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Pizu Group Holdings Limited

比優集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8053)

CONTINUING CONNECTED TRANSACTIONS SALE OF POWDER EMULSION EXPLOSIVES, ANFO EXPLOSIVES AND COLLOIDAL EMULSION EXPLOSIVES TO ORDOS BEIAN UNDER NEW FRAMEWORK AGREEMENT

NEW FRAMEWORK AGREEMENT

On 20 January 2020, Ordos Beian (as customer) and Shengan Chemical (Otog Banner) and Bayannur Shengan (as suppliers) entered into the New Framework Agreement in relation to the continuing connected transactions of sale of powder emulsion explosives, ANFO explosives and colloidal emulsion explosives.

GEM Listing Rules Implications

Ordos Beian is a connected person of the Company at the subsidiary level. By virtue of Rule 20.99 of the GEM Listing Rules, as (i) Ordos Beian is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under the New Framework Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions and confirmed that the transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, the transactions contemplated under the New Framework Agreement and the annual caps thereof are subject to reporting, annual review, announcement but are exempted from Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

BACKGROUND

Reference is made to the announcements (the “**Announcements**”) of Pizu Group Holdings Limited (the “**Company**”) dated 9 October 2017 and 11 October 2017 in relation to the continuing connected transactions for sale of powder emulsion explosives, ANFO explosives and colloidal emulsion explosives by Otog Banner Shengan 929 Chemical Limited (“**Shengan Chemical (Otog Banner)**”) and Bayannur Shengan Chemical Limited (“**Bayannur Shengan**”) to Ordos Beian (“**CCT**”). Terms used herein shall have the same meanings as defined in the Announcements unless the context requires otherwise.

PROPOSED ANNUAL CAPS

The Company announced on 9 October 2017 that on the same date, Ordos Beian (as customer) and Shengan Chemical (Otog Banner) and Bayannur Shengan (as suppliers) entered into the framework agreement (“**Existing Framework Agreement**”) in relation to CCT for the three years ending 31 March 2020. The proposed annual caps (net of VAT) for the CCT for the three years ending 31 March 2020 are set out in the following table together with the actual historical amounts (net of VAT):

| (amounts net of VAT) | For the year ended/ending 31 March | | |
|----------------------|------------------------------------|-------------|-------------|
| | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB |
| Proposed annual caps | 225,000,000 | 227,000,000 | 231,000,000 |
| Actual amounts | 158,955,000 | 166,831,000 | 216,766,594 |
| | | | (note) |

Note: this refers to the total sale amounts (net of VAT) during the 9 months (1 April 2019 to 31 December 2019).

NEW FRAMEWORK AGREEMENT

Following the improvement in the business environment of mining enterprises and the surge in the mining blasting volume of the downstream mining enterprises, there is a recent increase in the transactions of the CCT. It is expected that the amount of CCT in the year ending 31 March 2020 will exceed the original annual cap set as RMB231,000,000. In light of the above, Shengan Chemical (Otog Banner) and Bayannur Shengan (as supplier) (collectively, “**Suppliers**”) and Ordos Beian (as customer) entered into a new framework agreement (“**New Framework Agreement**”) on 20 January 2020 so as to: (1) revise the proposed annual cap for the year ended 31 March 2020; and (2) extend the period for two financial years ended 31 March 2022 together with setting of annual caps on the two years. The Existing Framework Agreement was terminated on the same date of 20 January 2020.

Principal terms of the New Framework Agreement

Pursuant to the New Framework Agreement, the Suppliers agreed to sell and Ordos Beian agreed to purchase powder emulsion explosives, ANFO explosives and colloidal emulsion explosives subject to the terms and conditions of the New Framework Agreement and on such other terms (such as the category, volume, unit price of purchase, quality requirements, time and location of delivery of finished goods) to be further agreed by the parties by entering into separate purchase orders from time to time, provided that the terms of such purchase orders shall be on normal commercial terms or better, and shall not contravene the terms of and conditions of the New Framework Agreement.

As the pricing of sales of civil explosives is no longer subject to any laws or government regulations in the PRC, and there are no published reference price by any authority in the PRC, pursuant to the New Framework Agreement, the unit price for sale and purchase shall be from time to time agreed by the parties after arm's length negotiation and shall be determined with reference to the prevailing market price for comparable products, volume of purchase, transportation and delivery arrangement and such other special circumstances, provided that the unit price offered by the Suppliers shall not be more favourable than that offered by the Suppliers to their independent third party purchasers for purchase of comparable products and volume. As there is no minimum sale and purchase commitment by the Suppliers and Ordos Beian and exclusivity for sale of such civil explosives by the Suppliers under the New Framework Agreement, where the Suppliers can obtain better terms for sale of comparable products to independent purchasers, the Suppliers can sell comparable products to such independent purchasers.

The New Framework Agreement was entered into for a term of three years commencing from 20 January 2020, unless terminated earlier by mutual agreements or by a party serving a prior termination notice of not less than 30 days on the other parties thereof.

PROPOSED ANNUAL CAPS

The New Framework Agreement is, among others, to revise the proposed annual cap of the CCT for the year ending 31 March 2020 and to set the proposed annual caps of the CCT for the two years ending 31 March 2021 and 31 March 2022 as set out in the following table:

| (amounts net of VAT) | For the year ending 31 March | | |
|-------------------------------|-------------------------------------|--------------------|--------------------|
| | 2020 | 2021 | 2022 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| Original proposed annual caps | 231,000,000 | N/A | N/A |
| New proposed annual caps | <u>300,000,000</u> | <u>300,000,000</u> | <u>300,000,000</u> |

The proposed annual caps set out above are determined by the Directors by reference to the actual sales amount during the nine months ended 31 December 2019, the sales forecast amounts for the three years ending 31 March 2022. It is expected that the market of civil explosives of the Suppliers will remain stable in the foreseeable future and no significant fluctuation will occur.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW FRAMEWORK AGREEMENT

The Group is principally engaged in bulk mineral trade, manufacturing and sale of explosives and provision of blasting operations and related services. Ordos Beian is principally engaged in sale of explosives and provision of blasting operations and related services in Ordos City, Inner Mongolia. Shengan Chemical (Otog Banner) and Bayannur Shengan both are subsidiaries of the Group and are principally engaged in the manufacturing and sale of civil explosives.

By entering into the New Framework Agreement, the Group can have adequate room to cater for the growth in the CCT for an extended period and continue the long term business relationship between the parties.

The Directors (including the independent non-executive Directors) are of the view that the entering into of the New Framework Agreement is in the ordinary and usual course of business of the Group and the terms of the New Framework Agreement (including the new annual caps) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

None of the Directors has any material interest in the transactions contemplated under the New Framework Agreement, and none of them needs to abstain from voting on the board resolution approving the New Framework Agreement and the transactions contemplated thereunder.

IMPLICATIONS UNDER THE GEM LISTING RULES

Ordos Beian is a connected person of the Company at the subsidiary level as it is a subsidiary of 內蒙古生力民爆股份有限公司 (Inner Mongolia Shengli Civil Explosives Co., Ltd.) (for identification purpose only), which holds 40% of equity interest in Inner Mongolia Shengan Chemical Limited (a partially owned subsidiary of the Group). Accordingly, any transaction between the Suppliers and Ordos Beian constitutes continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

By virtue of Rule 20.99 of the GEM Listing Rules, as (i) Ordos Beian is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under the New Framework Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions and confirmed that the transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, the transactions contemplated under the New Framework Agreement and the annual caps thereof are subject to reporting, annual review, announcement but are exempted from Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Note:

- * English translation of certain Chinese names or words in this announcement is included for information purpose only and should not be regarded as official English translation.

By order of the Board
Pizu Group Holdings Limited
Mr. Xiong Zeke
Chairman

Hong Kong, 20 January 2020

As at the date of this announcement, the Board comprises nine Directors. The executive Directors are Mr. Xiong Zeke (Chairman), Mr. Liu Fali (Chief Executive Officer), Mr. Ma Gangling (Chief Operating Officer), Mr. Ma Tiangyi, Ms. Qin Chunhong and Ms. Ma Ye; and the independent non-executive Directors are Ms. Zhang Lin, Ms. Liu Talin and Ms. Yao Yunzhu.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its publication and on the website of the Company at www.pizugroup.com.