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CHIHO-TIANDE GROUP LIMITED

齊合天地集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 976)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

HIGHLIGHTS

- Revenue for the year ended 31 December 2013 amounted to HK\$7.2 billion (2012: HK\$8.2 billion), representing a decrease of 12.2% compared to that in 2012.
- The Group recorded a gross loss of HK\$23.8 million for the year ended 31 December 2013, when compared to the gross profit of HK\$171.4 million in 2012.
- The gross loss incurred during the year was due to the continuous decrease in commodity prices in 2013.
- The Group recorded a loss attributable to the owners of the Company of HK\$382.9 million when compared to the profit attributable to the owners of the Company of HK\$88.6 million in 2012.
- The loss attributable to the owners of the Company is largely attributable to the loss on fair value changes of derivative financial instruments of HK\$215.9 million, which the Group is required to make under the “mark-to-market” accounting principle.
- We have sold over 697,800 tonnes (2012: 723,600 tonnes) of processed mixed metal scrap during the year, a decrease of 3.6% when compared to that in 2012.
- The Board does not recommend the payment of final dividend for the year ended 31 December 2013 (2012: HK2.12 cents).

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Chiho-Tiande Group Limited (齊合天地集團有限公司) (the "Company"), I present the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013.

The Group finished the 2013 financial year with a loss of HK\$382.9 million attributable to owners of the Company. During the year, the Group recorded a reduction in sales from HK\$8.2 billion in 2012 to HK\$7.2 billion in 2013, representing a reduction of 12.2%. The Group recorded a gross loss of HK\$23.8 million during the year, which was due to the adverse impact of the prolonged volatility and the overall downward movement of the global metal prices throughout the year. The prolonged volatility and the overall downward movement of commodity prices had a negative impact on the gross margin of the Group in 2013. As for the loss for the year, the Group recorded a loss attributable to the owners of the Company of HK\$382.9 million, when compared to the profit attributable to the owners of the Company of HK\$88.6 million recorded in 2012. Loss on fair value changes of derivative financial instruments of HK\$215.9 million was recognised in 2013, which was significantly reduced from HK\$626.9 million for the six months ended 30 June 2013 by HK\$411.0 million.

Despite the significant volatile global metal market experienced throughout the year, the Group continued to maintain and balance its procurement volume to cater for its processing needs through its well established overseas procurement network. The Group sold in aggregate over 697,800 tonnes of its processed products within its three business segments throughout the year. This represented a decrease of 3.6% when compared to 723,600 tonnes in 2012.

During the year, the Group continued to follow its usual practices of consistently buying mixed metal scrap and selling its recycled products in accordance with its processing ability so as to mitigate the short-term impact of price volatility on the overall performance of the Group.

Basic loss per share attributable to owners of the Company amounted to HK\$0.37 in 2013 (2012: Earnings per share HK\$0.08).

Following the establishment of our Hong Kong operations in 2012, the Group's Hong Kong operations together with the Hong Kong joint venture company have established a strong presence in Hong Kong with a rapid increase in local market share. The Group is now in a well-placed position to establish a more diversified scrap metal and electronic waste processing platform in Hong Kong. We are confident that the Hong Kong facility will eventually become an important contributor to the overall performance of the Group.

With regard to the investment in establishing new processing facilities in the Development Zone in Yantai City, the People's Republic of China (the "PRC"), we are now close to completing the first stage of the development and the new processing facilities are expected to become partially operational in the first half of 2014.

Going forward, we remain committed to further expanding our processing capability, and at the same time improving our profitability and return on equity. Our focus will continue to cover our existing facilities including Taizhou, Ningbo and Hong Kong. We will continue to be on the lookout for any potential opportunity, especially the activities within the scrap metal resources supply chain in the PRC.

With the continued emphasis of support from the PRC Government to develop the recycling industry, we are confident that the metal recycling industry in the PRC will continue to grow and will become an important source and an integral part of the metal resources supply chain of the PRC in the future.

Given that the metal recycling industry contributes significantly to the protection of environment and to the preservation of valuable natural resources, we continue to place heavy emphasis on our procurement volume to ensure that it is in line with our processing needs and to cater for our expansion strategy for scrap materials in the PRC.

ANNUAL RESULTS

The Board presents the audited consolidated results of the Group for the year ended 31 December 2013, together with the comparative figures for 2012.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 HK\$'000	2012 HK\$'000
Revenue	3	7,222,003	8,202,702
Cost of sales	4	(7,245,813)	(8,031,286)
Gross (loss) profit		(23,810)	171,416
Other income		43,665	21,453
Other gains and losses	5	(60,558)	272,760
Distribution and selling expenses		(35,481)	(33,456)
Administrative expenses		(133,250)	(155,294)
Other expense		–	(32,156)
Finance costs	6	(172,342)	(172,689)
(Loss) Profit before tax		(381,776)	72,034
Income tax expense	8	(25,742)	(32,683)
(Loss) Profit for the year	7	(407,518)	39,351
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation to presentation currency		51,050	(8,029)
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustment relating to disposal of available-for-sale investment		–	429
Fair value loss on available-for-sale investment		(1,417)	(805)
Cumulative impairment loss reclassified to profit or loss on available-for-sales financial investment		–	7,029
		(1,417)	6,653
Other comprehensive income (expense) for the year		49,633	(1,376)
Total comprehensive (expense) income for the year		(357,885)	37,975
(Loss) Profit for the year attributable to:			
Owners of the Company		(382,920)	88,591
Non-controlling interests		(24,598)	(49,240)
		(407,518)	39,351
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(331,677)	87,422
Non-controlling interests		(26,208)	(49,447)
		(357,885)	37,975
(Loss) Earnings per share		HK\$	HK\$
– basic	10	(0.37)	0.08
– diluted	10	(0.37)	0.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	<i>NOTES</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		331,530	298,463
Prepaid lease payments		433,069	346,547
Investment properties		28,942	30,808
Available-for-sale investment		14,053	15,470
Deposits paid for acquisition of property, plant and equipment		40,332	2,063
Deferred tax assets		5,997	12,621
		<u>853,923</u>	<u>705,972</u>
CURRENT ASSETS			
Inventories		2,570,273	2,982,599
Trade and other receivables	<i>11</i>	708,035	786,074
Bills receivables	<i>12</i>	6,614	7,054
Amount due from a substantial shareholder		36,442	23,636
Prepaid lease payments		10,642	8,687
Investments at fair value through profit or loss (“FVTPL”)		–	24,677
Derivative financial instruments		132,688	55,438
Tax recoverable		10,334	9,484
Pledged bank deposits		141,841	105,765
Margin deposits		175,405	44,656
Bank balances and cash		271,095	447,937
		<u>4,063,369</u>	<u>4,496,007</u>
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	328,284	265,439
Amount due to a substantial shareholder		78,721	42,917
Derivative financial instruments		33,303	21,520
Tax payable		2,268	14,640
Bank borrowings and overdrafts		1,958,680	1,949,673
		<u>2,401,256</u>	<u>2,294,189</u>
NET CURRENT ASSETS		<u>1,662,113</u>	<u>2,201,818</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>2,516,036</u></u>	<u><u>2,907,790</u></u>

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
CAPITAL AND RESERVES		
Share capital	10,446	10,435
Share premium and reserves	1,763,914	2,104,570
	<hr/>	<hr/>
Equity attributable to owners of the Company	1,774,360	2,115,005
Non-controlling interests	(67,671)	(41,463)
	<hr/>	<hr/>
TOTAL EQUITY	1,706,689	2,073,542
	<hr/>	<hr/>
NON-CURRENT LIABILITIES		
Convertible bonds	759,406	708,547
Embedded derivative components of convertible bonds	13,353	85,290
Warrants	1,331	8,046
Deferred tax liabilities	35,257	32,365
	<hr/>	<hr/>
	809,347	834,248
	<hr/>	<hr/>
	2,516,036	2,907,790
	<hr/> <hr/>	<hr/> <hr/>

NOTES:

1. GENERAL INFORMATION

The Company is incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands with limited liability. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 12 July 2010. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its main place of business is located at Taizhou Industrial Zone of Metal Recycling Fengjiang, Luqiao, Taizhou, Zhejiang, the People’s Republic of China (the “PRC”).

The functional currency of the Company and its subsidiaries is Renminbi (“RMB”). The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) for the convenience of the shareholders as the Company is listed in Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

3. REVENUE AND SEGMENT INFORMATION

The Group’s revenue represents the amount received and receivable for the sales of metal scrap, net of sales related taxes, during the year.

Operating and reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (“CODM”) in order to allocate resources to segments and to assess their performance. The executive directors of the Company are identified as the CODM and they regularly review the internal report on gross (loss) profit derived from different business activities and different products to assess performance and allocate resources of the Group.

The Group is mainly engaged in the principal business of metal recycling, involving the recycling of mixed metal scrap into copper scrap, steel scrap, aluminium scrap, iron scrap and other metal scrap. The Group is also engaged in the foundry business which involves the production and sale of aluminium-alloy ingots and copper rod and wire, and wholesales business which involves trading of other metal scrap without processing and copper cathode. The operating and reportable segments are identified based on major products under three categories of business activities:

- (i) metal recycling business (including sales of copper scrap, steel scrap, aluminium scrap, iron scrap and other metal scrap);
- (ii) foundry business (including sales of aluminium-alloy ingots and copper rod and wire); and
- (iii) wholesales business (including sales of other metal scrap without processing and copper cathode).

Segment revenues and segment results

An analysis of the Group's segment revenues and segment results by operating and reportable segment is as below.

For the year ended 31 December 2013

	Metal recycling business					Foundry business		Wholesales business			Total
	Copper		Aluminium		Other metal scrap	Aluminium-alloy ingots	Copper rod and wire	Other metal scrap		Elimination	
	Scrap	Steel scrap	scrap	Iron scrap				without processing	Copper cathode		
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
REVENUE											
External sales	3,854,404	961,499	238,261	201,023	59,022	366,552	24,335	1,005,234	511,673	-	7,222,003
Inter-segment sales	193,093	26,464	279,365	-	3,390	26,099	-	3,775,353	5,963	(4,309,727)	-
Total segment revenue	<u>4,047,497</u>	<u>987,963</u>	<u>517,626</u>	<u>201,023</u>	<u>62,412</u>	<u>392,651</u>	<u>24,335</u>	<u>4,780,587</u>	<u>517,636</u>	<u>(4,309,727)</u>	<u>7,222,003</u>
Segment (loss) profit	<u>(71,772)</u>	<u>(14,878)</u>	<u>10,464</u>	<u>429</u>	<u>(5,868)</u>	<u>9,025</u>	<u>(8,175)</u>	<u>72,716</u>	<u>(13,674)</u>	<u>(2,077)</u>	(23,810)
Other income											43,665
Other gains and losses											(60,558)
Distribution and selling expenses											(35,481)
Administrative expenses											(133,250)
Finance costs											(172,342)
Loss before tax											(381,776)
Income tax expense											(25,742)
Loss for the year											<u>(407,518)</u>
Reversal of allowance (allowance for inventory) included in segment (loss) profit	<u>5,113</u>	<u>11,412</u>	<u>(819)</u>	<u>-</u>	<u>(4,875)</u>	<u>-</u>	<u>(5,063)</u>	<u>-</u>	<u>475</u>	<u>-</u>	<u>6,243</u>

For the year ended 31 December 2012

	Metal recycling business					Foundry business		Wholesales business	Elimination	Total
	Copper		Aluminium	Other		Aluminium-	Copper	Other		
	Scrap	Steel scrap	scrap	Iron scrap	metal scrap	alloy ingots	rod and wire	metal scrap without processing		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
REVENUE										
External sales	4,982,451	1,295,304	249,440	266,777	80,209	305,697	227,651	795,173	-	8,202,702
Inter-segment sales	202,604	26,592	275,576	23	10,730	14,334	-	4,038,016	(4,567,875)	-
Total segment revenue	<u>5,185,055</u>	<u>1,321,896</u>	<u>525,016</u>	<u>266,800</u>	<u>90,939</u>	<u>320,031</u>	<u>227,651</u>	<u>4,833,189</u>	<u>(4,567,875)</u>	<u>8,202,702</u>
Segment profit (loss)	<u>71,061</u>	<u>(12,899)</u>	<u>11,660</u>	<u>3,987</u>	<u>(2,682)</u>	<u>5,314</u>	<u>2,030</u>	<u>100,137</u>	<u>(7,192)</u>	171,416
Other income										21,453
Other gains and losses										272,760
Distribution and selling expenses										(33,456)
Administrative expenses										(155,294)
Other expense										(32,156)
Finance costs										(172,689)
Profit before tax										72,034
Income tax expense										(32,683)
Profit for the year										<u>39,351</u>
Allowance for inventory										
included in segment profit (loss)	<u>(18,946)</u>	<u>(13,418)</u>	<u>(690)</u>	<u>(8)</u>	<u>(42)</u>	<u>-</u>	<u>(7,514)</u>	<u>-</u>	<u>-</u>	<u>(40,618)</u>

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment (loss) profit represents the gross (loss) profit resulted in each segment without allocation of other income, other gains and losses, distribution and selling expenses, administrative expenses, other expenses, finance costs and income tax expense. This is the measure reported to the executive directors of the Company for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market price.

Segment assets and segment liabilities

Information on segment assets and segment liabilities of the Group are not reviewed by the CODM for the purpose of resource allocation and performance assessment nor otherwise regularly provided to the CODM. As a result, no analysis of segment assets and segment liabilities is presented.

Geographical information

Approximately 90% of external revenue of the Group during the year ended 31 December 2013 (2012: 90%) are attributable to customers established in the PRC, the place of domicile of the Group's major operating entities. The remaining revenue is immaterial for separate disclosure the Group's geographical information. Majority of the Group's non-current assets are located in the PRC.

Information about major customers

Included in revenue arising from metal recycling business of HK\$5,314,209,000 (2012: HK\$6,874,181,000) are revenue of approximately HK\$818,333,000 (2012: nil) which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2013 and 2012.

4. COST OF SALES

Included in cost of sales is the following (reversal of allowance) allowance for inventory:

	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Reversal of allowance) allowance for inventory	(6,243)	40,618

Management assesses whether the carrying value of inventories exceed their net realisable value at the end of each reporting period. Management estimates the net realisable value for inventories with reference to the ask price of metal scrap in the relevant markets and the quoted prices of metal on applicable commodity exchanges at the end of reporting period. As at 31 December 2013, because the market prices of the commodities were higher than the respective net realisable value of certain inventories held, a reversal of allowance for inventory of HK\$6,243,000 was recognised (2012: allowance for inventory of HK\$40,618,000 was recognised because the market prices of the commodities were lower than the respective purchase prices of certain inventories held).

5. OTHER GAINS AND LOSSES

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Gain (loss) on fair value change of:		
– derivative financial instruments (<i>note</i>)		
realised	(315,311)	181,059
unrealised	99,385	33,918
	<u>(215,926)</u>	<u>214,977</u>
– investments at FVTPL	–	11
– the derivative component of convertible bonds	71,937	57,481
– warrants	6,715	5,372
Net foreign exchange gains	99,881	6,858
Impairment loss on trade and other receivables	(2,911)	(8,014)
Recovery of bad debts	12	–
Gain on fair value change of investment at FVTPL	34	–
Loss on disposal of available-for-sale investment	–	(429)
Loss on disposal of property, plant and equipment	(90)	(2,139)
Impairment loss on available-for-sale investment	–	(7,029)
Net compensation (paid) received	(1,224)	5,672
Others	(18,986)	–
	<u>(60,558)</u>	<u>272,760</u>

note: The amount arose from aluminium, copper, zinc, steel rebar and nickel future contracts, provisional pricing arrangements embedded in sales contracts and foreign currency forward contracts.

6. FINANCE COSTS

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest on:		
– bank borrowings wholly repayable within five years	88,847	106,743
– bank overdrafts	4	694
Effective interest expense on convertible bonds	83,491	65,252
	<u>172,342</u>	<u>172,689</u>

7. (LOSS) PROFIT FOR THE YEAR

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments	4,579	6,759
Other staff costs	209,560	209,716
Retirement benefit scheme contributions, excluding those of directors	3,952	2,723
Share-based payments, excluding those of directors	9,900	15,787
	<hr/>	<hr/>
Total staff costs	227,991	234,985
	<hr/>	<hr/>
Cost of inventories recognised as an expense	7,245,813	8,031,286
Depreciation of investment properties	1,866	1,244
Depreciation of property, plant and equipment	34,308	69,254
Amortisation of prepaid lease payments	8,829	7,995
	<hr/>	<hr/>
Total depreciation and amortisation	45,003	78,493
	<hr/>	<hr/>
Auditor's remuneration	2,310	2,300
	<hr/> <hr/>	<hr/> <hr/>

8. INCOME TAX EXPENSE

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current tax:		
PRC Enterprises Income Tax ("EIT")	7,354	22,556
Hong Kong	6,697	791
Other jurisdictions	(24)	127
	<hr/>	<hr/>
	14,027	23,474
	<hr/>	<hr/>
Under (over) provision in prior years:		
PRC EIT	2,073	1,050
Hong Kong	(11)	(4,745)
	<hr/>	<hr/>
	2,062	(3,695)
	<hr/>	<hr/>
Deferred tax	9,653	12,904
	<hr/>	<hr/>
	25,742	32,683
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) The Group's PRC subsidiaries were subject to PRC EIT at the rate of 25%.
- (ii) All Hong Kong subsidiaries are subject to Hong Kong Profits Tax at the rate of 16.5%.

(iii) Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

(iv) As the Group operates in different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated and presented.

9. DIVIDENDS

The Board did not recommend the payment of final dividend for the year ended 31 December 2013 (2012: HK\$22,143,000).

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company are based on the following data:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
(Loss) profit for the year attributable to owners of the Company		
for the purposes of basic (loss) earnings per share	(382,920)	88,591
Effect of diluted potential ordinary shares:		
– Interest on convertible bonds	–	65,252
– Gain on change in fair value of the derivative components of convertible bonds	–	(57,481)
	<hr/>	<hr/>
(Loss) profit for the year attributable to owners of the Company		
for the purposes of diluted (loss) earnings per share	(382,920)	96,362
	<hr/> <hr/>	<hr/> <hr/>
Number of shares:		
Weighted average number of ordinary shares		
for the purpose of basic (loss) earnings per share	1,044,166,684	1,043,069,463
Effect of diluted potential ordinary shares:		
– Convertible bonds	–	113,615,982
– Share options	–	3,818,367
	<hr/>	<hr/>
Weighted average number of ordinary shares		
for the purpose of diluted (loss) earnings per share	1,044,166,684	1,160,503,812
	<hr/> <hr/>	<hr/> <hr/>

In current year, the potential ordinary share attributable to the Company's outstanding convertible bonds, warrants and certain share options have anti-dilutive effect as the assumed conversion and exercise would result in a decrease in loss per share.

In prior year, the computation of diluted earnings per share does not assume the exercise of the Company's warrants and certain share options because the exercise prices of these warrants and share options were higher than the average market price of the Company's shares.

11. TRADE AND OTHER RECEIVABLES

The Group generally allows its trade customers a credit period of 30 to 90 days. A longer credit period may be granted to trade customers with good credit quality upon the approval of management. An aged analysis of the Group's trade receivables at the end of the reporting period, net of allowance for doubtful debts, was prepared based on the invoice date which approximate to the date of revenue recognition are as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Trade receivables:		
0 – 30 days	129,659	129,614
31 – 60 days	11,486	30,097
61 – 90 days	24,300	685
91 – 180 days	58,580	36,683
Over 180 days	57,702	3,015
	<hr/> 281,727 <hr/>	<hr/> 200,094 <hr/>
Other receivables:		
Deposits and prepayments	37,300	48,343
Deposits paid for purchase of raw materials	178,292	264,432
VAT recoverable	206,762	264,473
Others	3,954	8,732
	<hr/> 426,308 <hr/>	<hr/> 585,980 <hr/>
	<hr/> 708,035 <hr/> <hr/>	<hr/> 786,074 <hr/> <hr/>

12. BILLS RECEIVABLES

An analysis of the Group's bills receivables by age at the end of the reporting period, based on their invoice dates which approximate to the date of revenue recognition is as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
0 – 30 days	6,614	4,834
31 – 60 days	–	370
61 – 90 days	–	1,850
	<hr/> 6,614 <hr/> <hr/>	<hr/> 7,054 <hr/> <hr/>

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the year:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Trade payables:		
0 – 30 days	112,193	72,718
31 – 60 days	13,302	17,836
61 – 90 days	–	–
91 – 180 days	4,391	1,061
Over 180 days	934	16,355
	<u>130,820</u>	<u>107,970</u>
Other payables:		
Other payables and accruals	112,068	121,615
Provision for pending legal litigation	51,638	20,448
Interest payable	5,409	6,877
Receipts in advance from customers	28,349	8,529
	<u>197,464</u>	<u>157,469</u>
	<u><u>328,284</u></u>	<u><u>265,439</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

With the significant volatility in global metal market seen in 2013, the management continued facing exceptional challenges resulting in a disappointing result for the whole year in 2013. Despite the slight improvement in global metal prices in the second half of 2013, the overall result of the Group for the whole year remained in a loss position. Despite various world economic data released in recent months showing a modest stabilizing bias on world economy, new events have emerged, including the political turmoil in Ukraine, the global metal market continued to be volatile (especially in the first half of March 2014). Thus, the management continues to be cautiously optimistic about the Group's performance in the coming year.

In 2013, the Group continued to face challenges arising from difficult business environment including highly volatile global metal market, anticipated slower economic growth in the PRC and the economic impact created from the rein in the stimulus program by the United States. During the year, the Group's revenue decreased from HK\$8.2 billion in 2012 to HK\$7.2 billion, representing a decrease of 12.2%. The gross loss of HK\$23.8 million recorded during the year was due to the adverse impact of the prolonged volatility and the overall downward movement of the global metal prices throughout the year. The prolonged volatility and the overall downward movement of commodity prices had a negative impact on gross margin of the Group in 2013. As for the loss for the year, the Group recorded a loss attributable to the owners of the Company of HK\$382.9 million, when compared to the profit attributable to the owners of the Company of HK\$88.6 million recorded in 2012. Loss on fair value changes of derivative financial instruments of HK\$215.9 million was recognised in 2013, which was significantly reduced from approximately HK\$626.9 million for the six months ended 30 June 2013 by HK\$411.0 million.

With a number of unforeseen circumstances impacting global supply of scrap materials, the Group experienced a reduction of scrap materials purchased. During the year, the reduction in mixed metal scrap supply was seen in the region of 10 – 15% when compared with last year. The Group sold in aggregate over 697,800 tonnes of processed products within its three business segments throughout the year. This represented a decrease of 3.6% when compared to 723,600 tonnes in 2012.

During the year, the Group continued to follow its usual practices of consistently buying mixed metal scrap and selling its recycled products in accordance with its processing ability so as to mitigate the short-term impact of price volatility on the overall performance of the Group.

With regard to the legal proceedings in the PRC involving Shanghai Chiho-Tiande Resource Recycling Co., Limited (“the Shanghai JV”), the Baoshan People's Court has delivered the judgment (the “Judgment”) in relation to the claim brought by Shanghai Science and Technology Co., Ltd. (“the lessor”) against the Shanghai JV and the counterclaim by the Shanghai JV against the lessor on 25 December 2013. The details of the orders made by the Baoshan People's Court are disclosed in the announcement dated 15 January 2014. Both the Shanghai JV and the lessor have applied to the Second Intermediate People's Court of Shanghai for an appeal against the Judgment.

The Board take the view that the legal proceedings will not have any material adverse effect on the business, operations or financial results of the Group. The Company will keep its shareholders and the investors informed of the development of the legal proceedings as and when appropriate.

Basic loss per share attributable to owners of the Company amounted to HK\$0.37 in 2013 (2012: Earnings per share HK\$0.08).

Our Procurement Network

The Group is the largest importer of mixed metal scrap used for recycling, reuse and processing in terms of the total import volume as approved by the Ministry of Environmental Protection in the PRC. The Group imports nearly all of our mixed metal scrap and has, over the years, developed a strong international procurement network which covers Europe, North America, Oceania and Asia. Our network of suppliers was mostly established and developed by the Group leveraging on its experience in the industry. With our good business practices, we have enjoyed good business relationship with the suppliers over the years.

Corporate and Business Development

Following the establishment of our Hong Kong operations in 2012, the Group's Hong Kong operations together with the Hong Kong joint venture company have established a strong presence in Hong Kong with a rapid increase in local market share. The Group is now in a well-placed position to establish a more diversified scrap metal and electronic waste processing platform in Hong Kong. We are confident that the Hong Kong facility will eventually become an important contributor to the overall performance of the Group.

With regard to the investment in establishing new processing facilities in the Development Zone in Yantai City, PRC, we are now close to completing the first stage of the development and the new processing facilities are expected to become partially operational in the first half of 2014.

Going forward, we remain committed to further expanding our processing capability, and at the same time improving our profitability and return on equity. Our focus will continue to cover our existing facilities including Taizhou, Ningbo and Hong Kong. We will continue to be on the lookout for any potential opportunity, especially the activities within the scrap metal resources supply chain in the PRC.

Social Responsibilities

On the environmental protection front, we continued placing great emphasis on ensuring that all of our processing facilities are in line with local and national environmental protection standards.

With the changes in the evaluation process by the Environmental Protection Department of Zhejiang Province (浙江省環境保護廳) in 2013, our Taizhou facilities have once again passed the evaluation process as designated processing units for imported metal scraps recycling and utilization in Zhejiang Province. Our production processes did not consume large volumes of electricity and water and

therefore produced very small volumes of waste materials. We consider that we have adopted sufficient environmental protection measures and controls against air, water, solids and noise pollutions produced during the course of our production process.

Prospects

With the continued emphasis of support from the PRC Government to develop the recycling industry, we are confident that the metal recycling industry in the PRC will continue to grow and will become an important source and an integral part of the metal resources supply chain of the PRC in the future.

Given that metal recycling industry contributes significantly to the protection of environment and to the preservation of valuable natural resources, we continue to place heavy emphasis on our procurement volume to ensure that it is in line with our processing needs and to cater for our expansion strategy for scrap materials in the PRC. With this in mind and in accordance with our expansion strategy, the Group is aiming to procure 52,000 to 62,000 tonnes of mixed metal scrap materials per month to cater for its processing needs. This purchase volume is expected to increase as the Group continues to expand. The management will continue making efforts to capitalise on such direction in achieving satisfactory returns to the shareholders of the Company.

FINANCIAL REVIEW

Revenue

Revenue decreased by approximately HK\$1.0 billion, or 12.2%, from HK\$8.2 billion in 2012 to HK\$7.2 billion in the year. The decrease was mainly contributed by a decrease in sales volume as well as average selling prices for our recycled metal products and foundry products.

Cost of sales

Cost of sales decreased by approximately HK\$0.8 billion, or 10.0%, from HK\$8.0 billion in 2012 to HK\$7.2 billion in the year. The decrease is in line with the decrease in revenue and primarily due to a decrease in sales volume and reduction in the average purchase prices of raw materials.

Gross profit and gross profit margin

Gross loss of approximately HK\$23.8 million was recorded when compared to a gross profit of HK\$171.4 million in 2012. The gross loss was due to the continuous decrease in commodity prices in 2013.

Distribution and selling expenses

Distribution and selling expenses increased by approximately HK\$2.0 million, or 6.0%, from HK\$33.5 million in 2012 to HK\$35.5 million in the year. This was mainly due to increase in selling activities in Hong Kong during the year.

Administrative and other expenses

Administrative and other expenses decreased by approximately HK\$54.2 million, or 28.9%, from HK\$187.5 million in 2012 to HK\$133.3 million in the year. This was mainly due to the cessation of business activities in the Shanghai facility and the decrease in share-option expenses during the year.

Other income

Other income increased by approximately HK\$22.2 million, or 103.3%, from HK\$21.5 million in 2012 to HK\$43.7 million in the year. This was mainly due to government grants received during the year.

Other gains and losses

Other gains and losses decreased by approximately HK\$333.4 million from HK\$272.8 million in 2012 to a loss of HK\$60.6 million in the year. This was mainly due to loss on fair value changes of derivative financial instruments of approximately HK\$215.9 million when compared to a gain on fair value changes of derivative financial instruments of approximately HK\$215.0 million in the previous year.

Finance costs

Finance costs decreased by approximately HK\$0.4 million, or 0.2%, from HK\$172.7 million in 2012 to HK\$172.3 million in the year. This was mainly due to decrease in interest expenses from bank borrowings during the year.

Loss/Profit for the year

As a result of the factors mentioned above, the Company incurred a loss attributable to the owners of the Company for the year of HK\$382.9 million, when compared to a profit attributable to the owners of the Company of HK\$88.6 million in 2012. The decrease was mainly due to an adverse impact of the decrease in global metal prices and the loss on fair value changes of derivatives financial instruments when the Group is required to make under the “mark-to-market” accounting principle.

Key Financial Ratios

The following table sets forth certain of our financial ratios as of the date for the periods indicated:

	At 31 December 2013	At 31 December 2012
Liquidity Ratios		
Current ratio	1.69	1.96
Quick ratio	0.62	0.66
Gearing ratio (%)	55.3	51.1

	Year ended 31 December	
	2013	2012
Inventory turnover days	140	141
Debtor's turnover days	12	11
Creditor's turnover days	6	10

Liquidity and Financial Resources and Capital Structure

Included in net current assets were cash and various bank deposits totaling HK\$588.3 million (2012: HK\$598.4 million). Total borrowings were HK\$2.0 billion (2012: HK\$1.9 billion), and these were mainly used to finance the purchases of mixed metal scrap from overseas. Such borrowings are mainly denominated in United States dollars and Renminbi.

The gearing ratio of the Group as at 31 December 2013 was 55.3% (2012: 51.1%).

Debtor's turnover days increased from 11 days for the year ended 31 December 2012 to 12 days for the year ended 31 December 2013 and the creditor's turnover days decreased from 10 days for the year ended 31 December 2012 to 6 days for the year ended 31 December 2013.

Inventory turnover days decreased from 141 days for the year ended 31 December 2012 to 140 days for the year ended 31 December 2013.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2013, we had pledged certain buildings, land use rights, investment properties and bank deposits with an aggregate carrying value of approximately HK\$447.6 million (2012: approximately HK\$367.6 million) to secure bank borrowings.

As at 31 December 2013, we had capital commitments in respect of acquisition of property, plant and equipment but not provided for in the consolidated financial statements amounted to HK\$82.2 million (2012: HK\$12.0 million).

As at the date of this announcement, the Board is not aware of any material contingent liabilities.

RISK MANAGEMENT

Our Group in its ordinary course of business is exposed to market risk such as commodities price risk, foreign currencies risk, interest rate risk, credit risk and liquidity risk. Our risk management strategy aims to minimize the adverse effects of these risks on its financial performance.

The Company has established a Pricing Committee and adopted a hedging policy (the "Hedging Policy") which aimed to enhance the Group's risk management of commodity price fluctuations. The Hedging Policy sets out, among other things, the target inventory turnover days that the Group aims to achieve under normal circumstances and market conditions, and provides that the Board must approve any

change to the inventory turnover day criteria. The Hedging Policy also requires the Board to obtain professional advice on the current and future market outlook of the commodities market if the target inventory turnover days could not be met.

Following a recent review of the historical inventory turnover days of the Group, the Board noted that the historical inventory turnover days were, in practice, longer than the then target inventory turnover days of 90 days because of various practical reasons, including seasonal factors and prevailing market conditions. The Board considered it unrealistic to maintain the then target inventory turnover days of 90 days, and that the Board should be given discretion to determine whether it is necessary for the Board to engage and seek relevant professional advice. The Board has therefore resolved to amend the Hedging Policy such that:

- (a) the target inventory turnover days is now changed from 90 days to 160 days;
- (b) any change to the inventory turnover day criteria (i.e. if the inventory turnover days are more than 160 days) will require approval by the Board in accordance with the terms of the Hedging Policy, 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; and
- (c) 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.

With regard to foreign currency risk management, we continued borrowing in United States dollars borrowings by securing Renminbi deposits in order to take advantage of the favourable exchange rate. We will continue using this hedging strategy so long as the exchange rate justifies it.

With the current interest rates staying at relatively low levels, we have not entered into any interest rate hedging contracts or any other interest rate related derivative financial instrument. However, we continue to monitor its related interest rate exposure closely and will consider hedging significant interest rate exposure when the need arises.

As for credit risk, we continue to follow the trade practices of cash on collection from sales of all of its metal recycling products in order to minimize the carrying amounts of the financial assets in our Group's financial statements. In addition, we will continue to monitor closely the trade debtors for the Foundry business to minimize potential impairment losses.

With the liquidity risk, we will continue maintaining a balance between continuity of funding and the flexibility through the use of bank borrowings.

EMPLOYEES

As at 31 December 2013, we had a workforce of 591 employees. In addition, we engaged approximately 3,041 separation and selection workers through local recognized contractors. We have not experienced any strikes, work stoppages or significant labor disputes which have affected its operations in the past. We have not experienced any significant difficulties in recruiting and retaining qualified staff. We continue to maintain good relationships with our employees.

THE REMUNERATION POLICY

We remunerate employees based on their performance, experience and prevailing industry practices so as to retain competent employees. In addition to benefits normally provided in line with industry practices, the Company also has a share option scheme in place for the purpose of providing incentives and rewards to eligible persons including employees of Group companies for their contributions to the long term success of our Group.

During the financial year ended 31 December 2013, 19,150,000 share options were granted under the Post-IPO share option scheme.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The management of the Company believes that effective and proper investor relations play a vital role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence. As such, the Company has adopted a stringent internal control system to ensure true, accurate, complete and timely disclosure of relevant information pursuant to requirements of relevant laws and regulations in order to ensure all shareholders have timely and equal access to information. To strive for effective communication and transparency of the Company, the personnel in charge have frequent contacts with the shareholders and investors through various channels such as interview, presentation, internet, telephone and email.

In addition, we have during the year organized numerous site visits to our facilities with several fund managers and equity market analysts. Through the site visits, the visitors managed to have a better understanding of the Group's operations and were given the opportunity to know more about the Group's development strategy.

We will continue to establish communication opportunities in order to enhance investors' understanding of and confidence in the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the financial year ended 31 December 2013. Accordingly, no closure of Register of Members for determining the entitlement to receive final dividends of the Company is proposed.

ANNUAL GENERAL MEETING

The annual general meeting (“AGM”) is to be held on Wednesday, 14 May 2014 and the notice of AGM will be published and despatched to the shareholders of the Company within the prescribed time and in such manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

CLOSURE OF REGISTER OF MEMBERS FOR DETERMINING THE ENTITLEMENT TO ATTEND AND VOTE AT THE AGM

The Register of Members of the Company will be closed from Monday, 12 May 2014 to Wednesday, 14 May 2014, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with Company’s Hong Kong Branch Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 9 May 2014.

AUDIT COMMITTEE

The Audit Committee of the Company comprises the non-executive Director and all three independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the internal control system and financial reporting matters including the review of the Group’s audited consolidated results for the year ended 31 December 2013.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of corporate transparency and accountability and is committed to achieving a high standard of corporate governance. Throughout the year ended 31 December 2013, the Company has complied with all the applicable code provisions of the Corporate Governance Code and Corporate Governance Report, contained in Appendix 14 to the Listing Rules with exceptions as explained below:

The roles of the chairman and chief executive officer of the Company have not been segregated as required by the provision A.2.1 of the Corporate Governance Code.

Mr. Fang Ankong (“Mr. Fang”) is the Chairman and Chief Executive Officer of the Company. With extensive experience in the mixed metal scrap recycling business, Mr. Fang is responsible for our Group’s overall strategic planning and the management of our business. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of our Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals. The Board currently comprises three executive Directors (including Mr. Fang), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

During the year ended 31 December 2013, the Company identified certain practices which were not in full compliance with the Hedging Policy of the Group. In view of this, the Board has taken remedial actions and commissioned an independent professional to review the internal control system and corporate governance of the Group. The Company will review its corporate governance practices on a continual basis. Further details of the Company's corporate governance will be set out in the Corporate Governance Report contained in the annual report of the Company for the year ended 31 December 2013.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all Directors, who have confirmed that, during the financial year ended 31 December 2013, they were in compliance with provisions of the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the financial year ended 31 December 2013, the Company repurchased 406,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK\$1,323,905.27. The repurchase was effected by the Directors for the enhancement of shareholders' value. Details of the repurchase is as follows:

Month of the repurchase	Total number of the ordinary shares repurchased	Highest price paid per share <i>HK\$</i>	Lowest price paid per share <i>HK\$</i>	Aggregate consideration <i>HK\$</i>
June 2013	<u>406,000</u>	3.28	3.20	<u>1,323,905.27</u>

Except as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chiho-tiande.com). The annual report of the Company for the year ended 31 December 2013 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and posted on the above websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of our Group and all the staff for their hard work and dedication, as well as its shareholders, business associates, bankers, lawyers and auditors for their support throughout the year.

By Order of the Board
Chiho-Tiande Group Limited
Fang Ankong
Chairman

Hong Kong, 20 March 2014

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

Executive directors: Fang Ankong, Stephanus Maria van Ooijen and Gu Liyong

Non-executive director: Michael Charles Lion

Independent non-executive directors: Loke Yu, Li Xikui and Zhang Jingdong