on or before 30 June 2020, whereas the delivery of such Mortgaged Fixed Assets to and inspection thereof by Realord EP Japan shall take place within five Business Days after such redemption. In the event that such redemption of the Mortgaged Fixed Assets was not completed on or before 30 June 2020, Tsugawa Metal shall return the deposit of JPY24,825,655 (equivalent to approximately HK\$1,871,110) to Realord EP Japan within five Business Days.

The consideration for the purchase of Fixed Assets was determined after arm's length negotiations between Realord EP Japan and Tsugawa Metal having considered the initial purchase costs of the Fixed Assets incurred by Tsugawa Metal of approximately JPY180.9 million (equivalent to approximately HK\$13.6 million), the conditions, the estimated remaining useful life and residual value of the Fixed Assets. Such consideration was no less favourable to the Group than that of the quotations obtained from independent suppliers in the market for similar fixed assets. The consideration for the purchase of the Fixed Assets will be satisfied by the borrowings from the shareholders of Realord EP Japan.

Other terms : In the event that Realord EP Japan fails to timely settle the consideration in accordance with the terms of the Purchase Agreement, a daily interest of 1% based on the amount due to Tsugawa Metal shall be payable by Realord EP Japan.

In the event that Tsugawa Metal fails to deliver the Fixed Assets timely in accordance with the terms of the Purchase Agreement, a daily interest of 1% based on the consideration already paid by Realord EP Japan shall be payable by Tsugawa Metal.

In the event that either party to the Purchase Agreement is in default for more than 30 days (excluding the arrangement regarding the Mortgaged Fixed Assets, which shall be performed in accordance to the terms abovementioned in the paragraph headed "Consideration and delivery of the Fixed Assets"), the other party has the right to terminate the Purchase Agreement after notifying the defaulting party in writing. Tsugawa Metal shall refund to Realord EP Japan for any consideration already paid and Realord EP Japan shall return to Tsugawa Metal for the Fixed Assets already delivered.

INFORMATION OF THE GROUP, REALORD EP JAPAN AND TSUGAWA METAL

The Group is principally engaged in (i) the provision of financial printing, digital printing and other related services; (ii) sales of hangtags, labels, shirt paper boards and plastic bags; (iii) distribution and sales of motor vehicle parts; (iv) provision of corporate finance advisory, asset management, securities brokerage services and margin financing; (v) property investment, development and commercial operation; and (vi) the environmental protection industry.

Realord EP Japan is principally engaged in dismantling and trading of scrap materials in the environmental protection industry in Japan.

Tsugawa Metal is principally engaged in trading and processing of scrap materials in Japan.

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE AGREEMENTS

Recycling, dismantling and trading of scrap materials in the environmental protection industry is one of the principal businesses of the Group. The operations of dismantling and trading of scrap materials in Osaka, Japan by Realord EP Japan were set up and commenced in 2019 and the Existing Agreements were entered into between Realord EP Japan and Tsugawa Metal in May 2019 to facilitate a smooth start of operation. As disclosed in the annual report of the Company for the year ended 31 December 2019, the Group is expanding its processing plant in Osaka, Japan to strengthen its establishment and productivity for the local Japanese market. To achieve such expansion of production scale, the Group would require a larger site area, a bigger team size and more machines and equipments for production. Accordingly, Realord EP Japan has entered into the Lease Agreement with Tsugawa Metal, which extended the lease term of the existing production site which it currently operates and included also additional site area on the same site parcels in connection with the existing production site. Having considered the considerable time involved in recruitment and obtaining visa approvals for the required workers and to expedite the development of business, Realord EP Japan has entered into the Service Agreement with Tsugawa Metal, which represented a renewal of the Existing Service Agreement with an expanded scope of the Technical Services. Furthermore, the purchase of the Fixed Assets, which are essential for the production and logistics processes, would be beneficial to Realord EP Japan for fulfilling its ongoing production requirements in the long run.

Taking into account that the terms of the Agreements were determined after arm's length negotiations between the parties thereto, the Directors (including the independent non-executive Directors) consider that the Agreements were entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Agreements and the annual caps for the Technical Services are fair and reasonable and in the interests of the Company and its shareholders as a whole. None of the Directors have a material interest in the Agreements and the transactions contemplated thereunder which required any of the Directors to abstain from voting on the resolutions in relation to the Agreements and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

Realord EP Japan is effectively owned as to approximately 54.3% by the Company and directly owned as to 10% by Mr. Liu Tao, who is also a director of Realord EP Japan and a majority shareholder holding 60% interests in Tsugawa Metal. Tsugawa Metal is therefore a connected person of the Company at the subsidiary level under the Listing Rules. Save for aforementioned, to the best of the directors' knowledge, information and belief having made all reasonable enquiry, Ms. Li Chang, the ultimate beneficial owner holding the remaining 40% interests in Tsugawa Metal, is a third party independent of the Company and its connected persons.

The transactions contemplated under the Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Service Agreement is subject to the announcement, annual review and reporting requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules as all applicable percentage ratios are less than 5%.

In accordance with Hong Kong Financial Reporting Standard 16 – Leases, the Group will recognise the lease of Land under the Lease Agreement as a right-of-use asset for an amount of JPY113,495,976 (equivalent to approximately HK\$8,554,192). As a result, the entering into of the Lease Agreement and the transactions contemplated thereunder are regarded as an acquisition of asset by the Group pursuant to the Listing Rules. As all applicable percentage ratios in respect of each of (i) the value of the right-of-use asset under the Lease Agreement; and (ii) the purchase of Fixed Assets under the Purchase Agreement, on a standalone basis, is less than 1% and these transactions are connected transactions only because they involve a connected person of the Company at the subsidiary level, the transactions contemplated under the Lease Agreement and the Purchase Agreement are fully exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules. However, as one of the applicable percentage ratios in respect of (i) the value of the right-of-use asset under the Lease Agreement; and (ii) the purchase of Fixed Assets under the Purchase Agreement, when aggregated with that of the provision of the Technical Services under the Service Agreement, is more than 1% but less than 5%, the Lease Agreement and the Purchase Agreement are also subject to announcement and reporting requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions shall have the following meanings:

“Agreements”	the Service Agreement, the Lease Agreement and the Purchase Agreement
“Board”	the board of Directors
“Business Day(s)”	a day(s) other than Saturday, Sunday, a Japanese national holiday or other day on which banks in Tokyo, Japan are required or authorised to close
“Company”	Realord Group Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1196)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Existing Agreements”	the Existing Service Agreement and the Existing Lease Agreement
“Existing Lease Agreement”	the agreement dated 15 May 2019 entered into between Realord EP Japan and Tsugawa Metal in respect of the lease of certain land and buildings and fixed assets by Realord EP Japan from Tsugawa Metal
“Existing Service Agreement”	the agreement dated 15 May 2019 entered into between Realord EP Japan and Tsugawa Metal in respect of the provision of certain technical services by Tsugawa Metal to Realord EP Japan
“Fixed Assets”	a total of 33 items of fixed assets, including crushing and shredder machines, claw machines, copper rice machines, loading machines, wire stripping machines, grinding machines, a power generator, a forklift, a colour sorting machine, a drying machine and a packaging machine
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Land”	three pieces of land in Osaka, Japan with aggregate gross floor area of approximately 16,000 square meters and buildings and infrastructure erected thereon
“Lease Agreement”	the agreement dated 15 May 2020 entered into between Realord EP Japan and Tsugawa Metal in respect of the lease of the Land by Realord EP Japan from Tsugawa Metal
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Purchase Agreement”	the agreement dated 15 May 2020 entered into between Realord EP Japan and Tsugawa Metal in respect of the purchase of Fixed Assets by Realord EP Japan from Tsugawa Metal
“Realord EP Japan”	偉祿環保株式會社 (translated as Realord Environmental Protection Japan Co., Ltd.), a company incorporated in Japan and an indirect approximately 54.3%-owned subsidiary of the Company
“Service Agreement”	the agreement dated 15 May 2020 entered into between Realord EP Japan and Tsugawa Metal in respect of the provision of the Technical Services by Tsugawa Metal to Realord EP Japan
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Technical Services”	the processing and dismantling of scrap materials by 41 workers and related technical and logistics support
“Tsugawa Metal”	津川金屬株式會社 (translated as Tsugawa Metal Co., Ltd.), a company incorporated in Japan and majority-owned by Mr. Liu Tao
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“JPY”	Japanese Yen, the lawful currency of Japan
“%”	per cent.

For illustration purpose, amounts in JPY in this announcement are translated into HK\$ at the rate of JPY1 = HK\$0.07537, which was made reference to the highest closing exchange rate of JPY to HK\$ in the last two years prior to the date of this announcement so as to cater for possible exchange rate fluctuations for annual caps calculation purposes. The aforesaid exchange rate should not be taken as a representation that JPY could actually be converted into HK\$ at such rate or at all.

By order of the Board
Realord Group Holdings Limited
Lin Xiaohui
Chairman

Hong Kong, 15 May 2020

As at the date of this announcement, the executive Directors are Dr. Lin Xiaohui, Madam Su Jiaohua and Mr. Lin Xiaodong and the independent non-executive Directors are Mr. Yu Leung Fai, Mr. Fang Jixin and Dr. Li Jue.