THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chiho-Tiande Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CHIHO-TIANDE
齐合天地

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)

(1) VERY SUBSTANTIAL ACQUISITION: ACQUISITION OF THE ENTIRE SHARE CAPITAL OF SCHOLZ HOLDING GMBH; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this cover page have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 8 to 26 of this circular.

The notice convening the EGM to be held at Suite 1807, Two Pacific Place, 88 Queensway, Hong Kong on Thursday, 15 December 2016 at 10:00 a.m. is set out on pages EGM-1 to 2 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjustment thereof should you so desire.

22 November 2016

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In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"Assignment and Assumption Agreement"	the assignment and assumption agreement entered into on 1 June 2016 by the Company in relation to the US Assignment together with other ancillary documents to give effect to the US Assignment
"Austrian Bond"	the 8.5 per cent. EUR150 million (equivalent to approximately HK$1,335 million) Austrian law governed bond originally issued by Scholz Holding on 8 March 2012 and subsequently increased to EUR182.5 million (equivalent to approximately HK$1,624.25 million) on 13 February 2013
"Board"	the board of directors of the Company
"Bridging Loan"	an up to EUR80 million (equivalent to approximately HK$712 million) bridging loan to be provided by CRDL (as lender) to Scholz Recycling (as borrower) pursuant to the terms of the bridging loan agreement entered into between CRDL and Scholz Recycling on 20 July 2016
"CET"	Central European Time
"Closing Conditions"	has the meaning given to it under the section headed "Letter from the Board – 2. Principal terms of the Share Purchase Agreement – (e) Closing" in this circular
"Closing Date"	has the meaning given to it under the section headed "Letter from the Board – 2. Principal terms of the Share Purchase Agreement – (e) Closing" in this circular
"Company"	Chiho-Tiande Group Limited（齊合天地集團有限公司）, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 976)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"CRDL"	Chiho Renewable Development Limited, a company incorporated in Hong Kong with limited liability, and an indirect wholly-owned subsidiary of the Company

"Credit Agreement"	the credit agreement entered into on 8 August 2013 (as amended, restated, amended and restated, extended, renewed, supplemented or otherwise modified) by the US Borrowers
"CTIL"	Chiho-Tiande Investments Limited, a company incorporated in Hong Kong with limited liability, and an indirect wholly-owned subsidiary of the Company
"CTRL"	Chiho-Tiande Resources Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
"Delco"	Delco Participation B.V., a company incorporated in the Netherlands
"Delco Asia"	Delco Asia Company Limited, a company incorporated in Hong Kong with limited liability
"Delco Supplemental Undertaking"	the supplemental undertaking dated 18 March 2015 entered into by the Company and Delco to amend and supplement the Delco Undertaking
"Delco Undertaking"	the letter of undertaking dated 3 March 2015 given by the Company in favour of Delco in relation to the extension of the outstanding 4% coupon convertible bonds issued by the Company on 1 March 2012, having an aggregate outstanding principal amount of HK$90,100,000, after the Company paid the first fifth instalment payments of HK$222,500,000, as at the Latest Practicable Date and held by Delco, as amended by the Delco Supplemental Undertaking
"Directors"	the directors of the Company
"DTT"	Deloitte Touche Tohmatsu
"EBITDA"	earnings before interest, taxes, depreciation and amortisation
"EGM"	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve by the Shareholders, among other things, the terms of the Share Purchase Agreement, the Proposed Acquisition and all other transactions contemplated thereunder
"Enlarged Group"	the Group and Scholz Group

"EUR"	Euro, the lawful currency of the European Union
"EY Germany"	Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
"German Debt"	the debt owing by Scholz Group to CTRL under certain loan agreements and promissory notes which CTRL has assumed the lenders' rights thereunder pursuant to the German Debt Purchase Agreement and the transfer agreement entered into between the Company and CTRL on 19 May 2016. The German Debt represents syndicated senior credit facility in an aggregate principal amount of EUR471 million (equivalent to approximately HK$4.19 billion), promissory notes in the aggregate amount of EUR43.3 million (equivalent to approximately HK$385.4 million) and a standalone credit facility in the amount of EUR10 million (equivalent to approximately HK$89 million)
"German Debt Acquisition"	the acquisition of the German Debt under the terms and conditions of the German Debt Purchase Agreement
"German Debt Purchase Agreement"	the debt purchase agreement entered into on 29 April 2016 by the Company in connection with the German Debt Acquisition, which was executed by the sellers and became effective on 28 June 2016
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HWH"	HWH Holdings Limited, a limited liability company incorporated in the British Virgin Islands that is wholly-owned by Mr. Fang
"IFRS"	financial reporting standards and interpretations approved by the International Accounting Standards Board, or "IFRS" and includes all International Accounting Standards and interpretations issued under the former International Accounting Standards Committee from time to time

"Latest Practicable Date"	18 November 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LSH Membership Interest Purchase Agreement"	the membership interest purchase agreement dated 11 October 2016 among Rush Metal Asset Holdings, LLC ("**RMAH**"), Liberty Iron & Metal Holdings, LLC ("**LIMH**") (as buyer) and Liberty Southwest Holdings, LLC ("**LSH**"), pursuant to which RMAH agreed to sell 29.88980% membership interest and certain rights in LSH to LIMH for US$3,200,000, together with other ancillary documents to give effect to the aforementioned transaction
"Merger Clearances"	has the meaning given to it under the section headed "Letter from the Board – 2. Principal terms of the Share Purchase Agreement – (e) Closing" in this circular
"Mr. B-U. Scholz"	Mr. Berndt-Ulrich Scholz
"Mr. Fang"	Mr. Fang Ankong, a former Director
"Mr. O. Scholz"	Mr. Oliver Scholz
"MT Circular"	has the meaning given to it under the section headed "Letter from the Board – 1. Introduction" in this circular
"PRC"	the People's Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Proposed Acquisition"	the proposed acquisition of the Target Shares from the Sellers pursuant to the Share Purchase Agreement
"Relevant Restructuring Steps"	has the meaning given to it under the section headed "Definitions – Restructuring Agreement" in this circular

"Restructuring Agreement"	the restructuring agreement dated 20 July 2016 and entered into by, among others, the Company and Scholz Holding, in relation to, among other things, (i) finalisation of terms of the Bridging Loan; (ii) amendment to the maturity dates, and partial release, of the German Debt; and (iii) the acquisition and release of the TTC Loan (together, the "**Restructuring Steps**", and in relation to (i) and (iii) only, the "**Relevant Restructuring Steps**")
"Restructuring Closing Date"	is the later of: (i) 31 August 2016; or (ii) the calendar day following the calendar day on which the last closing conditions under the Restructuring Agreement is fulfilled or waived. Closing of the Restructuring Agreement took place on 31 August 2016
"Restructuring Steps"	has the meaning given to it under the section headed "Definitions – Restructuring Agreement" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Scholz Beteiligungsgesellschaft"	Scholz Beteiligungsgesellschaft mbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organised under the laws of the Federal Republic of Germany and registered with the commercial register at the local court of Charlottenburg under registration no. HRB 171406B
"Scholz Group"	Scholz Holding and its subsidiaries
"Scholz Holding"	Scholz Holding GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) organised under the laws of the Federal Republic of Germany, which is registered at the Commercial Register (*Handelsregister*) of the Local Court (*Amtsgericht*) of Ulm, under registration number HRB 730756
"Scholz Recycling"	Scholz Recycling GmbH & Co. KG, a partnership with a limited liability company as general partner, organised under the laws of the Federal Republic of Germany, and registered with the commercial register of the local court of Ulm under registration number HRA 721190. It is a direct wholly-owned subsidiary of Scholz Holding
"Sellers"	Mr. O. Scholz, Mr. B-U. Scholz and Scholz Beteiligungsgesellschaft

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Purchase Agreement"	the share purchase agreement entered into on 29 August 2016 among CRDL, Mr. O. Scholz, Mr. B-U. Scholz, Scholz Beteiligungsgesellschaft and TBD in relation to the Proposed Acquisition
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriptions"	the subscriptions of the Company's shares as described in the Company's announcement and circular dated 27 March 2015 and 28 April 2015, respectively
"Target Shares"	50,000,000 shares in Scholz Holding, being the entire share capital of Scholz Holding
"TBD"	TBD Vermögensverwaltungs GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) under the laws of the Federal Republic of Germany and registered with the commercial register at the local court of Hamburg under registration no. HRB 105876
"TTC"	Toyota Tsusho Corporation, a stock corporation (*Kabushikigaisha*) incorporated under the Laws of Japan, registered with the Nagoya Legal Affairs Bureau
"TTC Loan"	the EUR60 million (equivalent to approximately HK$534 million) loan owed by Scholz Holding to Scholz Beteiligungsgesellschaft. The TTC Loan was initially advanced by TTC to Scholz Holding in June 2014 and subsequently transferred by TTC to Scholz Beteiligungsgesellschaft
"U.S."	The United States of America
"US Assignment"	the assignment of rights and obligations under the Credit Agreement from certain lenders of the US Borrowers to the Company under the terms of the Assignment and Assumption Agreement
"US Borrowers"	the borrowers to the Credit Agreement

"USUMHK"	USUM Investment Group Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"US$"	the lawful currency of the United States of America
"Withdrawal Circumstances"	has the meaning given to it under the section headed "Letter from the Board – 2. Principal terms of the Share Purchase Agreement – (g) Rights of Withdrawal" in this circular
"Yantai Liheng"	Yantai Liheng Environmental Protection Technology Co., Limited* (煙台立衡環保科技有限公司), a company established in the PRC
"%"	per cent.

Unless otherwise defined, for the purpose of this circular and for the purpose of illustration only, amounts denominated in:

(a) EUR has been converted into HK$ at the rate of EUR 1 = HK$8.90;

(b) RMB has been converted into HK$ at the rate of RMB 1 = HK$1.196; and

(c) US$ has been converted into HK$ at the rate of US$1= HK$7.77.

Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

* *English names of the PRC entities are the literal translations of their Chinese names and are included for identification purposes only.*

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)

Board of Directors:

Executive Directors:
Mr. Tu Jianhua *(Chairman)*
Mr. Qin Yongming *(Chief Executive Officer)*
Mr. Liu Huaiyu *(Executive Vice President)*

Independent Non-executive Directors:
Dr. Loke Yu
Mr. Zhu Dajian
Ms. Qian Liping

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
48 Wang Lok Street
Yuen Long Industrial Estate
Hong Kong

22 November 2016

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION: ACQUISITION OF THE ENTIRE SHARE CAPITAL OF SCHOLZ HOLDING GMBH; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

The Company refers to its announcement dated 30 August 2016 in relation to, among others, the Proposed Acquisition and its circular published on 22 August 2016 (the "**MT Circular**") in relation to, among other things, the German Debt Acquisition, the provision of the Bridging Loan, the US Assignment and the Restructuring Steps.

Prior to the completion of the Restructuring Steps, Scholz Group has been significantly over-leveraged and therefore its equity value is negative. In order to (a) restructure Scholz Group's financial situation and financial position; (b) facilitate the significant deleveraging of Scholz Group; (c) revitalise the sustainable going concern of Scholz Holding's business; and (d) enable the Group, due to its position as the largest creditor of Scholz Group (and therefore being able to provide for an overall financial restructuring solution for Scholz

Group), to be provided with the opportunity to acquire the Target Shares with a nominal purchase price of EUR1.00 (equivalent to approximately HK$8.90), the Company has carried out the aforementioned transactions, which are summarised as follows:

(i) on 29 April 2016, the Company entered into the German Debt Purchase Agreement with certain lenders of Scholz Holding, which was subsequently executed by all parties and became effective on 28 June 2016, under which, among other things, the Company:

(a) purchased the German Debt in the nominal value of approximately EUR524 million (equivalent to approximately HK$4.7 billion) at the initial purchase price of approximately EUR236 million (equivalent to approximately HK$2.1 billion), which is subject to a maximum adjustment of an additional EUR20.4 million (equivalent to approximately HK$181.6 million); and

(b) set aside EUR20 million (equivalent to approximately HK$178 million), representing approximately 7.8% of the aggregate purchase price of EUR256.4 million (equivalent to approximately HK$2.3 billion), for the settlement of the 8.5% EUR150 million (equivalent to approximately HK$1.3 billion) Austrian law governed bond originally issued by Scholz Holding on 8 March 2012 and subsequently increased to EUR182.5 million (equivalent to approximately HK$1.6 billion) on 13 February 2013, as well as the settlement of certain other closing conditions.

Formal closing of the German Debt Acquisition took place on 22 July 2016;

(ii) on 1 June 2016, the Company entered into the Assignment and Assumption Agreement with certain lenders of the US Borrowers and the US Borrowers, pursuant to which the Company acquired the rights and obligations of the lenders under a credit agreement for a purchase price of US$16.76 million (equivalent to approximately HK$130.23 million). Closing of the US Assignment took place on 2 June 2016; and

(iii) on 20 July 2016, the Company entered into the Restructuring Agreement with CRDL, CTRL, Scholz Holding, Scholz Recycling, Scholz Beteiligungsgesellschaft and TBD, pursuant to which, among other things, (a) the terms of an up to EUR80 million (equivalent to approximately HK$712 million) Bridging Loan are finalised; (b) the maturity dates of the German Debt are amended together with a partial release of approximately EUR224 million (equivalent to approximately HK$2.0 billion) of the German Debt plus accrued interest; and (c) the acquisition and waiver of the TTC Loan. The Restructuring Steps as contemplated under the Restructuring Agreement were completed on 31 August 2016, leading to a significant deleverage of Scholz Group.

As stated in the MT Circular, the aforementioned transactions form part of a series of steps taken by the Company to prepare for the Proposed Acquisition. The Board is pleased to announce that on 29 August 2016 (after trading hours), CRDL (as purchaser), Mr. O. Scholz, Mr. B-U. Scholz, Scholz Beteiligungsgesellschaft (as sellers) and TBD entered into the Share Purchase Agreement, pursuant to which, among other things, CRDL has conditionally agreed to purchase, and Mr. O. Scholz, Mr. B-U. Scholz and Scholz Beteiligungsgesellschaft have conditionally agreed to sell, the Target Shares for a cash consideration of EUR1.00 (equivalent to approximately HK$8.90).

The purpose of this circular is to provide you with, among other things, (i) further details of the Proposed Acquisition; (ii) further details of Scholz Group; (iii) a notice of the EGM; and (iv) other information as required under the Listing Rules.

2. PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

(a) Date

29 August 2016

(b) Parties

(i) CRDL

(ii) Mr. O. Scholz

(iii) Mr. B-U. Scholz

(iv) Scholz Beteiligungsgesellschaft

(v) TBD

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of Mr. O. Scholz, Mr. B-U. Scholz, Scholz Beteiligungsgesellschaft, TBD and their respective ultimate beneficial owner(s) are independent of the Company and its connected persons.

(c) Shares to be acquired

Pursuant to the Share Purchase Agreement, CRDL will acquire the Target Shares, i.e. 50,000,000 shares in Scholz Holding, representing the entire share capital of Scholz Holding. Upon closing of the Proposed Acquisition, Scholz Holding will become a direct wholly-owned subsidiary of CRDL and an indirect wholly-owned subsidiary of the Company.

(d) Consideration

The aggregate purchase price for the Target Shares payable by CRDL to the Sellers is EUR1.00 (equivalent to approximately HK$8.90) and shall be allocated among the Sellers in the following manner:

Seller	No. of Target Shares to be sold by the respective Seller	Allocated purchase price *(EUR)*	*(HK$ equivalent)*
Mr. O. Scholz	29,950,000	EUR0.60	HK$5.34
Scholz Beteiligungsgesellschaft	12,000,000	EUR0.24	HK$2.14
Mr. B-U. Scholz	8,050,000	EUR0.16	HK$1.42
Total:	**50,000,000**	**EUR1.00**	**HK$8.90**

CRDL shall pay the aggregate purchase price in cash upon closing of the Proposed Acquisition.

The aggregate nominal purchase price was determined after arm's length negotiations between CRDL and the Sellers and was based on the fact that Scholz Holding is currently significantly over-leveraged, having regard to, among other things, (i) the Company and CRDL's view of the value of the assets, business, and financial results of Scholz Holding; (ii) the consideration paid by the Group in respect of the German Debt Acquisition (initial purchase price being EUR236 million (equivalent to approximately HK$2.1 billion)), the US Assignment (US$16.76 million (equivalent to approximately HK$130.23 million)) and the Bridging Loan (up to EUR80 million (equivalent to approximately HK$712 million); and (iii) the factors set out in the section headed "5. Reasons for and Benefits of the Proposed Acquisition" in this letter.

(e) Closing

Closing shall take place at 0:00 hours CET on the calendar day following the calendar day on which all of the following conditions (the "**Closing Conditions**") are fulfilled, or, respectively, their fulfillment is waived (the "**Closing Date**"):

(i) the legal title in the shares in Scholz Hong Kong Ltd. (including its Chinese and Singapore subsidiaries) has been transferred out of Scholz Group;

(ii) the applicable merger control clearances for the Proposed Acquisition under the merger control laws of Austria, Bosnia-Herzegovina, Germany, Poland, Serbia, Slovenia and Turkey (collectively, the "**Merger Clearances**") have been obtained or deemed to be obtained (e.g. due to lapse of applicable waiting periods or due to jurisdiction having been declined by any relevant governmental authority) or it turns out that the closing of the Proposed Acquisition is otherwise permissible pursuant to such merger control laws;

(iii) CRDL has confirmed to Scholz Beteiligungsgesellschaft in writing the passing by the Shareholders in the Company's general meeting of the requisite resolution(s) approving the Share Purchase Agreement and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules; and

(iv) CRDL has confirmed to Scholz Beteiligungsgesellschaft in writing that the Restructuring Closing Date has occurred.

CRDL shall be entitled at any time to waive (in whole or in part) any of the Closing Conditions set forth in paragraph (i), (iii) and (iv) above by written notification to the other parties. As at the Latest Practicable Date, the Closing Conditions set forth in paragraph (i), (ii) and (iv) above had been satisfied and CRDL had no intention to waive (in whole or in part) the Closing Condition sets forth in paragraph (iii) above.

(f) Closing Condition regarding Merger Clearances

CRDL and the Sellers agree to make any filings necessary in connection with the Merger Clearances and any other filings with, or notifications to, any governmental authority required in connection with the Share Purchase Agreement. Any such filings or notifications shall be made by CRDL on behalf of all parties involved (except to the extent not permitted under applicable law). The Sellers undertake to fully cooperate with CRDL in providing all information concerning Scholz Group and the Sellers reasonably required by CRDL for such purposes.

In order to obtain the Merger Clearances, CRDL and the Sellers shall:

(i) use all reasonable efforts to cooperate in all respects in the preparation of any filing or notification and in connection with any submission, investigation or inquiry; and

(ii) supply to any competent authority without undue delay any additional information requested pursuant to applicable law and take all other procedural actions required to obtain the Merger Clearances or to cause any applicable waiting period to commence and expire, subject, in all cases, to appropriate measures being taken to safeguard (including the Sellers, Scholz Holding and Scholz Recycling) the confidentiality of commercially sensitive information of CRDL.

As at the Latest Practicable Date, all relevant merger control clearances for the Proposed Acquisition had been obtained from the relevant regulatory authorities and the Closing Condition regarding Merger Clearances had been satisified.

(g) Rights of Withdrawal

In the event that the Closing Conditions have not been fulfilled by 31 December 2016 (unless Scholz Beteiligungsgesellschaft and CRDL agree in writing on an extension of this period), Scholz Beteiligungsgesellschaft and CRDL shall be entitled in each case – until the occurrence of all Closing Conditions (by fulfilment or waiver) – to withdraw from the Share Purchase Agreement by written declaration vis-a-vis the respective other parties to the Share Purchase Agreement. The right of withdrawal shall not exist if the party declaring the withdrawal prevents the fulfillment of the Closing Conditions contrary to good faith or causes obstacles to closing of the Proposed Acquisition contrary to good faith.

CRDL shall further be entitled to withdraw from the Share Purchase Agreement by written declaration vis-a-vis the other parties, if one of the following circumstances occurs (the "**Withdrawal Circumstances**"):

(i) the Restructuring Closing Date has not occurred by (and including) 30 September 2016; or

(ii) filing of an application for the opening of insolvency proceedings in respect of one of the companies of Scholz Group, with the proviso that CRDL shall not be entitled to withdraw if the application is made by CRDL or an enterprise affiliated with CRDL as defined in §§ 15 et seqq. AktG or in case of a Chapter 7 or a Chapter 11 filing for one or several of Scholz Group's subsidiaries in the U.S..

A right of withdrawal may be exercised by the parties entitled to a withdrawal before the occurrence of all Closing Conditions (by satisfaction or waiver). In the event that a right of withdrawal under the Share Purchase Agreement is not exercised, it shall not be deemed a waiver in respect of any other rights of the respective parties under the Share Purchase Agreement.

As at the Latest Practicable Date, none of the Withdrawal Circumstances had occurred.

3. INFORMATION ABOUT SCHOLZ HOLDING

(a) Business Overview and Business Model

Scholz Holding is the holding company of a global network of companies and affiliates in the business of treating and processing scrap and metal, and is one of the largest European-based global network of companies and affiliates active in this industry. Founded in 1872, Scholz Group provides all steps in recycling metal and scrap metals and is a one-stop shop, from collecting, gathering, sorting, and processing the material to its sale, utilisation, and recirculation. Scholz Group is among the process and technology leaders in recycling of ferrous and non-ferrous metals. In 2015, Scholz Group sold around 7.2 million tons of ferrous and non-ferrous scrap through its business activities in Europe, North- and Central-America. Scholz has an international network of over 200 collecting and processing yards in 20 countries with a regional focus on Germany, Austria, the Balkans as well as North America including Mexico. Sufficient provision of recycling materials, the development of raw material prices, efficient logistics as well as efficient processing processes are material influencing factors for the business model of Scholz Group.

(i) Major suppliers

Scholz Group sources scrap mainly from industrial process (ferrous), construction demolitions (ferrous) as well as end-of-life scrap (non-ferrous). Scholz Group's supplier base is diversified with key suppliers, among others, being German car manufacturers such as BMW, Daimler and VW, the Canadian automotive supplier Magna as well as the German railway company DB (Deutsche Bahn). The top scrap suppliers are German OEMs. In general, Scholz Group's supplier base is regionally structured and purchases from the ten largest suppliers accounted for approximately 12.1%, 15.8%, 15.7% and 15.7% of Scholz Group's total purchases for each of the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016, respectively.

(ii) Major customers

Scholz Group mainly caters electrical and converter steel mills, foundries, smelting works, material producers (e.g. paper mills), various manufacturers (e.g. bottling plants) and waste-to-energy landfills. Arcelor Mittal, ThyssenKrupp, voestalpine and Arvedi are Scholz Group's key customers amidst a diversified customer base. For each of the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2016, sales to the top ten largest customers accounted for approximately 26.5%, 30.2%, 32.2% and 36.5% of Scholz Group's total revenue, respectively. The remaining revenues were generated by a diversified customer base indicating a low risk from specific individual customers at group level.

(iii) Products offered

As a "one-stop-shop" for all customers with any metal supply needs, Scholz Group offers a comprehensive product and service portfolio with regards to ferrous and non-ferrous scrap metals (iron, copper, stainless steel, aluminum and other metal scrap). The product portfolio of Scholz Group includes the collection, recycling and sale of steel scrap, non-ferrous metal, alloyed steel and declassified steel products. Scholz Group also offers services including container services, industrial supply, industrial demolition, gutting projects as well as disposal of end-of-life vehicles and electronic scrap. Through their advanced patented post-shredder technology, Scholz Group is able to achieve a recovery rate of 98% against the EU directive of 95%, which means a high purity of their offered metals.

(iv) Production facilities

Scholz Group has over 200 collecting and processing yards and in total more than 400 premises in 20 countries with a regional focus in Germany, Austria, the Balkans and North America (including Mexico).

(v) Competitive strengths

Since the founding of Scholz Group in 1872, it has grown to a competitive network with global presence, high location density and leading scrap metal processing technology. Today, the global operating model of Scholz Group is efficiently managed via a holding structure and a highly experienced management team. After a long-lasting tradition of over 140 years in family ownership, at present, Scholz Group is an established brand within the metal recycling business with a strong market position in the key markets Central and Eastern Europe. Through a strong focus on its core business ferrous and non-ferrous metals, Scholz Group is reducing the complexity of their business model significantly. A diversified customer and supplier base with high shares of recurring business prevents Scholz Group from any strong dependency risks along the scrap metal recycling value chain. Since 2010, Scholz Group together with its restructuring advisors was able to successfully implement various operational restructuring measures to compensate declining market developments.

(b) Regulatory Framework

(i) General

Due to its more than 400 premises and the various jurisdictions, in which its business is run, Scholz Group is subject to a vast number of public laws and regulations. These differ from jurisdiction to jurisdiction where the business is run. With regard to the German sites only, 553 different laws, regulations (European and national) and European directives apply to Scholz Group.

The relevant permits and licenses range, *inter alia*, from building rights and permits, permits on immission control, permits in relation to the protection of groundwater, permits in relation to the treatment of waste, permits and licenses on the treatment of nuclear goods and permits on transportation. Due to the complexity of public permits and licenses and the vast number of public laws and regulations, Scholz Group maintains a professional legal tracking system, which includes all relevant laws, regulations and directives applicable to Scholz Group and the relevant permits and licenses (in total 1,558 permits and licenses in Germany alone) connected therewith. Pursuant to the best knowledge of Scholz Group's management, Scholz Group holds all relevant licenses to undergo its business.

(ii) Federal Immission Control Act

The most important legal framework that applies to Scholz Group is the German Federal Immission Control Act (the "**Act**"). The Act regulates immissions on the environment (including people, animals, nature as such and property of third parties) via air pollution, noise, concussions etc. resulting from carrying out the business. The German entities of Scholz Group have all relevant permits required under the Act.

However, the Act foresees that the relevant public authorities may impose new orders on the business. Imposing new orders is no particularity in relation to the relevant Scholz entities, but may happen in relation to any business carried out in Germany, to the extent it potentially produces immissions on its environment. The Act (together with the German regulations on waste) has been significantly changed during the last two years. As such, Scholz Group does not expect any material changes in relation to the status quo in the near future and therefore, from a regulatory framework perspective, the management of Scholz Group is of the view that the business of Scholz Group is in good shape.

(iii) Regulations on the Protection of (Ground) Water

In relation to regulations on the protection of (ground) water, the current regulation on facilities which include the use of water hazardous material (*Verordnung für Anlagen mit wassergefährdenden Stoffen*) might be changed in the near future. Such changes may lead to the need for a physical alteration of the buildings and equipment run by Scholz Group. However, it is expected that the potential changes to the regulation will provide for certain transition period.

(c) Key Financial Data of Scholz Holding

According to the audited consolidated financial statements of Scholz Holding prepared in accordance with IFRS, the consolidated total assets value and the consolidated net liabilities value of Scholz Holding as at 30 June 2016 were approximately EUR628.6 million (equivalent to approximately HK$5.6 billion) and EUR630.5 million (equivalent to approximately HK$5.6 billion), respectively. The consolidated net liabilities of Scholz Holding was primarily attributable to the previous business strategy of Scholz Holding which focused on expansion by acquiring new businesses that were funded by external borrowings. As at 30 June 2016, the consolidated net liabilities of Scholz Holding mainly comprised bank borrowings (including the German Debt), the Austrian Bond and the TTC Loan which amounted to approximately EUR524 million (equivalent to approximately HK$4.7 billion), EUR182.4 million (equivalent to approximately HK$1,623 million) and EUR60 million (equivalent to approximately HK$534 million), respectively. According to the audited consolidated financial statements of Scholz Holding prepared in accordance with IFRS, the total revenue, gross profit, loss before and after taxation of Scholz Holding for each of the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the six months ended 30 June 2016 are as follows:

	For the financial year ended 31 December						For the six months ended 30 June	
	2013		2014		2015		2016	
	EUR million	*HK$ million equivalent*	*EUR million*	*HK$ million equivalent*	*EUR million*	*HK$ million equivalent*	*EUR million*	*HK$ million equivalent*
Revenue	2,376.5	21,151	1,814.2	16,146	1,296.6	11,540	513.0	4,566
Gross profit	209.1	1,861	160.4	1,428	150.9	1,343	72.8	648
Loss before taxation	323.9	2,883	117.0	1,041	145.6	1,296	67.0	596
Loss after taxation	332.8	2,962	119.0	1,059	171.8	1,529	71.9	640

(d) Financial Overview

Scholz Group has been operating in an over-leveraged capital structure for a prolonged period during the commodities boom of the last decade, given that their business strategy in the past was mainly focused on expansion by acquiring new businesses. As Scholz Holding has been family owned, those investments have been financed largely by bank loans and the Austrian Bond.

Several of those investments had failed during the financial crisis, causing the banks to initiate the first restructuring in 2010. However, business recovered strongly and restructuring attempts were postponed.

In 2013, with the collapse of commodities prices, the banks pushed for a restructuring which resulted in a new investor, TTC, which provided new capital for 39.9% shareholding interest in Scholz Holding. Since TTC invested in Scholz Holding, various measures were undertaken by the shareholders and the management to restructure Scholz Group, including certain divestment, resulting in significant extraordinary expenses such as impairments, write-offs and restructuring costs, and hence Scholz Group had recorded net losses despite significant gross profit over the last three years. However, the restructuring efforts did not include a haircut by the banks or holders of the Austrian Bond and therefore the leverage was not significantly decreased in the course of the restructuring and interest expenses remained high. According to the audited consolidated financial statements of Scholz Holding prepared in accordance with IFRS, the finance costs incurred by Scholz Group for each of the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the six months ended 30 June 2016 amounted to approximately EUR156.6 million (equivalent to approximately HK$1,394 million), EUR125.2 million (equivalent to approximately HK$1,114 million), EUR83.9 million (equivalent to approximately HK$747 million) and EUR30.6 million (equivalent to approximately HK$272 million), respectively.

In addition, there has been tremendous excess capacities in the steel sector (mainly in the PRC) which has led to a decline in steel (scrap) prices since 2010. As a metal and scrap metal processor, the downward trend in steel prices have put much pressure on margins industry-wide. Moreover, scrap demand of EAF (electric arc furnace) and BOF (basic oxygen furnace) steel mills in Scholz Group's core markets in Europe has also reduced due to declining iron ore prices.

As a result of the over-leveraged capital structure and adverse market conditions during the past few years, Scholz Group has continued to remain in financial distress for a significant period and has faced a severe liquidity crisis in December 2015, such crisis had a negative impact on the scale of operations of Scholz Group. TTC finally decided to exit the investment in March 2016. The over-leverage issue and liquidity issue will be addressed by the Company through the German Debt Acquisition and the provision of the Bridging Loan, respectively. The current over-leverage of Scholz Group has been overcome upon closing of the Restructuring Agreement which took place on 31 August 2016.

As at 30 June 2016, the consolidated net liabilities position and gearing ratio of Scholz Group were approximately EUR630.5 million (equivalent to approximately HK$5.6 billion) and 142.8%, respectively. Upon the closing of the Restructuring Agreement, approximately EUR224 million (equivalent to approximately HK$2.0 billion) of the German Debt and the TTC Loan plus relevant accrued interest had been released and together with the settlement of the Austrian Bond (which was one of the closing conditions of the German Debt Purchase Agreement), the unaudited pro forma consolidated net liabilities position and gearing ratio of Scholz Group would significantly improve to approximately EUR143.0 million (equivalent to approximately HK$1.3 billion) and 65.3%, respectively.

Moreover, it is envisaged that saving on extraordinary expenses can be achieved with Scholz Group stepping out from the restructuring. In addition, the Bridging Loan is provided to Scholz Group with a view to revitalise its working capital and reinstate its scale of operation.

4. INFORMATION ABOUT THE PARTIES

(a) The Company and CRDL

The Company is principally engaged in the business of mixed metal scrap recycling, reuse and processing, which involves the breaking down, demolition and separation of mixed metal scrap. CRDL is an indirect wholly-owned subsidiary of the Company.

(b) Mr. O. Scholz

As at the Latest Practicable Date, Mr. O. Scholz was the owner of 29,950,000 Target Shares. He was a director of Scholz Holding until August 2016 and one of the directors of Scholz Recycling. Mr. O. Scholz's ancestors founded Scholz Group in 1872. Mr. O. Scholz has been the chief executive officer of Scholz Holding since 1999 and is the fifth generation leading Scholz Group since 2014.

(c) Mr. B-U. Scholz

As at the Latest Practicable Date, Mr. B-U. Scholz was the owner of 8,050,000 Target Shares. He was one of the directors of Scholz Holding until July 2014. Mr. B-U. Scholz is the father of Mr. O. Scholz and was the fourth generation leading Scholz Group until 2014 when he resigned as a managing director of Scholz Holding.

(d) Scholz Beteiligungsgesellschaft and TBD

Each of Scholz Beteiligungsgesellschaft and TBD is a limited liability company organised under the laws of the Federal Republic of Germany. As at the Latest Practicable Date, Scholz Beteiligungsgesellschaft held 12,000,000 Target Shares. Scholz Beteiligungsgesellschaft and TBD are the trustees of a double-sided trust arrangement in respect of the shares in Scholz Holding, the beneficiaries of which are the lenders of Scholz Group which include the Group and certain financial institutions.

5. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is a mixed metal scrap recycler in China and has been principally engaged in the business of mixed metal scrap recycling, reuse and processing even before its listing on the Main Board of the Stock Exchange in 2010.

The Company has been actively looking for suitable acquisition opportunities within the scrap metal recycling sector in mature overseas markets, and has been targeting at global recyclers with the necessary technology, management techniques and know-how. The Company aims to, through such acquisition opportunities, take a leadership role to consolidate the fragmented recycling businesses and upskill the recycling market in China, as well as further strengthen its operations.

Scholz Group, the target group, is also a mixed metal scrap recycler. It is one of the largest European-based global network of companies and affiliates active in the field of treating and processing scrap metal. Founded in 1872, Scholz Group provides all steps in recycling metal and scrap metal and is a one-stop shop, from collecting, gathering, sorting, and processing the material to its sale, utilisation, and recirculation. It has a global procurement network for recycling materials including end-of-life automobiles in over 30 countries, mainly located in Europe, another forefront region in the recycling business. It also carries out demolitions and gutting projects and takes apart railway vehicles and recovers resources from these materials which it then supplies to steel mills, foundries, and smelters worldwide. Scholz Group also developed a number of pioneering processing methods and is one of the few service providers in recycling that handles all steps in the resource cycle with its own companies.

The Company anticipates that its envisaged equity investment in Scholz Group would give the Group direct and immediate access to stable upstream material supplies from the European and U.S. markets, and to one of the best end-of-life vehicle dismantling and processing technology globally which, in turn, will create synergistic effects between the Group and Scholz Group and revitalise the Group's existing operations.

With Scholz Group's vast procurement networks mainly located in Europe and the U.S., the Proposed Acquisition can provide the Group with a valuable opportunity to have stable and economical access to supplies of upstream material, thereby driving down the cost of the Group's business.

The Group can consider to purchase materials sourced by Scholz Group when the situation allows, in order to preserve the profit within the Enlarged Group.

Also, since Scholz Group is involved in the collection of metal scrap via its collection yards spread across continental Europe, through information sharing within the Enlarged Group, the Group will have more transparency on the cost of materials, which will place the Group in a better position during the negotiation and when making offers to external suppliers.

Separately, the Group will be able to leverage on Scholz Group's technological capabilities and know-how to enhance its recycling operations thereby optimising its profits. In addition, as a further business synergy, the Group may be able to access Scholz Group's extensive clientele and expand the geographical scope of its own clientele, which are principally located in China.

Moreover, the enlarged geographic footprint provides the Enlarged Group with access to first hand market information globally, which enables the Enlarged Group to promptly adjust its sales strategy according to the market situation.

Scholz Group is currently significantly over-leveraged and therefore its equity value is currently negative. In order to (a) restructure Scholz Group's financial situation and financial position; (b) facilitate the significant deleveraging of Scholz Group; (c) revitalise the sustainable going concern of Scholz Holding's business; and (d) enable the Group, due to its position as the largest creditor of Scholz Group (and therefore being able to provide for an overall financial restructuring solution for Scholz Group), to be provided with the opportunity to acquire the Target Shares with a nominal purchase price of EUR1.00 (equivalent to approximately HK$8.90), the Company has taken a series of steps as set out in the section headed "1. Introduction" above in this letter.

The Company is of the view that the performance of Scholz Group will improve following the abovementioned restructuring measures, especially with the benefits in the following areas:

(a) Legal and professional fees

With Scholz Group stepping out from restructuring, it is expected that the legal and professional fees relating to any restructuring process will significantly decrease, resulting in a direct saving in overheads.

(b) Interest expenses

Following the completion of the Restructuring Steps carried out by the Group, interest bearing borrowing instrument of Scholz Group has substantially decreased, resulting in a significant saving in finance cost.

(c) Additional working capital

With the provision of the Bridging Loan to Scholz Group, it has additional working capital to increase its level of business activities, which would lead to an increase in revenue and ultimately benefitting the profitability of Scholz Group.

Also, since metal recycling is a low-margin-high-volume business, following the completion of the Proposed Acquisition, with services provided by different companies in the Enlarged Group, the Enlarged Group will be involved in most parts of the metal recycling value chain, therefore, as previously described, it is expected that profit can be preserved within the Enlarged Group through synergies and cooperation among the various group companies.

In light of the above, the Directors consider that the terms of the Share Purchase Agreement are fair and reasonable and the entering into of the Share Purchase Agreement and the transactions contemplated thereunder are in the interests of the Company and Shareholders as a whole.

6. THE GROUP'S INTENTION IN RELATION TO THE ENLARGED GROUP UPON COMPLETION OF THE PROPOSED ACQUISITION

The board of Scholz Holding currently comprises two managing directors who are professionals from a firm which provides professional management services, and have been appointed to the board in connection with the execution of the double-sided trust arrangement in respect of the shares in Scholz Holding. Two directors acting jointly are generally required to represent Scholz Holding. In connection with the Proposed Acquisition, the Company has restructured the board of directors of Scholz Holding by appointing Mr. Liu Huaiyu, an Executive Director and Executive Vice President of the Company as a managing director of Scholz Holding. The Directors believe Mr. Liu's extensive experience in finance and management role with various large organisations and listed companies will benefit Scholz Group during its post restructuring phrase and help stabilising its business.

Being an industrial player for over 20 years, the Company possesses in-depth knowledge of the metal recycling industry. Given the fact that Scholz Group has always been managed by a professional manager team, it is the Company's intention to maintain the existing management team to the largest extent with appropriate adjustments to cater for the enlarged geographical footprint after the Proposed Acquisition. The Company will also consider to bring in new additions with extensive industrial experience as well as representatives from the Company to the current management team in Scholz Group when it sees fit.

As at the Latest Practicable Date, USUMHK directly held 1,008,885,181 Shares, representing approximately 62.29% of the voting rights of the Company. It is anticipated that USUMHK will continue to remain as the Company's single largest Shareholder upon completion of the Proposed Acquisition and the Company has no intention to change the composition of the Board upon completion of the Proposed Acquisition.

The Company is currently exploring the possibility of streamlining its operations with a view to optimising the business portfolios of the Group. Apart from the possible streamlining of operations and the Proposed Acquisition, the Company currently is not involved in any agreement, arrangement and understanding (concluded or otherwise) in relation to acquisitions or injection of any new businesses to the Group or disposals, scaling-down and/or termination of any of its existing businesses and/or major operating assets. However, the Company will continue to seek development of its business when there are suitable opportunities.

7. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Upon Completion, Scholz Holding will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated in the financial statements of the Company.

Set out in Appendix III to this circular is the "Unaudited Pro Forma Financial Information of the Enlarged Group" and the basis of preparation thereon.

(a) Earnings

The Group recorded an audited consolidated revenue, gross loss and net loss attributable to owners of the Company of approximately HK$3,137 million, HK$45 million and HK$1,139 million for the year ended 31 December 2015, respectively.

As set out in Appendix III to this circular, assuming the Proposed Acquisition had been completed since 1 January 2015, the unaudited pro forma consolidated revenue and gross profit of the Enlarged Group for the year ended 31 December 2015 would increase significantly by EUR1,296.6 million (equivalent to approximately HK$11.2 billion) and EUR150.9 million (equivalent to approximately HK$1,299 million) respectively, improve to approximately HK$14.3 billion and HK$1,254 million respectively; while the unaudited pro forma consolidated net loss of the Enlarged Group attributable to owners of the Company for the year ended 31 December 2015 would be approximately HK$1,218 million.

As set out in the section headed "3. Information about Scholz Holding" in this letter, Scholz Group was in financial distress for a significant period as a result of the over-leveraged capital structure and adverse market conditions during the past few years The over-leverage issue and liquidity issue will be addressed by the Company through the German Debt Acquisition and the provision of the Bridging Loan, respectively. The current over-leverage of Scholz Group has been overcome upon closing of the Restructuring Agreement which took place on 31 August 2016.

Upon the closing of the Restructuring Agreement, approximately EUR224 million (equivalent to approximately HK$2.0 billion) of the German Debt and approximately EUR60 million (equivalent to approximately HK$534 million) of the TTC Loan plus relevant accrued interest had been released and together with the settlement of the Austrian Bond, which is approximately EUR182.4 million (equivalent to approximately HK$1.6 billion), it is expected that the gearing of Scholz Group will significantly improve, resulting in a material saving on the finance cost going forward.

Moreover, it is envisaged that saving on extraordinary expenses can be achieved with Scholz Group stepping out from the restructuring.

As such, the Company believes that the financial result and position of Scholz Group in the future would significantly improve after the completion of the Restructuring Steps, settlement of the Austrian Bond and the Proposed Acquisition.

(b) Assets and liabilities

As set out in Appendix III to this circular, assuming the Proposed Acquisition had been completed as of 30 June 2016, the respective unaudited pro forma total assets and total liabilities of the Enlarged Group following the Proposed Acquisition would amount to approximately HK$10,317 million and approximately HK$5,994 million as compared to the respective total assets and total liabilities of the Group amounting to approximately HK$6,030 million and approximately HK$1,663 million as at 30 June

2016 before the Proposed Acquisition, representing an increase of HK$4,287 million in total assets and HK$4,331 million in total liabilities from those set out in the unaudited consolidated interim financial report of the Company as at 30 June 2016.

(c) Liquidity

As set out in Appendix III to this circular, assuming the Proposed Acquisition had been completed as of 30 June 2016, the consideration of the Proposed Acquisition is EUR1 (equivalent to approximately HK$8.9), there will be no material cashflow impact to the Enlarged Group.

As at 30 June 2016, the gearing ratio of the Group was 20.7% (as calculated based on the total borrowings over the total assets) and the unaudited pro forma gearing ratio of the Enlarged Group would increase to 23.6%.

8. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) exceed 100%, the Proposed Acquisition (both on a standalone basis and on an aggregated basis with the German Debt Acquisition, the US Assignment and the Relevant Restructuring Steps) constitutes a very substantial acquisition of the Company and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

9. WAIVER FROM STRICT COMPLIANCE WITH RULE 4.03 OF THE LISTING RULES

Pursuant to Rule 4.03 of the Listing Rules, the accountants' report of Scholz Group which is required to be included in this circular must be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). Rule 4.03 of the Listing Rules also provides that, in the case of a circular issued by a listed issuer in connection with acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of practicing accountants which is not so qualified but which is acceptable to the Stock Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.

Scholz Holding is a company incorporated in Germany and EY Germany has been acting as the auditors of Scholz Group for the three years ended 31 December 2015 and six months ended 30 June 2016. The Directors are of the view that EY Germany is knowledgeable about the operations, accounting, reporting and management systems of Scholz Group and is familiar with the financial information of Scholz Group. Given their familiarity with, and geographical proximity to Scholz Group, it will therefore be more cost and time effective to engage EY Germany to issue the accountants' report of Scholz Group in conformity with IFRS. The accountants' report on Scholz Group would be prepared by EY Germany in accordance with IFRSs and an opinion would be issued by EY Germany based on the procedures performed in accordance with Auditing Guideline "Prospectus and Reporting Accountants" (Statement 3.340) issued by the Hong Kong Institute of Certified

Public Accountants. The Directors are of the view that IFRSs are permitted under Rule 4.11(b) of the Listing Rules and have been fully converged with the HKFRS and therefore no reconciliation between the international and Hong Kong standards is necessary. According to EY Germany, it has internal quality control review procedures on its accountants' reports. The audit work performed by EY Germany would also be in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

Although EY Germany is not registered under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong), it is a firm with international name and reputation and registered with the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*) and the German member firm of the international Ernst & Young network. As such, the Directors are of the view that EY Germany has the requisite qualification, knowledge, experience and expertise to act as the reporting accountants and it is more appropriate to appoint EY Germany instead of professional accountants who are qualified under the Professional Accountants Ordinance as reporting accountants for the purpose of issuing the accountants' report of Scholz Group to be included in this circular. The Company has therefore applied to the Stock Exchange for a waiver from strict compliance with Rule 4.03 of the Listing Rules to allow EY Germany to act as the reporting accountant for the accountants' report of Scholz Group which was prepared under IFRS for the inclusion in this circular. Such waiver was granted by the Stock Exchange on 27 September 2016 and the relevant accountants' report is set out in Appendix II to this circular.

10. EGM

A notice convening the EGM to be held at Suite 1807, Two Pacific Place, 88 Queensway, Hong Kong on Thursday, 15 December 2016 at 10:00 a.m. is set out on pages EGM-1 to 2 of this circular.

To the best knowledge, information and belief of the Directors and after having made all reasonable enquiries, no Shareholder is required to abstain from voting at a general meeting of the Company to be convened for approving the Proposed Acquisition.

Whether or not you are able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

11. RECOMMENDATION

The Directors consider that the Proposed Acquisition is on normal commercial terms and that the terms and conditions of the Share Purchase Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole and would recommend the Shareholders to vote in favour of the relevant resolution to approve the terms of the Share Purchase Agreement, the Proposed Acquisition and all other transactions contemplated thereunder and all other documents that are necessary to effect the Proposed Acquisition.

12. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Chiho-Tiande Group Limited
Tu Jianhua
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 are disclosed in the following documents which are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chiho-tiande.com):

- interim report of the Company for the six months ended 30 June 2016 published on 14 September 2016, from pages 34 to 80;
- annual report of the Company for the year ended 31 December 2015 published on 27 April 2016, from pages 90 to 231;
- annual report of the Company for the year ended 31 December 2014 published on 14 April 2015, from pages 91 to 231; and
- annual report of the Company for the year ended 31 December 2013 published on 8 April 2014, from pages 93 to 231.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the results of the Group for each of the financial years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

The information is extracted from the annual reports and interim report of the Company for the relevant financial years/period which are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chiho-tiande.com).

(a) Management discussion and analysis for the six months ended 30 June 2016

(i) Business overview and outlook

With the prolonged downward bias that the global metal market has seen in the last 6 years, the management continued to face exceptional challenges as metal prices are at their lowest levels since the financial crisis in 2008, resulting in a disappointing performance for the first half of 2016. With the likelihood of U.S. interest rates turning upwards in the coming months and economic uncertainty overclouding Europe, volatility in the global metal market is expected to be seen in the coming years. However, the management remains to be cautiously optimistic about the Group's performance in the coming months.

In 2016, the Group continued to face challenges arising from the difficult business environment, including the generally low global metal prices and the slower economic growth in the PRC. During the period, despite a reduction in sales from HK$1.8 billion in the same period of 2015 to HK$1.5 billion, representing a slight decrease of 16.7%, the Group recorded a gross profit of

HK$65.6 million when compared to the gross profit of HK$61.5 million in the same period of 2015. This was mainly due to the lower volatility in global commodity prices during the second quarter of 2016.

During the period, the Group recorded a loss attributable to the owners of the Company of HK$170.5 million, representing a decrease of HK$779.1 million or 82.0%, when compared to the loss attributable to the owners of the Company of HK$949.6 million recorded in the same period of 2015. The overall decrease in a loss attributable to the owners of the Company was mainly due to the significant decrease in loss on fair value changes of derivative financial instruments and the loss on the fair value change of embedded derivative components of convertible bonds during the period, when compared to those of amounting to HK$315.8 million and HK$559.9 million respectively during the same period of 2015.

With a number of unforeseeable circumstances impacting the global supply of scrap materials, the Group continued to experience a reduction of scrap materials purchased. During the period, mixed metal scrap purchase by the Group remained at the same low level as recorded in 2015. The Group sold in aggregate over 234,000 tonnes of processed products within its three business segments throughout the period. This represented a trifling decrease of 3.3% when compared to 242,000 tonnes in the same period of 2015.

During the period, 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$0.106 in the first half of 2016 (2015: Loss per share HK$0.809).

The Group's procurement network

The Group is still 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 developed a strong international procurement network with established and developed suppliers which covers Europe, North America, Oceania and the Middle East, which is critical to its success. Looking forward, the Group plans to expand its procurement network in East and Southeast Asia for the purpose of expanding the purchase volume of mixed metal and developing new varieties of renewable resources recycling process. The Group believes this will largely reduce transportation costs and time, as well as lower the impact of volatile global commodity prices on the Group's profitability.

Corporate and business development

With a strong presence in the Group's Hong Kong operations since 2012, the Company believes that the Group is now in a well-placed position to establish a more diversified scrap metal and electronic waste processing platform in Hong Kong.

With regard to the Group's investment in establishing new processing facilities in the Development Zone in Yantai City, PRC, the Group acquired a piece of land nearby its existing processing facilities in the Development Zone in Yantai City in preparation of expanding its production capacity of recycled metals in the future.

On 27 January 2016, the Group's acquisition of 60% effective equity interest in Yantai Liheng was completed. The Group aims to obtain the production permit and all necessary permits to start renewable oil operations progressively by the end of year.

On 21 March 2016, the Group's acquisition of 100% equity interest in Dalian New Green Recycle & Resources Corporation*（大連新綠再生資源加工有限公司）by way of the allotment and issue of 31,037,585 consideration shares to Suzuki Shokai Co., Ltd and Itochu Corporation, a company listed on Tokyo Stock Exchange, was completed. As a result, Itochu Corporation holds approximately 1.77% in the issued share capital of the Company through its wholly-owned subsidiary, TCI Ltd., as at the date of the 2016 interim report and has become a strategic investor that provides the Group with additional sourcing capabilities in East Asia, especially in Japan. The Group has launched trade business with Itochu Corporation and is further exploring opportunities for strategic partnership or cooperation.

Since 2 May 2016, the Group has been embarking on a series of steps to prepare for the Proposed Acquisition. Please refer to the section headed "Letter from the Board" in this circular for further details.

Social Responsibilities

On the environmental protection front, the Group continued to place great emphasis on ensuring that all of its processing facilities are in line with local and national environmental protection standards.

The Group's Taizhou facilities, the main production plant, continued to qualify as one of the designated processing units for imported metal scraps recycling and utilisation in Zhejiang Province under the Environmental Protection Department of Zhejiang Province（浙江省環境保護廳）. The Group's production processes do not consume large volumes of electricity and water and therefore produce very small volume of waste materials.

The Group considers that it has adopted sufficient environmental protection measures and controls against air, water, solid and noise pollutions produced during the course of its production processes.

Prospects

Going forward, the Group remains committed to further expanding its processing capability, and simultaneously improving its profitability and return on equity. The Group's primary focus will be to maximise the utilisation of its existing operation facilities, while looking for opportunities to improve the performance of the Group at the same time. The Group's next focus will be on expanding its procurement network in East Asia to substantially reduce transportation costs and time, as well as lower the impact of volatile global commodity prices on the Group's profitability. The Group is also preparing for the Proposed Acquisition.

With the continued emphasis of support from the PRC Government to develop the recycling industry, the Group is 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, the Group will continue to place heavy emphasis on its procurement volume to ensure that it is in line with its processing needs and to cater for its expansion strategy for scrap materials in the PRC.

The management will continue to place its efforts on the business development of the Group and upstream integrations, in order to achieve satisfactory returns to the Shareholders.

Subsequent events

On 20 July 2016, the Restructuring Agreement was entered into by, among others, the Company and Scholz Holding, in relation to, among other things, (1) finalisation of terms of the provision of the Bridging Loan; (2) amendment to and extension of the maturity dates, and partial release, of the German Debt; and (3) the intended acquisition, and immediate waiver, of the TTC Loan.

The entering into of the Restructuring Agreement is part of a series of steps taken by the Company to prepare for the Proposed Acquisition. The provision of the Bridging Loan is to ensure that the business of Scholz Group is maintained as a going concern prior to the Potential Equity Acquisition. Further, the amendment to and the extension of the maturity dates, and partial release, of the German Debt and the acquisition, and immediate waiver of, the TTC Loan are deemed necessary to facilitate the significant deleveraging of Scholz Group and to enhance its long-term economic performance.

On 22 July 2016, the closing of the acquisition of the German Debt was completed pursuant to the terms and conditions of the debt purchase agreement signed between, among others, the Company and Scholz Holding.

On 4 August 2016, a sale and transfer agreement was entered into between CRDL, a subsidiary of the Company, Scholz Beteiligungsgesellschaft and Scholz Holding, pursuant to which CRDL will acquire the TTC Loan from Scholz Beteiligungsgesellschaft for a nominal consideration of EUR1 (equivalent to approximately HK$8.90).

(ii) Financial review

Revenue

During this period of 2016, revenue decreased by approximately HK$0.3 billion, or 16.7%, from HK$1.8 billion in the same period of 2015 to HK$1.5 billion in this period. The decrease was mainly due to the weakness of global metal prices, which were at a six-year low during the first half of 2016, resulting in a decrease in the average selling prices of the Group's recycled metal products and foundry products.

Cost of sales

Cost of sales decreased by approximately HK$0.3 billion, or 17.6%, from HK$1.7 billion in the same period of 2015 to HK$1.4 billion in this period of 2016. The decrease is in line with the decrease in revenue and is primarily due to a reduction in the average purchase prices of raw materials.

Gross profit and gross profit margin

Gross profit of approximately HK$65.6 million was recorded in this period of 2016, representing an increase of 6.7% when compared to the gross profit of HK$61.5 million recorded in the same period of 2015. The gross profit margin increased from 3.5% in the same period of 2015 to 4.3% in this period of 2016. The increase in gross profit was mainly due to the lower volatility in global commodity prices in the second quarter of 2016.

Distribution and selling expenses

Distribution and selling expenses increased by approximately HK$1.2 million, or 25.0%, from HK$4.8 million in the same period of 2015 to HK$6.0 million in this period of 2016. This was mainly due to the slightly increase in transportation cost.

Administrative expenses

Administrative expenses increased by approximately HK$15.8 million or 23.3%, from HK$67.9 million in the same period of 2015 to HK$83.7 million in this period of 2016. This was mainly due to the increase in staff costs, depreciation and amortisation and rental expenses.

Other income

Other income decreased by approximately HK$22.4 million, or 52.3%, from HK$42.8 million in the same period of 2015 to HK$20.4 million in this period of 2016. This was mainly due to the non-recurring government grants received during the same period of 2015, and such insignificant amounts were recorded during the first six months of 2016.

Other gains and losses

Other losses decreased significantly by approximately HK$801.5 million, or 88.9% from HK$902.0 million in the same period of 2015 to HK$100.5 million in this period of 2016. During the interim period 2016, other losses were mainly derived from a loss on fair value changes of held for trading investments relating to listed securities of HK$88.6 million and exchange loss of HK$107.0 million, which partially overcome the loss by the bargain purchase gain of HK$88.9 million was recorded arising from the acquisition of a subsidiary. During the same period of 2015, other losses were mainly derived from a fair value changes of derivative financial instruments relating to various metals futures contracts of HK$315.8 million and an accounting loss of approximately HK$559.9 million derived from the change in the fair value of the embedded derivative components of the Company's convertible bonds.

Other expenses

Other expenses represented professional and legal expenses related to the German Debt Acquisition and the US Assignment, amounting to HK$27.1 million in this period of 2016.

Finance costs

Finance costs decreased by approximately HK$34.8 million, or 46.0%, from HK$75.6 million in the same period of 2015 to HK$40.8 million in this period of 2016. This was mainly due to a decrease in the bank interest expenses as the overall bank borrowings decreased during the period 2016 and a decrease in effective interest expenses on convertible bonds due to the conversion during the period 2016.

Loss for the period

As a result of the factors discussed above, the Company incurred a net loss for this period of 2016 of approximately HK$172.1 million, which decreased significantly by HK$774.7 million or 81.8%, as compared to a net loss of HK$946.8 million in the same period of 2015. The overall decrease in net loss was mainly due to the significant decrease in loss on fair value changes of derivative financial instruments and loss on the fair value change of embedded derivative components of convertible bonds arising from a non-cash accounting treatment for the purpose of complying with HKFRSs, when compared to the corresponding period of 2015.

Key financial ratios

The following table sets forth certain of the Group's financial ratios as of the date and for the periods as indicated below:

	At 30 June 2016	**At 31 December 2015**
Liquidity ratios		
Current ratio	1.44	3.33
Quick ratio	0.96	2.67
Gearing ratio (%)	20.7	22.5

	Six months ended 30 June	
	2016	**2015**
Inventory turnover days	111	113
Debtor's turnover days	7	13
Creditor's turnover days	9	15

(iii) Liquidity and financial resources and capital structure

The net current assets which included cash and various bank balance and deposits amounted to HK$1,035.4 million (31 December 2015: HK$3,717.7 million). As a result, the current ratio and quick ratio decreased from 3.33 and 2.67 as at 31 December 2015 to 1.44 and 0.96 as at 30 June 2016 respectively. The decrease was mainly due to proceeds being used for making the series of the German Debt Acquisition and the US Assignment and for paying certain costs in relation to completion of the Germany Debt Acquisition and the US Assignment, which aggregated to approximately HK$2,405 million. Total bank borrowings were HK$1.1 billion (31 December 2015: HK$1.1 billion), and those were mainly used to finance purchases of mixed metal scrap from overseas. Such borrowings were mainly denominated in US$ and RMB. Approximately HK$751.6 million (31 December 2015: HK$762.1 million) of bank borrowings are at fixed interest rates.

The gearing ratio of the Group as at 30 June 2016 was 20.7% (31 December 2015: 22.5%), which is calculated based on the total borrowings over total assets. The decrease was mainly due to the instalment payments of other borrowings during the interim period of 2016.

Debtor's turnover days and creditor's turnover days decreased from 13 days and 15 days for the same period of 2015 to 7 days and 9 days for this period of 2016 respectively.

Inventory turnover days decreased from 113 days for the same period of 2015 to 111 days for this period of 2016.

(iv) Capital commitments and contingent liabilities

As at 30 June 2016, the Group had pledged certain plant and buildings, land use rights and bank deposits with an aggregate carrying value of approximately HK$509.5 million (31 December 2015: approximately HK$445.8 million) to secure bank borrowings.

As at 30 June 2016, the Group had capital commitments in respect of acquisition of a subsidiary, property, plant and equipment, prepaid lease payments, additions in construction in progress and formation of subsidiaries but not provided for in the consolidated financial statements amounted to HK$56.0 million (31 December 2015: HK$519.0 million).

As at the date of the 2016 interim report, save as disclosed below, the Board is not aware of any material contingent liabilities.

With regard to the legal proceedings in the PRC between Shanghai Chiho-Tiande Resource Recycling Co., Ltd.* (上海齊合天地再生資源有限公司) ("**Shanghai JV**"), an indirect 51%-owned subsidiary of the Company, and Shanghai Science and Technology Co., Ltd.* (上海民營科技實業發展公司) in relation to certain housing and land lease contracts, disclosures have been made by the Company in its announcements dated 14 December 2012, 15 January 2014, 22 January 2014 as well as its interim reports for the six months ended 30 June 2014 and 2015 and its annual report for the year ended 31 December 2014 and 2015.

On 18 December 2015, the Shanghai JV applied to Shanghai High People's Court for re-trial and sought further legal relief. On the same date, Shanghai High People's Court accepted the re-trial application. The re-trial application was in the process of being reviewed as at the date of the 2016 interim report.

Whilst the Directors do not consider this to be a litigation of material importance for the reasons set out below, for the sake of completeness, it is noted that a writ of summons was issued by Delco as plaintiff on 21 December 2015 in the High Court of Hong Kong (High Court Action No. 3040 of 2015, "**HCA 3040/2015**") against the Company as defendant for a sum of HK$57,827,118 together with interest and costs. The claim relates to an alleged non-payment of a portion of the loans advanced by Delco Asia to subsidiaries of the Company in accordance with the terms of a Shareholders Loan Assignment and Capitalisation Agreement dated 24 June 2010 between, amongst others, Delco Asia and the Company. Delco alleged that it acquired all the assets and receivables of Delco Asia pursuant to an Assets & Liabilities Transfer Agreement dated 3 October 2011 between itself and Delco Asia.

The Company gave notice of intention to contest the proceedings on 4 January 2016. On 26 February 2016, the Company applied to the High Court of Hong Kong to strike out the claim of Delco in this action (the "**Striking Out Application**"). The Striking Out Application was heard before Deputy High Court Judge Manzoni, SC on 13 June 2016. Pursuant to the Decision of Deputy High Court Judge Manzoni, SC dated 27 June 2016, the Striking Out Application was dismissed. The proceedings are still in progress. Insofar as the Company is aware, no judgment has been entered against the Company.

Each of Mr. Fang and HWH undertook to the Company to indemnify and hold harmless on demand (on an after-tax basis) the Company against all losses arising out of, inter alia, HCA 3040/2015 in accordance with the terms of a letter of indemnity signed by Mr. Fang and HWH in favour of the Company on 17 December 2015. Further, HWH has also agreed that a sum including the amount of HK$57,827,118 be held in escrow as security for any liability of the Company in respect of, inter alia, HCA 3040/2015.

(v) Risk management

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

On 26 March 2015, the Board resolved to adopt a new policy regarding dealings in metal futures contracts (the "**Policy**") in order to better reflect and restate the Group's current business requirements with regard to dealings in metal futures contracts. Since October 2015, all metal future contracts of the Group were settled and closed. On 29 July 2016, the Board adopted a revised version of the Policy (the "**Revised Policy**") which the Board believes is more suitable for the current operating conditions of the Group. Details were disclosed in the Company's announcement made on the same date and the Revised Policy is available on the Company's website, www.chiho-tiande.com.

As part of its foreign currency hedging strategy, the Board will closely monitor the Group's foreign currency borrowings in the view of the volatile exchange rate for RMB to US$ and other currencies as a result of the reform of the RMB middle exchange rate quotation regime, and consider various measures to minimise the foreign currency risk.

With the relatively low interest rates in 2015, the Group has not entered into any interest rate hedging contracts or any other interest rate related derivative financial instruments. However, the Group continues to monitor its related interest rate exposure closely and will consider hedging significant interest rate exposure when the need arises.

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

With regard to the liquidity risk, the Group will continue to maintain a balance between the continuity of funding and flexibility through the use of bank borrowings.

(vi) Employees

As at 30 June 2016, the Group had a workforce of 567 employees. In addition, the Group engaged approximately 2,500 separation and selection workers through local contractors. The Group has not experienced any strikes, work stoppages or significant labor disputes which have affected its operations in the past and it has not experienced any significant difficulties in recruiting and retaining qualified staff. The Group continues to maintain good relationships with its employees.

(vii) Remuneration policy

The Group remunerates 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 the Group. In addition, the Group provides on-the-job and industrial related trainings to employees for their career continuing development. The remuneration and staff costs for the six months ended 30 June 2016 was approximately HK$84,335,000.

(viii) Segment Information

Details of segment information of the Group for the six months ended 30 June 2016 were set out in note 3 to the condensed consolidated financial statements of the Group disclosed in the 2016 interim report of the Company.

(b) Management discussion and analysis for the year ended 31 December 2015

(i) Business review and outlook

With the prolonged downward bias in the global metal market seen in the last 5 years, the management continued to face exceptional challenges as the metal prices were in 2015 at their lowest levels since the financial crisis in 2008, resulting in the Group's disappointing performance in 2015. With the U.S. economy still being in recovery and economic uncertainty overclouding Europe and the PRC (given that the U.S. interest rate is expected to increase in the coming months and the depreciation of RMB against the US$), volatility in the global metal market is expected to continue in the coming year. However, the management believes in the long term prospects of the Group's performance.

In 2015, the Group continued to face challenges arising from the difficult business environment, including the generally low global metal prices and the anticipated slower economic growth in the PRC. With the continuous decrease in global commodity prices during the year 2015, the Group continued to record a substantial decrease in revenue from HK$5.9 billion in 2014 to HK$3.1 billion in 2015, representing a reduction of 47.5%; and inventory provision significantly increased to HK$64.3 million during the year, which resulted in a gross loss of HK$45.3 million for the year 2015, when compared to that of HK$17.4 million in 2014.

During the year, the Group continued to record a net loss attributable to the owners of the Company of HK$1,138.8 million, as compared to that of HK$1,058.0 million recorded in 2014. Loss on fair value changes of derivative financial instruments decreased from HK$773.8 million in 2014 to HK$387.3 million in 2015, representing a reduction of 49.9%. However, an accounting loss of approximately HK$305.5 million was derived from the change in the fair value of the embedded derivative components of the convertible bonds issued by the Company. Nevertheless, given that the loss derived from the fair value change of the embedded derivative components of the Company's convertible bonds is a non-cash accounting treatment solely for compliance with HKFRSs, it will not have an impact on the operating cash flow of the Group. As announced by the Company in its announcement and circular dated 5 March 2015 and 11 April 2015 respectively, the maturity date of the convertible bonds issued by the Company in the aggregate principal amount of HK$815,800,000 was extended for a further two years to 1 March 2017, subject to the modifications set out in the said announcement and circular. The extension was approved by the Shareholders on 27 April 2015.

With a number of unforeseeable circumstances impacting the global metal scrap market, the Group continued to experience a reduction in purchase of metal scrap. During the year, mixed metal scrap purchase by the Group remained at the same low level as recorded in 2014. The Group sold in aggregate over 465,400 tonnes of processed products within its three business segments throughout the year. This represents a decrease of 20.8% when compared to the 587,400 tonnes sold in 2014.

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$0.82 in 2015 (2014: Basic loss per share HK$1.01).

The Group's procurement network

The Group is still 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 developed a strong international procurement network with established and developed suppliers which covers Europe, North America, Oceania and the Middle East, which are critical to its success. Looking forward, the Group plans to expand its procurement network in East and Southeast Asia for the purpose of expanding the purchase volume of mixed metal and developing new varieties of renewable resources recycling process. The Group believes this will largely reduce the transportation cost and shorten the logistics time, as well as lower the impact of the volatility of global commodity price on the Group's profitability.

The Group's sales

A majority of the Group's sales are made to customers located and based in the PRC. As the Group's recycled metals products are raw materials by nature for which there is a ready market, as long as its selling price is in line with the market price, its customers select it mainly for its good credibility and steady supply of quality recycled metal products.

Corporate and business development

With a strong presence in its Hong Kong operation since 2012, the Company believes that the Group is now in a well-placed position to establish a more diversified scrap metal and electronic waste processing platform in Hong Kong.

During the year, USUMHK became the single largest shareholder of the Company. By virtue of its familiarity with the metal market, including the market of scrap and recycled metal, combined with the Group's procurement network, the Company believes that it will help further enhance the Group's future development. The Group is consolidating the existing procurement network and supply chain whole broadening procurement channels to maintain its competitive advantage.

With regard to the investment in establishing new processing facilities in the Development Zone in Yantai City, PRC, the Group has acquired a piece of land nearby its existing processing facilities in the Development Zone in Yantai City for the purpose of expanding its production capacity of recycled metals in the future.

As indicated in the Company's announcements dated 1 December 2014 and 29 May 2015 and 27 January 2016 in relation to the proposed establishment of a renewable oil investment company in the PRC and the proposed acquisition of 60% effective equity interest in Yantai Liheng, which owns certain production facilities located in Yantai, the PRC, all conditions precedent of the acquisition agreements have been satisfied and the acquisition was completed on 27 January 2016. The Group aimed to obtain the production permit to start renewable oil operations progressively in 2016.

In August 2015, the Group entered into (i) an agreement with ITOCHU Corporation and SUZUKI SHOKAI Co., Ltd. (the "**Acquisition Agreement**"), for acquiring the entire interests in a company which engages in recycle processing and utilisation of metal scrap, discarded appliances, office machines and other wastes and is the only approved recycle processing enterprise in Changxing Island Harbor Industrial Zone in Dalian, the PRC (the "**Acquisition**"), by issuing consideration shares; and (ii) an agreement with ITOCHU Metals Corporation and SUZUKI SHOKAI Co., Ltd. (the "**JV Agreement**"), to set up a joint venture which will mainly be engaged in the trading of recycle materials with a focus on the Chinese and Japanese markets (the "**JV Formation**"). For more details please refer to the Company's announcements dated 19 June 2015, 21 August 2015 and 30 December 2015 respectively. As disclosed in the Company's announcement dated 21 March 2016, all the conditions precedent under the Acquisition Agreement and the JV Agreement have been satisfied, and the Acquisition and JV Formation were completed on 21 March 2016.

The Company believes that the JV Formation will allow the Company to expand its procurement network in Asia, which could largely reduce the on route time of procurements as compared to obtaining international supplies from Europe and North America, resulting in a potential reduction in transportation cost and delivery time, as well as lowering the Group's exposure to the volatility in global metal market price.

Following the completion of the Subscriptions on 30 April 2015 and 29 May 2015, the proceeds amounted to approximately HK$4.1 billion, which has significantly improved the overall financial position of the Group when compared with the year 2014. The Group intends to apply the proceeds of the Subscriptions to finance any potential acquisitions of businesses or assets in metal recycling as well as environmental recycling industry. Meanwhile, the Company is looking for any suitable acquisition opportunities within the recycling business in the PRC as well as the overseas in order to strengthen its procurement network.

As disclosed in the announcement of the Company dated 11 March 2016, the Board has resolved to allocate approximately RMB1,350 million (equivalent to approximately HK$1,614.7 million) out of the unutilised proceeds of the Subscriptions for investment in the financial industry, as well as for working capital and funding for other general corporate purposes. The remaining unutilised proceeds of Subscriptions (i.e. approximately HK$1,439.0 million) is expected to be used as originally intended.

Going forward, the Group remains committed to further expanding its processing capability in metal recycling facilities in order to further strengthen its principal business of metal recycling, which is environmental friendly and the Company believes that is a sector encouraged by the central government of the PRC. The Group will continue to focus on its existing production facilities, including those in Taizhou, Yantai and Hong Kong, while it will also continue to be on the lookout for any potential opportunities. In addition to the existing business operations, the Group is also seeking for other recycling and environmental projects related to its business in the PRC.

Social responsibilities

The Group creates a positive impact on the environment through its recycling operations which reduces the need for mining and processing of virgin materials. As a responsible recycler, the Group is committed to doing business in a manner that protects the environment, support sustainable use of natural resources and minimisation of waste. A comprehensive environmental management system has been implemented in its yard operations. The system is designed to effectively control the emissions of its factories, ensure its operations adhere to relevant environmental standards, and make recommendations for continuous improvements. In 2015, its management led the implementation of a number of environmentally friendly measures, including various resource conservation initiatives in its operations and workplaces which achieved promising results. The Group will continue to put more efforts into improving environmental protection measures in respect of all its facilities.

In 2015, the Group was in compliance with relevant environmental regulations in Hong Kong and the PRC that have a significant impact on the Group's business.

On the environmental protection front, the Group continued to place great emphasis on ensuring that all of its processing facilities are in line with local and national environmental protection standards.

The Group's Taizhou facilities, the main production base, continued to qualify as one of the designated processing units for imported metal scraps recycling and utilisation in Zhejiang Province under the Environmental Protection Department of Zhejiang Province (浙江省環境保護廳). The Group's production processes do not consume large volumes of electricity and water and therefore produce very small volume of waste materials. The Group considers that it has adopted sufficient environmental protection measures and controls against air, water, solid and noise pollutions produced during the course of its production processes.

Prospects

With the successful Subscriptions made in the first half of 2015, the Group has received proceeds amounting to approximately HK$4.1 billion and is in a much improved and well-placed overall financial position. The Group is actively looking for suitable acquisitions opportunities within the scrap metal recycling sector in mature overseas markets. Likely targets are global recyclers based overseas with the necessary technology, management techniques and know-how to help upskill the PRC recycling market and further strengthen its operations.

During the National People's Congress of the People's Republic of China and the Chinese People's Political Consultative Conference of 2016, Premier Li Keqiang emphasised, in the government work report, on a vigorous development of the energy conservation and environmental protection industry and improvement of the renewable resource recycling network in the PRC. Together with continued strong support from the PRC Government to develop the recycling industry, the Group remains confident that the metal recycling industry in the PRC will continue to grow and become an important source and an integral part of the metal resources supply chain in 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, the Group continues to place heavy emphasis on its procurement volume to ensure that it is in line with its processing needs and to cater for its potential expansion for scrap materials in the PRC.

The Group will continue to explore new business and investment opportunities in other areas and in PRC or overseas, including, without limitation, investment in financial industry, as well as to expand its current business in the metals recycling industry in order to maximise the value and return of the Group's business and operations.

The Group believes that the development of the Group the coming year will be full of challenges, but the Group is hopeful about the prospectus of the Group and will proceed with its business plans cautiously.

Subsequent event

On 17 December 2015, USUMHK exercised an option granted by HWH pursuant to a deed dated 23 October 2015 entered into between HWH and USUMHK in respect of 389,787,256 Shares (the "**Option Shares**"), requiring HWH to transfer to it all of the Option Shares at a price of HK$3.50 per Share, totaling HK$1,364,255,396. The Option Shares represented approximately 24.54% of the then issued share capital of the Company.

Immediately prior to the transfer of the Option Shares, USUMHK and its Concert Parties (as defined in the Hong Kong Code on Takeovers and Mergers (the "**Code**"))(other than HWH) collectively held a total of 509,608,000 Shares, representing approximately 32.08% of the then issued share capital of the Company. Upon completion, USUMHK and its Concert Parties collectively held a total of 899,395,256 Shares, representing approximately 56.62% of the then issued share capital of the Company. Accordingly, pursuant to Rule 26.1 of the Code, USUMHK was required to make an unconditional mandatory general cash offer to purchase a total of 689,119,450 Shares, representing all the issued Shares which were not already owned or agreed to be acquired by USUMHK and its Concert Parties. USUMHK was also required to make an offer to cancel all outstanding share options in exchange for cash and to acquire all the outstanding convertible bonds pursuant to Rule 13 of the Code (collectively, the "**Offers**").

As at the close of the Offers on 15 February 2016, USUMHK and its Concert Parties were interested in an aggregate of 1,008,993,181 Shares (representing approximately 63.52% of the then issued share capital of the Company), whereas 349,323,535 Shares, representing approximately 21.99% of the then issued share capital of the Company, were held by the public. Accordingly, the minimum public float requirement of 25.0% under Rule 8.08(1)(a) of the Listing Rules is not satisfied. In this regard, the Stock Exchange has granted the Company a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules and further details regarding the sufficiency of public float of the Company are set out under the section titled "Sufficiency of Public Float" in the Directors' Report of the 2015 annual report.

(ii) Financial review

Revenue

Revenue decreased by approximately HK$2.8 billion, or 47.5%, from HK$5.9 billion in 2014 to HK$3.1 billion in 2015. The decrease was mainly attributable to a decrease in the sales volume and a continuous decrease in the average selling prices of its recycled metal products and foundry products.

Cost of sales

Cost of sales decreased by approximately HK$2.7 billion, or 45.8%, from HK$5.9 billion in 2014 to HK$3.2 billion in 2015. 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 loss and gross loss margin

Gross loss of approximately HK$45.3 million was recorded in 2015 when compared to that of HK$17.4 million in 2014. The gross loss margin increased from 0.3% in 2014 to 1.4% in 2015. The gross loss was due to the continuous decrease in global commodity prices for the year 2015, which resulted in an inventory provision of HK$ 64.3 million being recognised during the year 2015 (2014: a reversal of inventory provision of HK$11.9 million).

Distribution and selling expenses

Distribution and selling expenses decreased by approximately HK$13.9 million, or 58.6%, from HK$23.7 million in 2014 to HK$9.8 million in the year 2015. This was mainly due to the decrease in selling activities in Hong Kong and the PRC during the year.

Administrative expenses

Administrative expenses increased by approximately HK$12.1 million, or 9.3%, from HK$130.5 million in 2014 to HK$142.6 million in the year 2015. This was mainly due to the increase in staff costs, rental expenses as well as trade related contributions.

Other income

Other income decreased by approximately HK$5.4 million, or 19.3%, from HK$28.0 million in 2014 to HK$22.6 million in the year 2015. This was mainly because government grants received during the year 2015 mainly related to fixed assets and recognised for the deduction of carrying amount of the fixed assets, while government grants received in 2014 was recognised in profit or loss.

Other gains and losses

Other losses increased by approximately HK$79.8 million from HK$770.9 million in 2014 to HK$850.7 million in the year 2015. This was mainly due to the foreign exchange loss arising from the depreciation of RMB against the US$, as a result of the reform of the RMB middle exchange rate quotation regime, and the loss on the fair value change of embedded derivative components of convertible bonds of the Company arising from a non-cash accounting treatment solely for the purpose of complying with HKFRSs.

Finance costs

Finance costs decreased by approximately HK$35.9 million, or 23.4%, from HK$153.3 million in 2014 to HK$117.4 million in the year 2015. This was mainly due to a decrease in the bank interest expenses as the overall bank borrowings decreased during the year 2015 and a decrease in effective interest expenses on convertible bonds due to the conversion during the year.

Loss for the year

As a result of the factors discussed above, the Company incurred a net loss for the year of approximately HK$1,144.0 million, as compared to a net loss of HK$1,071.2 million in 2014. The overall increase in net loss was mainly due to the loss on fair value changes of the embedded derivative components of the convertible bonds of the Company arising from a non-cash accounting treatment solely for the purpose of complying with HKFRSs; and foreign exchange loss.

Key financial ratios

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

	At 31 December 2015	**At 31 December 2014**
Liquidity ratios		
Current ratio	3.33	0.90
Quick ratio	2.67	0.52
Gearing ratio (%)	22.5	58.8

	Year ended 31 December	
	2015	**2014**
Inventory turnover days	120	114
Debtor's turnover days	11	13
Creditor's turnover days	13	12

(iii) Liquidity and financial resources and capital structure

The net current assets which included cash and various bank balances and margin deposits amounted to HK$3,717.7 million as at 31 December 2015 (31 December 2014: HK$707.4 million). Total bank borrowings were HK$1.1 billion as at 31 December 2015 (31 December 2014: HK$1.3 billion), and those were mainly used to purchase the mixed metal scrap from overseas. Such borrowings were mainly denominated in US$ and RMB.

The gearing ratio of the Group as at 31 December 2015 was 22.5% (31 December 2014: 58.8%) which is calculated based on the total borrowings over total assets. The decrease was mainly due to total proceeds of approximately HK$4.1 billion received from the Subscriptions, the decrease of principal amount of convertible bonds of HK$435.6 million following the exercise of such convertible bonds and the issue of conversion shares in relation and instalments paid thereto, and the decrease in bank borrowings. Details of the completion of the Subscriptions and issue of conversion shares were disclosed in the announcements of the Company dated 30 April 2015, 29 May 2015, 10 June 2015 and 15 June 2015.

Debtor's turnover days decreased from 13 days for the year ended 31 December 2014 to 11 days for the year ended 31 December 2015 and the creditor's turnover increased from 12 days for the year ended 31 December 2014 to 13 days for the year ended 31 December 2015.

Inventory turnover days increased from 114 days for the year ended 31 December 2014 to 120 days for the year ended 31 December 2015.

(iv) Funds raised by the Subscriptions of the Company's new Shares and use of Proceeds

Following the completion of the Subscriptions on 30 April 2015 and 29 May 2015, the total proceeds from such Subscriptions amounted to approximately HK$4.1 billion after the deduction of all relevant expenses.

During the year ended 31 December 2015, the proceeds of the Subscriptions were utilised as follows:

	HK$ million
Expansion of production capacity	146.2
Purchase raw materials	892.7

The remaining proceeds from the Subscriptions amounted to approximately HK$3,055.7 million as at 31 December 2015. As disclosed in the announcement of the Company dated 11 March 2016, the Board has resolved to allocate approximately RMB1,350 million (equivalent to approximately HK$1,614.7 million) out of the unutilised proceeds for investment in the financial industry, as well as for working capital and funding for other general corporate purposes, the remaining unutilised proceeds (i.e. approximately HK$1,439.0 million) is expected to be used as originally intended. Approximately HK$1,589.2 million of proceeds was used for investment in listed securities and wealth management products as at the latest practicable date for ascertaining information referred to in the 2015 annual report of the Company.

(v) Capital commitments and contingent liabilities

As at 31 December 2015, the Group had pledged certain plant and buildings, land use rights and bank deposits with an aggregate carrying value of approximately HK$445.8 million (2014: approximately HK$577.9 million) to secure bank borrowings.

As at 31 December 2015, the Group had capital commitments in respect of acquisition of a subsidiary, property, plant and equipment, prepaid lease payments, additions in construction in progress and formation of subsidiaries but not provided for in the consolidated financial statements amounted to HK$519.0 million (2014: HK$257.2 million).

Save as disclosed below, the Board is not aware of any material contingent liabilities.

A writ of summons was issued by Delco, as plaintiff on 21 December 2015 in the High Court of Hong Kong, HCA 3040/2015, against the Company as defendant for a sum of HK$57,827,118 together with interest and costs. The claim relates to an alleged non-payment of a portion of the loans advanced by Delco Asia to subsidiaries of the Company in accordance with the terms of a Shareholders Loan Assignment and Capitalisation Agreement dated 24 June 2010 between, amongst others, Delco Asia and the Company. Delco alleged that it acquired all the assets and receivables of Delco Asia pursuant to an Assets & Liabilities Transfer Agreement dated 3 October 2011 between itself and Delco Asia. The Company gave notice of intention to contest the proceedings on 4 January 2016. On 26 February 2016, a summons was issued by the Company in the High Court of Hong Kong for an order that the claim dated 21 December 2015 to be struck out. The proceedings are now in progress.

Each of Mr. Fang and HWH undertook to the Company to indemnify and hold harmless on demand (on an after-tax basis) the Company against all losses arising out of, inter alia, HCA 3040/2015 in accordance with the terms of a letter of indemnity signed by Mr. Fang and HWH in favour of the Company on 17 December 2015. Further, HWH has also agreed that a sum including the amount of HK$57,827,118 be held in escrow as security for any liability of the Company in respect of, inter alia, HCA 3040/2015.

Whilst the Board does not consider HCA 3040/2015 to be a claim of material importance for the reasons set out above, details of HCA 3040/2015 are disclosed herein for the sake of completeness.

With regard to the legal proceedings in the PRC between the Shanghai JV, an indirect 51%-owned subsidiary of the Company, and Shanghai Science and Technology Co., Ltd.（上海民營科技實業發展公司）in relation to certain housing and land lease contracts, disclosures have been made by the Company in its announcements dated 14 December 2012, 15 January 2014, 22 January 2014 as well as its interim reports for the six months ended 30 June 2014 and 2015 and its annual report for the year ended 31 December 2014. On 18 December 2015, the Shanghai JV applied to Shanghai High People's Court for re-trial and seek for further legal relief. On the same date, Shanghai High People's Court accepted the re-trial application. The re-trial application was in the process of being reviewed at the date of the 2015 annual report.

The Board took the view that these legal proceedings will not have any material adverse effect on the business, operations or financial results of the Group.

(vi) Risk management

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

On 26 March 2015, the Board resolved to adopt a new policy regarding dealings in metal futures contracts in order to better reflect and restate the Group's current business requirements with regard to dealings in metal futures contracts. Details were disclosed in the Company's announcement made on the same date and the full policy is available on the Company's website, www.chiho-tiande.com. In October 2015, all metal future contracts of the Group were settled and closed.

As part of its foreign currency hedging strategy, the Board will closely monitor the Group's foreign currency borrowings in the view of the volatile exchange rate for RMB to US$ and other currencies as a result of the reform of the RMB middle exchange rate quotation regime, and consider various measures to minimise the foreign currency risk.

With the relatively low interest rates in 2015, the Group has not entered into any interest rate hedging contracts or any other interest rate related derivative financial instruments. However, the Group continues to monitor its related interest rate exposure closely and will consider hedging significant interest rate exposure when the need arises.

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

With regard to the liquidity risk, the Group will continue to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings.

(vii) Employees

As at 31 December 2015, the Group had a workforce of 461 employees. In addition, the Group engaged approximately 2,380 separation and selection workers through local recognised contractors. The Group has not experienced any strikes, work stoppages or significant labor disputes which have affected its operations in the past. The Group has not experienced any significant difficulties in recruiting and retaining qualified staff. The Group continues to maintain good relationships with its employees.

(viii) Remuneration policy

The Group remunerates 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 the Group. The remuneration and staff costs for the year ended 31 December 2015 was approximately HK$187,488,000.

(ix) Segment Information

Details of segment information of the Group for the year ended 31 December 2015 were set out in note 7 to the consolidated financial statements of the Group disclosed in the 2015 annual report of the Company.

(c) Management discussion and analysis for the year ended 31 December 2014

(i) Business review and outlook

With the significant volatility in the global metal market and the reduction in worldwide supply seen in 2014, the management continued to face exceptional challenges resulting in a net loss for the whole year in 2014. Despite current weakness and volatility in primary metals prices, which has a knock-on effect on the global metals recycling industry, the Directors believe that the longer prospect of the metals recycling industry in the PRC remains very robust.

The PRC is the world's leading consumer of many basic metals including copper and aluminium. The demand for these basic metals is not likely to reduce drastically in the short term. Given the PRC's increasing concern with environmental pollution, the Directors believe that demand for recycled metals will continue to rise and it is only a matter of whether or not Chinese recyclers can produce recycled metals at economically viable costs. Thus, the management continues to be cautiously optimistic about the Group's performance in 2015.

In 2014, the Group continued to face difficult business environment including the highly volatile global metal market and the expected slowing economic growth in the PRC. During the year, the Group's revenue decreased from HK$7.2 billion in 2013 to HK$5.9 billion, representing a decrease of 18.1%. The gross loss of HK$17.4 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 2014. As for the net loss, the Group recorded a loss attributable to the owners of the Company of HK$1,058.0 million while comparing to the loss attributable to the owners of the Company of HK$382.9 million recorded in 2013. Loss on fair value changes of derivative financial instruments of HK$773.8 million was recognised in 2014.

With a number of unforeseeable circumstances impacting the 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 in the region of 20 – 25% when compared with last year. During the year, the Group sold in aggregate over 587,400 tonnes of processed products within its three business segments. This represented a decrease of 15.8% when compared to 697,800 tonnes in 2013.

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 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 12 January 2015. The Shanghai JV has applied to the Second Intermediate People's Court of Shanghai for an appeal against the Judgment on 27 January 2015.

The Board took 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.

Loss per share attributable to owners of the Company amounted to HK$1.01 in 2014 (2013: Loss per share HK$0.37).

The Group's 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 its mixed metal scrap and has, over the years, developed a strong international procurement network which covers Europe, North America, Oceania and Asia. The Group's network of suppliers was mostly established and developed by the Group leveraging on its experience in the industry. With its good business practices, the Group has enjoyed good business relationship with the suppliers over the years.

Corporate and business development

Following the establishment of its Hong Kong operations in 2012, the Group's Hong Kong operations together with the Hong Kong joint venture company continued to gain strong presence in Hong Kong. The Group is now in a well-placed position to establish a more diversified scrap metal and electronic waste processing platform in Hong Kong. The Group continued to be 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, the Group has completed the first stage of the development and the new processing facilities are now progressively operational.

Further to the Group's announcement dated 1 December 2014 in relation to the proposed acquisition of 80% equity interest in Yantai Liheng, the Group expected to complete its due diligence review in the next few months.

As part of the Group's future developments, on 21 and 27 March 2015, the Company entered into the following agreements in relation to the placing of new shares:

(a) a subscription agreement with USUMHK, pursuant to which the Company has conditionally agreed to allot and issue, and USUMHK has conditionally agreed to subscribe for 203.9 million new shares at the subscription price of HK$9.01 per share. The net proceeds of such subscription are estimated to be approximately HK$1,835.64 million. The new shares will be issued and allotted under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 14 May 2014.

(b) a subscription agreement (as amended and restated by a supplemental agreement dated 27 March 2015) with USUMHK, pursuant to which the Company has conditionally agreed to issue, and USUMHK has conditionally agreed to subscribe for additional 253 million shares in the aggregate amount of HK$2,279.53 million at the initial subscription price of HK$9.01 per share (subject to adjustments). The net proceeds of such subscription are estimated to be approximately HK$2,278.03 million. The new shares will be issued and allotted under a specific mandate to be sought from the independent shareholders at an extraordinary general meeting to be convened by the Company.

Details of the above transactions are set out in the announcement of the Company dated 27 March 2015.

Going forward, the Group remained committed to further expanding its processing capability, and at the same time improving its profitability and return on equity. Its focus will continue to cover its existing facilities including Taizhou, Ningbo and Hong Kong. The Group will continue to be on the lookout for any potential opportunity, especially the activities within the scrap metal resources supply chain in the PRC and other countries.

Social responsibilities

On the environmental protection front, the Group continued to place great emphasis on ensuring that all of its 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, the Group's Taizhou facilities have once again passed the evaluation process as designated processing units for imported metal scraps recycling and utilisation in Zhejiang Province. The Group's production processes do not consume large volumes of electricity and water and therefore produce very small volumes of waste materials. The Group considers that it has adopted sufficient environmental protection measures and controls against air, water, solids and noise pollutions produced during the course of its production process.

Prospects

With the continued strong support from the PRC Government to develop the recycling industry, the Group remained 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 resource supply chain of the PRC in the future.

On the basis that metal recycling industry contributes significantly to the protection of environment and to the preservation of valuable natural resources, the Group continues to place heavy emphasis on its procurement volume to ensure that it is in line with its processing needs and to cater for its expansion strategy for scrap materials in the PRC. With this in mind and in accordance with its expansion strategy, the Group is aiming to procure 40,000 to 60,000 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.

(ii) Financial review

Revenue

Revenue decreased by approximately HK$1.3 billion, or 18.1%, from HK$7.2 billion in 2013 to HK$5.9 billion in the year. The decrease was mainly contributed by a decrease in sales volume as well as average selling prices for its recycled metal products and foundry products.

Cost of sales

Cost of sales decreased by approximately HK$1.3 billion, or 18.1%, from HK$7.2 billion in 2013 to HK$5.9 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 loss and gross loss margin

Gross loss of approximately HK$17.4 million was recorded when compared to gross loss of HK$23.8 million in 2013. The decrease in gross loss is mainly due to slight improvement on gross margin contributed by some of the Group's products, including copper scrap, steel scrap, aluminium alloy ingots and other metal scrap without processing.

Distribution and selling expenses

Distribution and selling expenses decreased by approximately HK$11.8 million, or 33.2%, from HK$35.5 million in 2013 to HK$23.7 million in the year. This was mainly due to decrease in selling activities in Hong Kong during the year.

Administrative expenses

Administrative expenses decreased by approximately HK$2.8 million, or 2.1%, from HK$133.3 million in 2013 to HK$130.5 million in the year. This was mainly due to the decrease in share-option expenses during the year.

Other income

Other income decreased by approximately HK$15.7 million, or 35.9%, from HK$43.7 million in 2013 to HK$28.0 million in the year. This was mainly due to the decrease in government grants received during the year.

Other gains and losses

Other losses increased by approximately HK$710.3 million from HK$60.6 million in 2013 to HK$770.9 million in the year. This was mainly due to loss on fair value changes of derivative financial instruments of approximately HK$773.8 million during the year.

Finance cost

Finance costs decreased by approximately HK$19.0 million, or 11.0%, from HK$172.3 million in 2013 to HK$153.3 million in the year. This was mainly due to decrease in bank borrowings during the year.

Loss 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 approximately HK$1,058.0 million, when compared to a loss attributable to the owners of the Company of HK$382.9 million in 2013. The losses increase was mainly due to an adverse impact of the prolonged volatility and the overall downward movement of the global metal prices throughout the year 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 the financial ratios as of the date for the periods indicated:

	At 31 December 2014	At 31 December 2013
Liquidity ratios		
Current ratio	0.90	1.69
Quick ratio	0.52	0.62
Gearing ratio (%)	58.8	55.3

	Year ended 31 December	
	2014	**2013**
Inventory turnover days	114	140
Debtor's turnover days	13	12
Creditor's turnover days	12	9

(iii) Liquidity and financial resources and capital structure

Included in net current assets were cash and various bank deposits totaling HK$707.4 million (2013: HK$588.3 million). Total borrowings were HK$1.3 billion (2013: HK$2.0 billion), and these were mainly used to finance the purchases of mixed metal scrap from overseas. Such borrowings are mainly denominated in US$ and RMB.

The gearing ratio of the Group as at 31 December 2014 was 58.8% (2013: 55.3%).

Debtor's turnover days increased from 12 days for the year ended 31 December 2013 to 13 days for the year ended 31 December 2014 and the creditor's turnover days increased from 9 days for the year ended 31 December 2013 to 12 days for the year ended 31 December 2014.

Inventory turnover days decreased from 140 days for the year ended 31 December 2013 to 114 days for the year ended 31 December 2014.

(iv) Capital commitments and contingent liabilities

As at 31 December 2014, the Group had pledged certain property, plant and equipment, prepaid lease payments, investment properties and bank deposits with an aggregate carrying value of approximately HK$577.9 million (2013: approximately HK$447.6 million) to secure bank borrowings.

As at 31 December 2014, the Group had capital commitments in respect of acquisition of property, plant and equipment, and prepaid lease payments contracted but not provided for in the consolidated financial statements amounted to HK$257.2 million (2013: HK$82.2 million) and capital commitments in respect of acquisition of a subsidiary authorised but not contracted for amounted to HK$81.1 million (2013: Nil).

As at the date of the 2014 annual report of the Company, the Board is not aware of any material contingent liabilities.

(v) Risk management

The 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. The Group's risk management strategy aims to minimise 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 the review of the historical inventory turnover days of the Group in 2013, 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 is unrealistic to maintain the 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 in January 2014 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, the Group continued borrowing in US$ by securing RMB deposits in order to manage the foreign currency risk exposure. The Group will continue using this hedging strategy so long as the exchange rate justifies it.

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

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

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

(vi) Employees

As at 31 December 2014, the Group had a workforce of 521 employees. In addition, the Group engaged approximately 2,486 separation and selection workers through local recognised contractors. The Group has not experienced any strikes, work stoppages or significant labor disputes which have affected its operations in the past. The Group has not experienced any significant difficulties in recruiting and retaining qualified staff. The Group continues to maintain good relationships with its employees.

(vii) Remuneration policy

The Group remunerates 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 the Group. The remuneration and staff costs for the year ended 31 December 2014 was approximately HK$189,674,000.

(viii) Segment Information

Details of segment information of the Group for the year ended 31 December 2014 were set out in note 7 to the consolidated financial statements of the Group disclosed in the 2014 annual report of the Company.

(d) Management discussion and analysis for the year ended 31 December 2013

(i) 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 stabilising 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 2014.

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 the Shanghai JV, the Baoshan People's Court has delivered the Judgment in relation to the claim brought by 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 took the view that the legal proceedings will not have any material adverse effect on the business, operations or financial results 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).

The Group's 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 its mixed metal scrap and has, over the years, developed a strong international procurement network which covers Europe, North America, Oceania and Asia. The Group's network of suppliers was mostly established and developed by the Group leveraging on its experience in the industry. With its good business practices, the Group has enjoyed good business relationship with the suppliers over the years.

Corporate and business development

Following the establishment of the Group's 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. The Group is 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, the Group is 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, the Group remains committed to further expanding its processing capability, and at the same time improving its profitability and return on equity. The Group's focus will continue to cover its existing facilities including Taizhou, Ningbo and Hong Kong. The Group 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, the Group continued placing great emphasis on ensuring that all of its 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, the Group's Taizhou facilities have once again passed the evaluation process as designated processing units for imported metal scraps recycling and utilisation in Zhejiang Province. The Group's production processes did not consume large volumes of electricity and water and therefore produced very small volumes of waste materials. The Group considers that it has adopted sufficient environmental protection measures and controls against air, water, solids and noise pollutions produced during the course of its production process.

Prospects

With the continued emphasis of support from the PRC Government to develop the recycling industry, the Group is 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, the Group continues to place heavy emphasis on its procurement volume to ensure that it is in line with its processing needs and to cater for its expansion strategy for scrap materials in the PRC. With this in mind and in accordance with its 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.

(ii) 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 the Group's 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 (loss) and gross (loss) 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 the 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

(iii) 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$1.9 billion), and these were mainly used to finance the purchases of mixed metal scrap from overseas. Such borrowings are mainly denominated in US$ and RMB.

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.

(iv) Capital commitments and contingent liabilities

As at 31 December 2013, the Group 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, the Group 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 the 2013 annual report of the Company, the Board is not aware of any material contingent liabilities.

(v) Risk management

The 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. The Group's risk management strategy aims to minimise 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 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, the Group continued borrowing in US$ borrowings by securing RMB deposits in order to take advantage of the favourable exchange rate. The Group will continue using this hedging strategy so long as the exchange rate justifies it.

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

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

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

(vi) Employees

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

(vii) Remuneration policy

The Group remunerates 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 the Group. The remuneration and staff costs for the year ended 31 December 2013 was approximately HK$227,991,000.

During the financial year ended 31 December 2013, 19,150,000 share options were granted under the post-IPO share option scheme adopted by the Company on 23 June 2010.

(viii) Segment information

Details of segment information of the Group for the year ended 31 December 2013 were set out in note 7 to the consolidated financial statements of the Group disclosed in the 2013 annual report of the Company.

3. INDEBTEDNESS

As at the close of business on 30 September 2016, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness and contingent liabilities prior to the printing of this circular, the details of the Enlarged Group's indebtedness and contingent liabilities are as follows:

(a) Bank and other borrowings

(i) The Group

As at the close of business on 30 September 2016, the Group had outstanding bank borrowings of approximately HK$960,100,000. These bank borrowings comprised (i) secured bank borrowings of approximately HK$789,180,000 and (ii) unsecured bank borrowings of approximately HK$170,920,000. Bank borrowings of approximately HK$481,422,000 were guaranteed by the entities within the Group and the remaining bank borrowings of approximately HK$478,678,000 were unguaranteed.

The aforesaid secured bank borrowings of approximately HK$789,180,000 were secured by the Group's land use rights, buildings and pledged bank deposits as at 30 September 2016.

As at the close of business on 30 September 2016, the Group had unsecured and unguaranteed other borrowings with an outstanding principal amount of approximately HK$90,100,000.

As at the close of business on 30 September 2016, the Group had outstanding unsecured and unguaranteed loan from a substantial shareholder of approximately HK$232,689,000.

(ii) Scholz Group

As at the close of business on 30 September 2016, Scholz Group had outstanding bank borrowings of approximately EUR120.1 million. These bank borrowings comprised (i) secured bank borrowings of approximately EUR120.0 million and (ii) unsecured bank borrowings of approximately EUR0.1 million. The aforesaid secured bank borrowings of approximately EUR120.0 million were secured by Scholz Group's land use rights, buildings, pledged bank deposits and pledged receivables as at 30 September 2016.

As at the close of business on 30 September 2016, Scholz Group had secured other borrowings provided by CTG of approximately EUR365.0 million.

(b)(i) Convertible bond

As at the close of business on 30 September 2016, the Group had unsecured and unguaranteed convertible bond with an outstanding principal of approximately HK$67,600,000.

(b)(ii) Bond

As at the close of business on 30 September 2016, Scholz Group had a bond of EUR5.4 million. The bond will be released subject to Scholz Group's EBITDA (excluding minority interests) based on Scholz Group's consolidated annual financial statements pursuant to the German Commercial Code (HGB) being equal to or less than EUR100 million in fiscal year 2016 and fiscal year 2017.

(c) Finance lease obligations

Scholz Group has finance leases and hire purchase contracts for various items of plant and machinery. Scholz Group's obligations under finance leases are secured by the lessor's title to the leased assets. As at the close of business on 30 September 2016, Scholz Group had finance lease obligations of approximately EUR34.5 million.

(d) Contingent consideration payable

As at the close of business on 30 September 2016, the Group recorded a contingent consideration payable of EUR18 million (equivalent to HK$156 million) according to the German Debt Purchase Agreement. The contingent consideration payable will be paid subject to Scholz Group's EBITDA, excluding amount attributable to non-controlling interests of Scholz Group, based on Scholz Group's consolidated annual financial statements pursuant to German Generally Accepted Accounting Principles being more than EUR100 million (equivalent to HK$869 million) for either of the fiscal year 2016 or the fiscal year 2017.

(e) Contingent liabilities

(i) The Group

As at the close of business on 30 September 2016, there were pending litigations shown as follows:

- A writ of summons was issued by Delco on 21 December 2015 against the Company in relation to an alleged non-payment of a portion of the loans advanced by Delco Asia to the Group for a sum of approximately

HK$57,827,000. The claim relates to an alleged non-payment of a portion of the loans advanced by Delco Asia to subsidiaries of the Company in accordance with the terms of a Shareholders Loan Assignment and Capitalisation Agreement dated 24 June 2010 between, amongst others, Delco Asia and the Company. The Company gave notice of intention to contest the proceedings on 4 January 2016, and the proceedings are now in progress. The Directors after taking legal advice from its legal advisers and in review of the indemnity provided by Mr. Fang and HWH and the escrow account of HK$57,827,000 paid by Mr. Fang as security for any liability of the Company in respect of, inter alia, the claim, are of the opinion that it is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Accordingly, no provision of the claim has been made; and

- Legal claims were brought by Shanghai Science and Technology Co., Ltd. (上海民營科技實業發展公司) for unpaid rent, management fees, early termination fee and reinstatement costs totalling approximately RMB40.6 million (equivalent to approximately HK$47.2 million) since 2013. A provision of RMB40.6 million had already been made by the Group as at 30 September 2016. The court case is still in progress and there was no further update on the case up to 30 September 2016, being the latest practicable date for the purpose of this indebtedness and contingent liabilities statement prior to the printing of this circular.

(ii) Scholz Group

As at the close of business on 30 September 2016, there were pending litigations shown as follows:

- An insolvency administrator is claiming on an amount of approx. EUR 1.2 million. In this context Scholz Holding GmbH, Essingen, Germany was sued for compensation for damages in relation to a sale of a land plot by Scholz Holding GmbH, Essingen, Germany to Trost Terracotta GmbH & KG, Billigheim, Germany. The parties are currently in negotiations and further proceedings are on hold.

- ILB Investitionsbank des Landes Brandenburg, Potsdam, Germany, issued an approval letter in favor of Scholz Recycling GmbH, Essingen, Germany concerning the establishment of a facility for the recycling of metal scrap and waste materials in a place called Hennigsdorf, Germany. Following subsequent amendments to the original approval letter, a sum of EUR1.1 million was disbursed to Scholz Recycling GmbH, Essingen, Germany. The subsidy was subject to various conditions, which have not been fully fulfilled. Therefore the plaintiff claims the original amount of EUR1.1 million plus interest.

- An insolvency administrator has claimed an amount of EUR2.5 million against Scholz Edelstahl GmbH, Essingen, Germany. The claim is a result of the fact, that a company called AD Steel Forge GmbH, Dessau-Roßlau, Germany has made payments to Scholz Edelstahl GmbH, Essingen, Germany after AD Steel Forge GmbH, Dessau-Roßlau, Germany has already filed for insolvency. The parties made a compromise on a payment of an amount of EUR0.2 million.

As at 30 September 2016, Scholz Group has contingent liabilities amounting to EUR27.3 million which mainly consist of financial and non-financial guarantees and warranty obligations in favour of non-consolidated subsidiaries and participations.

As at 30 September 2016, Scholz Group's utilised bank guarantee facilities amounted to approximately EUR25.1 million.

Save as aforesaid, and apart from intra-group liabilities and normal trade and other payables, at the close of business on 30 September 2016, the Enlarged Group did not have any debt securities issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency denominated amounts have been translated into HK$ at the rates of exchange prevailing at the close of business on 30 September 2016.

4. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the Proposed Acquisition, its presently available financial resources, including funds internally generated from operation and the available financing facilities and on the assumption that majority of the existing revolving banking facilities can be revolved continuously, the Enlarged Group will have sufficient working capital for its operation for at least the next twelve months from the date of this circular.

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The Directors

Scholz Holding GmbH
Berndt-Ulrich-Scholz-Str. 1
73457 Essingen

Chiho-Tiande Group Limited
Suite 1807, Two Pacific Place, 88 Queensway
Hong Kong

22 November 2016

Dear Sir or Madam,

We set out below our report on the financial information of Scholz Holding GmbH (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Scholz Group") comprising the consolidated statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows of the Scholz Group for each of the years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016 (the "Relevant Periods"), and the consolidated statements of financial position of the Scholz Group as at 31 December 2013, 2014 and 2015 and 30 June 2016, together with the notes thereto (the "Financial Information"), and the consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows of the Scholz Group for the six months ended 30 June 2015 (the "Interim Comparative Information"), prepared on the basis of preparation and consolidation set out in Note 2 below, for inclusion in the circular of Chiho-Tiande Group Limited ("CTG") dated 22 November 2016 (the "Circular") in connection with the proposed acquisition of the Scholz Group by CTG.

The Company was incorporated in Germany as a company with limited liability on 22 May 2014 by the change of the legal form from the German stock corporation Scholz AG under article 190 ff. of the German Law regulating the Transformation of Companies (*Umwandlungsgesetz*). Scholz AG was incorporated in the year 1999.

As at the end of the Relevant Periods, the Company has direct and indirect interests in the subsidiaries as set out in Note 44 below. All companies now comprising the Scholz Group have adopted 31 December as their financial year end date.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Scholz Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The

Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have also performed a review of the Interim Comparative Information in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the IAASB. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review does not require audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of preparation and consolidation set out in Note 2 below, the Financial Information gives a true and fair view of the financial position of the Scholz Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 and of the financial performance and cash flows of the Scholz Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

Emphasis of Matter

We draw attention to Note 5 and Note 42 of the Financial Information, which describes risks to Scholz Group's ability to continue as a going concern. In these sections, the Scholz Group states that it is in a loss situation, overindebted in its statement of financial position and in a tight liquidity situation. The entry of the investor CTG with its underlying financing and restructuring concept and the systematic implementation of this financing and restructuring concept, the support provided by CTG, the lending banks, factoring companies, goods credit insurers during the restructuring phase and the maintenance of existing financing are a precondition for the economic and financial restructuring of the Scholz Group. An extension or refinancing of the loans due in mid-2017 is a further precondition for the Scholz Group's continued solvency. Scholz Group management hereby assumes that a senior bridge facility with a volume of EUR 70 million, which expires in mid-2017, will be extended by existing creditors or replaced by new creditors, that the new funds of EUR 56 million which CTG contributed in connection with the credit facility of EUR 80 million and the credit facility itself will be available over the long term and that CTG will subordinate the shareholder loans in the required amount or waive them. Scholz Group management also assumes it highly likely that the Scholz Group will have sufficient liquidity and capital resources until 22 November 2017 in view of the necessary financing and restructuring measures and therefore prepares its financial statements on a going concern basis. We explicitly refer to the fact that the fulfilment by the contracting parties of the closing conditions of the restructuring agreement dated 20 July 2016 for the entry of the investor CTG as well as other conditions mentioned in Note 42 and the continued implementation of all measures planned or initiated as part of the restructuring concept are preconditions for the Scholz Group to be able to continue as a going concern so that, through the provision and maintenance of sufficient credit lines by the new investor, the banks and other creditors, the Scholz Group is able to remain solvent until 22 November 2017 and appropriate measures to ensure an adequate equity position are successfully completed. Our opinion as well as our review conclusion is not qualified in respect of this matter.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December			Six months ended 30 June	
		2013	2014	2015	2015	2016
	Notes	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
					(unaudited)	
Revenue		2,376,483	1,814,239	1,296,609	759,693	512,984
Cost of sales	*9*	(2,167,360)	(1,653,850)	(1,145,704)	(661,806)	(440,188)
GROSS PROFIT		209,123	160,389	150,905	97,887	72,796
Other income	*10*	132,254	200,026	107,158	70,304	43,601
Other losses	*11*	(316,181)	(160,194)	(160,771)	(101,346)	(52,777)
Distribution and selling expenses		(72,357)	(62,632)	(50,996)	(27,506)	(24,623)
Administrative expenses	*12*	(127,299)	(111,106)	(93,568)	(44,978)	(65,223)
Finance costs	*15*	(156,574)	(125,245)	(83,852)	(45,716)	(30,601)
Share of profit (loss) from investments accounted for at equity	*20*	7,087	(18,193)	(14,429)	(19,884)	(10,151)
LOSS BEFORE TAX		(323,947)	(116,955)	(145,553)	(71,239)	(66,978)
Income tax expense	*16*	(8,844)	(2,040)	(26,259)	(9,024)	(4,965)
LOSS FOR THE YEAR/PERIOD		(332,791)	(118,995)	(171,812)	(80,263)	(71,943)
Loss for the year/period attributable to:						
Owners of the company		(321,008)	(105,559)	(171,800)	(80,872)	(71,921)
Non-controlling interests		(11,783)	(13,436)	(12)	609	(22)

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2013	2014	2015	2015	2016
	Notes	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
					(unaudited)	
LOSS FOR THE YEAR/ PERIOD		(332,791)	(118,995)	(171,812)	(80,263)	(71,943)
Item that will not be reclassified subsequently to profit or loss						
Remeasurement gains (losses) of defined benefit plans (net of tax)	*30*	79	(562)	419	451	(67)
Item that may be reclassified subsequently to profit or loss						
Exchange differences arising on translation to presentation currency (net of tax)		(2,209)	1,348	1,075	465	1,447
Total other comprehensive income (expense) for the year/period (net of tax)		(2,130)	786	1,494	916	1,380
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR/PERIOD (NET OF TAX)		(334,921)	(118,209)	(170,318)	(79,347)	(70,563)
Total comprehensive income (expense) for the year/period attributable to:						
Owners of the company		(323,143)	(104,766)	(170,360)	(79,958)	(70,539)
Non-controlling interests		(11,778)	(13,443)	42	611	(24)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		31 December			30 June
		2013	2014	2015	2016
	Notes	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	*18*	321,793	244,966	220,314	204,723
Intangible assets	*19*	21,115	22,575	24,310	20,322
Investments accounted for at equity	*20*	139,858	129,394	109,004	81,600
Loans		59,350	21,484	16,232	15,705
Derivative financial instruments	*8,25*	2,427	1,538	–	–
Other non-current assets	*21*	37,243	7,937	4,813	4,232
Deferred tax assets	*22*	31,733	34,156	4,364	9,450
NON-CURRENT ASSETS		613,519	462,050	379,037	336,032
CURRENT ASSETS					
Inventories	*23*	222,944	95,130	54,201	49,351
Trade, bills and other receivables	*24*	529,934	405,426	179,336	238,282
Derivative financial instruments	*8,25*	4,356	2,518	1,423	230
Bank balances and cash	*26*	8,772	6,340	6,275	4,751
Assets held for sale		–	395	–	–
CURRENT ASSETS		766,006	509,809	241,235	292,614
TOTAL ASSETS		1,379,525	971,859	620,272	628,646
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Share capital	*27*	50,000	50,000	50,000	50,000
Reserves	*27*	(319,584)	(444,031)	(616,785)	(680,895)
Equity attributable to owners of the company		(269,584)	(394,031)	(566,785)	(630,895)
Non-controlling interests		(4,062)	77	(250)	373
TOTAL EQUITY		(273,646)	(393,954)	(567,035)	(630,522)

		31 December			30 June
		2013	2014	2015	2016
	Notes	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
NON-CURRENT LIABILITIES					
Bond	*28*	181,248	181,658	182,045	–
Bank borrowings	*28*	506,301	571,342	542,301	5,128
Derivative financial instruments	*8,25*	31,113	30,269	7,860	7,162
Provisions	*29*	7,428	7,495	7,568	7,567
Employee benefits	*30*	3,190	3,925	3,236	3,222
Other non-current liabilities	*31*	39,413	97,064	91,086	20,911
Deferred tax liabilities	*22*	13,443	13,110	10,612	13,236
NON-CURRENT LIABILITIES		782,136	904,863	844,708	57,226
CURRENT LIABILITIES					
Trade and other payables	*32*	583,295	427,613	280,875	373,825
Current portion of bond	*28*	–	–	–	182,361
Current portion of bank borrowings	*28*	262,640	9,822	39,471	621,380
Derivative financial instruments	*8,25*	7,107	6,225	1,366	997
Tax payables		12,670	13,103	11,685	15,617
Provisions	*29*	5,323	4,187	9,202	7,762
CURRENT LIABILITIES		871,035	460,950	342,599	1,201,942
TOTAL LIABILITIES AND EQUITY		1,379,525	971,859	620,272	628,646

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company (Note 27)						
		Reserves					
	Share capital	Retained earnings (accumulated losses)	Remeasurement of pension plans	Foreign currency translation reserve	Sub-total	Attributable to non-Controlling Interests	Total
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
AT 1 JANUARY 2013	50,000	20,665	–	(16,658)	54,007	8,216	62,223
Loss for the year	–	(321,008)	–	–	(321,008)	(11,783)	(332,791)
Remeasurement gain on defined benefit plan	–	–	79	–	79	–	79
Exchange differences arising on translation to presentation currency	–	–	–	(2,214)	(2,214)	5	(2,209)
Total comprehensive income (expense) for the year	–	(321,008)	79	(2,214)	(323,143)	(11,778)	(334,921)
Profit distribution to non-controlling interests	–	–	–	–	–	(418)	(418)
Other changes		(448)			(448)	(82)	(530)
AT 31 DECEMBER 2013	50,000	(300,791)	79	(18,872)	(269,584)	(4,062)	(273,646)

	Attributable to owners of the Company (Note 27)						
		Reserves					
	Share capital	Retained earnings (accumulated losses)	Remeasurement of pension plans	Foreign currency translation reserve	Sub-total	Attributable to non-Controlling Interests	Total
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
AT 1 JANUARY 2014	50,000	(300,791)	79	(18,872)	(269,584)	(4,062)	(273,646)
Loss for the year	–	(105,559)	–	–	(105,559)	(13,436)	(118,995)
Remeasurement loss on defined benefit plan	–	–	(562)	–	(562)	–	(562)
Exchange differences arising on translation to presentation currency	–	–	–	1,355	1,355	(7)	1,348
Total comprehensive income (expense) for the year	–	(105,559)	(562)	1,355	(104,766)	(13,443)	(118,209)
Changes in ownership interests in subsidiaries	–	(19,681)	–	–	(19,681)	17,381	(2,300)
Profit distribution to non-controlling interests	–	–	–	–	–	(71)	(71)
Other changes	–	–	–	–	–	272	272
AT 31 DECEMBER 2014	50,000	(426,031)	(483)	(17,517)	(394,031)	77	(393,954)

	Attributable to owners of the Company (Note 27)						
		Reserves					
	Share capital	Retained earnings (accumulated losses)	Remeasurement of pension plans	Foreign currency translation reserve	Sub-total	Attributable to non-Controlling Interests	Total
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
AT 1 JANUARY 2015	50,000	(426,031)	(483)	(17,517)	(394,031)	77	(393,954)
Loss for the year	–	(171,800)	–	–	(171,800)	(12)	(171,812)
Remeasurement gain on defined benefit plan	–	–	419	–	419	–	419
Exchange differences arising on translation to presentation currency	–	–	–	1,021	1,021	54	1,075
Total comprehensive income (expense) for the year	–	(171,800)	419	1,021	(170,360)	42	(170,318)
Changes in ownership interests in subsidiaries	–	(892)	–	–	(892)	(429)	(1,321)
Other changes	–	(1,502)	–	–	(1,502)	60	(1,442)
AT 31 DECEMBER 2015	50,000	(600,225)	(64)	(16,496)	(566,785)	(250)	(567,035)

	Attributable to owners of the Company (Note 27)						
		Reserves					
	Share capital	Retained earnings (accumulated losses)	Remeasurement of pension plans	Foreign currency translation reserve	Sub-total	Attributable to non-Controlling Interests	Total
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
AT 1 JANUARY 2016	50,000	(600,225)	(64)	(16,496)	(566,785)	(250)	(567,035)
Loss for the period	–	(71,921)	–	–	(71,921)	(22)	(71,943)
Remeasurement loss on defined benefit plan	–	–	(67)	–	(67)	–	(67)
Exchange differences arising on translation to presentation currency	–	–	–	1,449	1,449	(2)	1,447
Total comprehensive income (expense) for the period	–	(71,921)	(67)	1,449	(70,539)	(24)	(70,563)
Changes in ownership interests in subsidiaries	–	–	–	–	–	647	647
Other changes in equity on the level of investments for at equity	–	5,909	–	–	5,909	–	5,909
Other changes	–	520	–	–	520	–	520
AT 30 JUNE 2016	50,000	(665,717)	(131)	(15,047)	(630,895)	373	(630,522)

Additional information on equity movement between 1 January 2015 and 30 June 2015 (unaudited):

	Attributable to owners of the Company						
		Reserves					
	Share capital	**Retained earnings (accumulated losses)**	**Remeasurement of pension plans**	**Foreign currency translation reserve**	**Sub-total**	**Attributable to non-controlling interests**	**Total**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
AT 1 JANUARY 2015	50,000	(426,031)	(483)	(17,517)	(394,031)	77	(393,954)
Loss for the period (unaudited)	–	(80,872)	–	–	(80,872)	609	(80,263)
Remeasurement gain on defined benefit plan (unaudited)	–	–	451	–	451	–	451
Exchange differences arising on translation to presentation currency (unaudited)	–	–	–	463	463	2	465
Total comprehensive income (expense) for the period (unaudited)	–	(80,872)	451	463	(79,958)	611	(79,347)
AT 30 JUNE 2015 (unaudited)	50,000	(506,903)	(32)	(17,054)	(473,989)	688	(473,301)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
				(unaudited)	
OPERATING ACTIVITIES					
Loss before tax	(323,947)	(116,955)	(145,553)	(71,239)	(66,978)
Adjustments for:					
Finance costs	156,574	125,245	83,852	45,716	30,601
Interest Income	(17,896)	(13,477)	(11,513)	(6,190)	(3,250)
Depreciation and amortisation of property, plant and equipment and intangible assets (including impairments)	46,188	40,033	46,432	19,293	26,543
(Gain) loss on disposal of property, plant and equipment and intangibles	(1,242)	2,794	(2,389)	(1,417)	(559)
(Gain) loss on disposal of financial assets	9,878	4,901	(7,233)	(6,860)	1,980
Impairment on current financial assets	182,948	16,319	81,507	30,956	7,011
Share of (profit) loss from investments accounted for at equity	(7,087)	18,193	14,429	19,884	10,151
Other non-cash items	(70,211)	28,073	(35,573)	12,425	(34,382)
Increase (decrease) of provisions	3,240	(334)	4,399	(3,092)	(1,455)
(Increase) decrease in working capital assets	102,666	159,477	186,607	81,667	(59,914)
Increase (decrease) in working capital liabilities	(73,429)	(156,564)	(151,598)	(48,808)	92,582
Net foreign exchange losses (gains)	6,239	3,412	9,282	5,907	(872)
Taxes paid	(2,351)	(4,363)	(1,136)	(568)	(4,123)
Interest paid	(74,968)	(81,102)	(78,385)	(40,354)	(11,605)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(63,398)	25,652	(6,872)	37,320	(14,270)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
				(unaudited)	
INVESTING ACTIVITIES					
Purchases of intangibles, property, plant and equipment	(25,573)	(17,620)	(28,755)	(9,585)	(2,820)
Proceeds from the disposal of intangibles, property, plant and equipment	7,553	9,340	20,077	10,280	18,047
Proceeds from disposal of assets held for sale	–	–	395	395	–
Proceeds of cash from acquisition of subsidiaries	–	–	–	–	1,067
Dividends received from investments accounted for at equity	3,402	2,391	3,801	–	–
Repayment of loans	–	78,364	–	–	–
Net cash-flow from disposal of subsidiaries	(448)	9,182	22,648	–	2,716
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(15,066)	81,657	18,166	1,090	19,010
FINANCING ACTIVITIES					
Bond issuance	32,500	–	–	–	–
New bank borrowings	48,471	–	30,000	–	–
New other borrowing	–	60,000	–	–	–
Repayment of bank borrowings	–	(171,977)	(29,040)	(23,220)	–
Repayment of finance lease	(7,778)	(8,892)	(11,422)	(5,777)	(6,261)
Acquisition of non-controlling interests (Note 7)	–	–	(900)	(900)	
Distributions to non-controlling interests	(418)	(71)	–	–	–
Proceeds from sale and finance-lease-back (Note 37)	–	11,203	–	–	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	72,775	(109,737)	(11,362)	(29,897)	(6,261)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,689)	(2,428)	(68)	8,513	(1,521)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14,462	8,772	6,340	6,340	6,275
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1)	(4)	3	2	(3)
CASH AND CASH EQUIVALENTS AT 30 JUNE AND 31 DECEMBER (Note 26)	8,772	6,340	6,275	14,855	4,751

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Financial Information of Scholz Holding GmbH and its subsidiaries (collectively, "Scholz Group") for each of the three years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 (as applicable) and 2016 was authorised for issue in accordance with a resolution of the directors on 22 November 2016. Scholz Holding GmbH ("the Company") is a limited company incorporated and domiciled in Germany. The registered office is located at Berndt-Ulrich-Scholz-Str. 1, 73457 Essingen. Scholz Group is one of the largest processors of metallic secondary raw materials and principally engaged in local collection, as well as processing and trade in scrap.

The Company is an investment holding company. For further information regarding the subsidiaries refer to Note 44.

The functional currency of the Company is Euro ("EUR"). The Financial Information is prepared and presented in thousands of Euro unless otherwise noted.

2. BASIS OF PREPARATION AND CONSOLIDATION

Restructuring situation of Scholz Group affecting the present Financial Information

Throughout the periods presented in this Financial Information, Scholz Group has been in a situation with declining markets and high interest burdens. Additionally, Scholz Group had to impair assets to reflect the difficult economic situation in which the Group operated and to cover advisory fees relating to the several restructuring measures initiated. This resulted, amongst other factors, in an overall loss situation in all periods presented. From a statement of financial position perspective, Scholz Group is therefore overindebted and presents negative equity. Significant interest payments and repayments of bank borrowings put pressure on Scholz Group's liquidity situation.

As a result of the above described loss situation, Scholz Group broke covenants in 2013 of its main financing instruments with banks leading to a default and an immediate maturity of the financing instruments. Therefore, Scholz Group issued waiver requests and reached standstill agreements for these obligations to defer an immediate repayment.

With the ultimate goal of obtaining control of Scholz Group, Chiho-Tiande Group Limited, Hong Kong, China, ("CTG") entered into a restructuring agreement with the current shareholders of Scholz Group as of 20 July 2016, which contemplates, amongst other measures, a share purchase agreement, debt purchase agreements, a bond restructuring agreement, a new bridge loan and debt release agreements.

In this context, CTG acquired major parts of Scholz Holding GmbH's main financing instruments with banks, altogether amounting to EUR 524 million. The ownership of these financing instruments with banks has been transferred to CTG as of 22 July 2016. In addition, CTG also acquired a shareholder loan from Toyota Tsushu Corporation Ltd., Japan, amounting to EUR 60 million (including accrued but not paid interest).

In the context of the restructuring, an agreement has been made between, amongst others, CTG and Scholz Holding GmbH, whereby CTG releases EUR 224 million out of the acquired debt (i.e. out of the EUR 524 million). In addition, the restructuring agreement foresees that CTG releases the shareholder loan amounting to EUR 60 million. The existing bond (amounting to EUR 183 million nominal, accrued but not paid interest amounting to EUR 19 million) forms part of the measures, as well, and was restructured by means of a non-recurring payment of EUR 16 million. This payment was made on 31 August 2016 by CTG. The repayment of the remaining principal amount of EUR 5.8 million to the bondholders is subject to certain conditions. For a detailed discussion of the restructuring measures, refer to Note 42.

Basis of preparation

The Financial Information of Scholz Group has been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

The Financial Information of Scholz Group has been prepared on the basis of the going concern assumption, despite ongoing restructuring activities over the past years. For a detailed view on the going concern assumption, refer to Note 42.

The Financial Information has been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Scholz Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised at fair value on a recurring basis, Scholz Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Scholz Group's management determines the policies and procedures for both recurring fair value measurement, such as derivative financial instruments, and for non-recurring measurement. External valuers are involved for valuation of significant assets and significant liabilities. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per Scholz Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management, in conjunction with Scholz Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, Scholz Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Scholz Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when Scholz Group obtains control over the subsidiary and ceases when Scholz Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and consolidated statements of other comprehensive income from the date Scholz Group gains control until the date when Scholz Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income ("OCI") are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Scholz Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash-flows relating to transactions between members of Scholz Group are eliminated in full on consolidation. If Scholz Group loses control in a subsidiary, assets including any goodwill and liabilities as well as any non-controlling interests of the subsidiary are derecognised at their carrying amounts and any difference between the consideration received and the assets and liabilities derecognised represent a gain or loss from deconsolidation. The gain or loss from deconsolidation further includes any reclassifications of items directly recognised in other comprehensive income. If Scholz Group loses control, but retains an interest, that interest is measured at fair value. Any transactions with non-controlling interests, which do not result in a loss of control are accounted for as an equity transaction.

3. SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured on the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, Scholz Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When Scholz Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivative financial instruments in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, Scholz Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Scholz Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. For Scholz Group the subsidiaries as legal entities are defined to be the cash-generating unit to which goodwill has to be allocated for impairment test purposes as the legal entities operate largely independent from the other Group companies and represent the lowest level within Scholz Group at which goodwill is monitored.

Investment in associates and joint ventures

An associate is an entity over which Scholz Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of an associate or a joint venture are incorporated in this Financial Information using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise Scholz Group's share of the profit or loss and other comprehensive income of the associate. When Scholz Group's share of losses of an associate or a joint venture exceeds Scholz Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of Scholz Group's net investment in the associate or joint venture), Scholz Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that Scholz Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or joint venture. On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over Scholz Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of Scholz Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The aggregate of Scholz Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statements of profit or loss within operating result and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The requirements of IAS 39 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognise any impairment loss with respect to Scholz Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of Scholz Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in Scholz Group's Financial Information only to the extent of interests in the associate or joint venture that are not related to Scholz Group, except for those transactions which represent business combinations. For such transactions the entire gain or loss is recognised and therefore no amounts are eliminated. E.g. subsidiaries contributed into associates or joint ventures are derecognised with the carrying amounts of the assets and liabilities included in the Financial Information and conversely the carrying amount of the associate or joint venture in which the subsidiary was contributed is increased by the fair value of the subsidiary. Any difference between the fair value and the carrying amounts of the assets and liabilities derecognised represent the gain or loss in the consolidated statement of profit or loss.

If an associate or a joint venture or a part of an associate or joint venture is disposed of, any difference between the consideration received (either cash, assets or shares) and the carrying amount is recognised as profit or loss in the consolidated statement of profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- Scholz Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Scholz Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Scholz Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from rendering of services

Scholz Group does not realise significant amounts of revenue from the rendering of services.

Dividend and interest income

Dividend income from investments held for sale is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to Scholz Group and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Scholz Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

Scholz Group's policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Scholz Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Scholz Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, Scholz Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to Scholz Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

For the purposes of presenting the Financial Information, the assets and liabilities of Scholz Group's entities are translated into the presentation currency of Scholz Group (i.e. Euro) using the exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

No significant amounts of borrowing costs have been capitalised.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that Scholz Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which Scholz Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Scholz Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Scholz Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Scholz Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the respective reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit or on goodwill. If amortisations of goodwill are tax-deductible and therefore a temporary difference between the tax base and the carrying amount of goodwill incurs subsequently to the initial recognition, a deferred tax liability is recognised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where Scholz Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In case of unused tax losses in excess of taxable temporary differences other convincing evidence is required to recognise a deferred tax asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Scholz Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include also professional fees and any other directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Such property, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

In case Scholz Group has an asset retirement obligation for assets constructed and operated on not-owned land, Scholz Group recognises an asset and a corresponding obligation measured initially at the amount required to settle the obligation. This amount represents the costs for the asset and is depreciated over the expected useful life, i.e. the term of the lease contract. As the obligation is a non-current obligation and the time value of money is not immaterial, the obligation is discounted using a risk-free and maturity-based interest rate.

Impairment of tangible and intangible assets (including goodwill)

At the end of each reporting period, Scholz Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, Scholz Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, expenses for corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash-flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash-flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Goodwill is tested for impairment annually at the end of the reporting period and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. Scholz Group defines the legal entities or sub-groups of its subsidiaries as the CGU to be tested for impairment of goodwill.

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined by the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

Provisions

Provisions are recognised when Scholz Group has a present obligation (legal or constructive) as a result of a past event, it is probable that Scholz Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash-flows estimated to settle the present obligation, its carrying amount is the present value of those cash-flows (where the effect of the time value of money is material).

Scholz Group leases pieces of land on which it operates scrap yards and therefore has to prepare the land to operate the scrap yards as intended. At the end of the lease term Scholz Group has the obligation to bring the land to its original condition. Any costs expected to incur to restore the land are recognised as a provision which is measured initially at the amount required to settle the obligation. A corresponding asset is therefore recognised and depreciated over the expected useful life, i.e. the term of the lease contract. As the obligation is a non-current obligation and the time value of money is not immaterial, the obligation is discounted using a risk-free and maturity-based interest rate.

Pensions and other post-employment benefits

Scholz Group operates four defined benefit pension plans in Germany.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Scholz Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the consolidated statement of profit or loss (by function):

- service costs comprising current service costs,
- net interest expense or income.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

Financial assets primarily comprise trade, bills and other receivables, loan receivables, bank balance cash and derivative financial assets. They also include non-consolidated subsidiaries, which are controlled by Scholz Group but which do not have material operations and balances and are therefore immaterial for the Financial Information. These investments are accounted for at costs as fair values for these are not available.

Financial assets are classified into the following specified categories: financial assets at FVTPL, available-for-sale ("AFS") financial assets and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial guarantees principally represent contractual arrangements. These guarantees generally provide that in the event of default or non-payment by the primary debtor, Scholz Group as issuer will be required to settle such financial obligation. Financial guarantees are recorded on a net basis.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period.

Income and expense is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that Scholz Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative financial instruments that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

AFS financial assets

AFS financial assets are non-derivative financial instruments that are either designated as available-for-sale or not classified as (a) financial assets at FVTPL or (b) loans and receivables. This category includes equity instruments. Entities that are controlled or jointly controlled by Scholz Group but which have no material operations and balances are accounted for as financial instruments and are measured at their cost as no fair values are available.

After initial measurement, AFS financial assets are generally measured at fair value, with unrealised gains or losses being recognized in other comprehensive income/loss. If objective evidence of impairment exists or if changes occur in the fair value of a debt instrument resulting from currency fluctuations, these changes are recognised in profit or loss. Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Upon disposal of financial assets, the accumulated gains and losses recognised in other comprehensive income/loss resulting from measurement at fair value are recognised in profit or loss. If a reliable estimate cannot be made of the fair value of an unquoted equity instrument, this instrument is measured at cost (less any impairment losses). For Scholz Group, these are subsidiaries, associated companies, joint ventures and joint operations whose business is non-active or of low volume and that are not material for the Group and the fair presentation of financial position, liquidity and capital resources, and profitability.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as receivables from financial services or trade receivables. After initial recognition, loans and receivables are subsequently carried at amortised cost using the effective interest method less any impairment losses. Gains and losses are recognised in the statement of profit or loss when the loans and receivables are impaired or derecognised. Interest effects on the application of the effective interest method are also recognised in profit or loss. The carrying amount may be affected by changes in the credit risk of the counterparties.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash-flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Scholz Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash-flows, discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in profit or loss.

An impairment loss on loans and receivables (e.g. receivables from financial services including finance lease receivables and trade receivables) is recorded by directly reducing the receivable.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Reversals with respect to equity instruments classified as available for sale are recognised in other comprehensive income/loss. Reversals of impairment losses on debt instruments are recognised through the consolidated statement of proift or loss if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments carried at cost are not reversed.

Financial liabilities

Financial liabilities primarily include trade and other payables, bank loans, bonds and derivative financial liabilities.

Financial liabilities measured at amortised cost

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivative financial instruments, which are not used as hedging instruments in hedge accounting, are classified as held for trading. Gains or losses on liabilities held for trading are recognised in profit or loss.

Derivative financial instruments

Scholz Group uses derivative financial instruments to hedge its foreign currency risks, interest rate risks and commodity price risks. The nominal volume of the derivative financial instruments is determined as the sum of all purchase and sales contracts. The market values of forward foreign currency contracts are determined based on current European Central Bank reference rates taking into account the forward premiums or discounts and those for metal forward contracts based on London Metal Exchange ("LME") price quotations. Foreign exchange options are valued using price quotations or option price models. The market values of the interest rate swaps are determined by discounting future expected cash flows, using the market interest rates applicable for the remaining term of the financial instruments. Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date.

Scholz Group does not apply hedge accounting, therefore the gains or losses of derivative financial instruments are recognised in profit or loss.

Derecognition

Scholz Group derecognises a financial asset only when the contractual rights to the cash-flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Scholz Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Scholz Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If Scholz Group retains substantially all the risks and rewards of ownership of a transferred financial asset, Scholz Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Scholz Group derecognises financial liabilities when, and only when, Scholz Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. APPLICATION OF NEW AND REVISED IFRSs

The Financial Information has been prepared in accordance with the IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for accounting period commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Scholz Group in the preparation of the Financial Information throughout the relevant periods and the Interim Comparative Information.

New and revised IFRSs in issue but not yet effective

Scholz Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 12	*Recognition for Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IFRS 15	*Revenue from Contracts with Customers (Clarifications to IFRS 15)*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor its Associate or Joint Venture*[4]

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted

2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted

4 Effective date to be determined

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments – IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Scholz Group is analysing the developments relating to IFRS 9. Currently, it is not possible to state the quantitative effects of the application of IFRS 9 on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in Scholz Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Scholz Group performs a detailed review.

IFRS 16 Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from the current accounting treatment under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The directors of the Company anticipate that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Scholz Group's Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Scholz Group performs a detailed review.

Except as described above, the directors of the Company anticipate that the application of other new and revised IFRSs in issue but not yet effective will not have material impact on Scholz Group's consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Scholz Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Going concern assumption

The Financial Information is prepared on the basis of the assumption of Scholz Group to be able to continue as a going concern although Scholz Group is in a loss situation, technically overindebted in its statement of financial position as well as in a tight liquidity situation. The assumption is mainly based on the entry of the new investor Chiho-Tiande Group Limited, Hong Kong, China, ("CTG") with its underlying financing and restructuring concept and its expected successful implementation. If the financing and restructuring concept cannot be implemented successfully, the assumption of the ability to continue as a going concern might change and could result in different amounts of the assets and liabilities being recoverable compared to the amounts recognised in the underlying consolidated financial statements. As a consequence, the assets would be measured on a breakup basis leading to potentially higher impairment charges than currently included in this Financial Information. Furthermore, the liabilities would be measured at their liquidation values. Finally, the assets and liabilities would be no longer distinguished in current and non-current.

The successful conclusion of the financing and restructuring measures that have been initiated until the date of preparation of this Financial Information is of key significance for Scholz Group to achieve the planned improvements in the net assets, financial position and results of operations of Scholz Holding GmbH and its group entities, including but not limited to the relief from the debt burden as described in Note 42 to improve the composition of the statement of financial position and book equity and to improve the liquidity of Scholz Holding and its group entities. Given the fact that CTG has already acquired significant loans of Scholz Holding GmbH, initiated specific measures to secure Scholz Group's liquidity and will implement Scholz Group's realignment in the short term, management considers it more likely than not that Scholz Group will be able to continue as a going concern.

For a detailed discussion of the restructuring measures we refer to Note 42.

Impairment of goodwill and joint ventures accounted for at equity

As goodwill has to be tested for impairment annually assumptions have to be made regarding expected cash-flows, determination of the discount rate as well as any risks associated with the business. As the current market conditions were and are still difficult and challenging and the fact that Scholz Group is still in a financing and restructuring situation, the cash-flows assumed for impairment test purposes might not be met and might lead to future impairments. The same is true for the joint ventures as Scholz Group is operating its business also as a joint venture investor and the joint ventures are faced with the same market conditions than Scholz Group.

The carrying amounts of goodwill allocated to the CGU's are disclosed in Note 19.

Finance Leases

The assessment of whether a lease represents an operating or a finance lease and therefore might have to be recognised on the face of the statement of financial position with the corresponding lease obligations depends on the assessment of whether the main risks and rewards associated with the lease asset are transferred to Scholz Group as a lessee. Factors to consider are mainly the lease term in comparison to the useful life of the asset as well as the present value of the minimum lease payments compared to the fair value of the lease asset.

The discount rate of the lessor as well as the determination of the fair value of the lease assets require judgment of Scholz Group and might lead to different accounting treatments.

The carrying amounts of property, plant and equipment held under finance lease amount to EUR 22,673k as of 30 June 2016 (31 December 2015: EUR 31,451k; 31 December 2014: EUR 26,505k; 31 December 2013: EUR 38,280k) and the carrying amounts of the finance lease obligations amount to EUR 28,870k as of 30 June 2016 (31 December 2015: EUR 44,944k; 31 December 2014: EUR 33,962k; 31 December 2013: EUR 42,926k).

Asset retirement obligations

Scholz Group leases various pieces of land on which it operates scrap yards and might have to prepare the land to operate it appropriately as scrap yards. As Scholz Group is not the owner of the land, it has the contractual obligation to bring the land to its original condition. Hence, Scholz Group has to estimate the expected costs necessary to dismantle the scrap yards. As the obligation is a non-current obligation with long maturities the discount rate as well as future cost increases must be assessed and might lead to changes in the provisions recognised.

The carrying amount of the asset retirement obligation amounts to EUR 6,466k as of 30 June 2016 (31 December 2015: EUR 6,461k; 31 December 2014: EUR 6,481k; 31 December 2013: EUR 6,490k) and the carrying amounts of the corresponding assets amount to EUR 4,474k as of 30 June 2016 (31 December 2015: EUR 4,582k; 31 December 2014: EUR 4,799k; 31 December 2013: EUR 5,015k).

Fair value measurement of share options

Scholz Group has written options over shares in joint ventures to joint venture partners. Such options must be accounted as derivative financial instruments at FVTPL in accordance with IAS 39.

As the options are over shares of non-listed entities, Scholz Group has to measure the value of the options as of each reporting date using valuation techniques (e.g. discounted cash-flow method), which requires the determination of an appropriate discount rate as well as assumptions regarding the cash-flow projections.

Changes in such valuation perimeter might lead to changes in the fair value of the options and therefore to unexpected changes of profit or loss not anticipated as of each reporting date.

The carrying amount of such options amount to EUR 0 as of 30 June 2016 (31 December 2015: EUR 0; 31 December 2014: EUR (1,041k); 31 December 2013: EUR (559k)).

Classification of subsidiaries, joint ventures and associates

Scholz Group consolidates an entity if it has control. Control exists when the entity has the power to direct the relevant activities of an entity, is exposed to variable returns and has the ability to affect those returns. In turn Scholz Group has joint control over an entity if the relevant activities require the unanimous consent of each joint venture party. In such case Scholz Group accounts for joint ventures in accordance with IAS 28 at equity.

The decision of whether Scholz Group has the power over the relevant activities or only joint control depends on whether the rights granted to Scholz Group allow it to direct the relevant activities and that no other party has substantial participating right, such as substantive veto-right, over the relevant activities.

As the determination of control and joint control depends on various factors and is therefore judgemental the accounting might change if the facts and circumstances are assessed differently.

Recoverability of deferred tax assets

Deferred tax assets can only be recognised if it is probable that future taxable profit will be available against which the tax-deductible temporary differences or unused tax losses can be utilised.

As Scholz Group was and is still under financial restructuring and therefore has incurred in the past unused tax losses the recoverability of deferred tax assets arising from such unused tax losses is highly judgemental. The assessment of the recoverability is based on a 5-year tax planning and if not achieved might lead to a future adjustment of deferred tax asset be recognised in profit or loss.

The carrying amounts of deferred tax assets are disclosed in Note 22.

Key sources of estimation uncertainty regarding financial instruments

Scholz Group regularly estimates the risk of default on trade receivables. Many factors are taken into consideration in this context, including historical loss experience, the size and composition of certain portfolios, current economic events and conditions. Changes to the estimation and assessment of these factors influence the allowance for credit losses with a resulting impact on Scholz Group's net loss.

6. CAPITAL MANAGEMENT

As a result of significant economic downturns within the recycling business (in particular in the context of metal scrap) Scholz Group's equity suffered significantly throughout 2013 until June 2016. To maintain and restore an appropriate capital structure for Scholz Group's statement of financial position a restructuring process has been initiated, which in particular means a debt restructuring. In this context, after the six month period ended 30 June 2016 and with effectiveness 31 August 2016 a significant amount was waived, thereby resulting in a significantly improved debt/equity ratio.

For information on defaults and breaches refer to Note 28.

7. CHANGES IN CONSOLIDATION SCOPE AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Business Combinations

On 1 June 2016, Scholz Austria GmbH transferred the business of Kovosrot Group CZ a.s., Prague, Czech Republic, to the Scholz Group. Kovosrot Group CZ collects, processes and trades scrap and was jointly controlled by Scholz Group and Scholz Austria GmbH until 2013. In 2014 Scholz Group sold its 50% share to Scholz Austria GmbH. Due to the strategic importance for Scholz Group, management decided to reacquire the investment in 2016. The consideration transferred amounts to EUR 31,509k and made in form of a non-cash distribution of Scholz Austria GmbH to Scholz Austria Holding GmbH, a 100% subsidiary of Scholz Holding GmbH.

	FAIR VALUE RECOGNISED ON ACQUISITION *EUR'000*
ASSETS	
Property, plant and equipment	25,470
Intangible assets	80
Deferred tax assets	1,001
Inventories	5,109
Trade, bills and other receivables	9,285
Bank balances and cash	1,067
	42,012
LIABILITIES	
Bank loans	3,792
Trade and other payables	6,711
	10,503
Total identifiable net assets at fair value	31,509
Goodwill arising on acquisition	–
PURCHASE CONSIDERATION TRANSFERRED	31,509
Analysis of cash-flows on acquisition:	
Net cash acquired with the subsidiary (included in cash-flows from investing activities)	1,067
NET CASH-FLOW ON ACQUISITION	1,067

The assets acquired and liabilities assumed recognised in the Financial Information for the six month period ended 30 June 2016 were measured based on a provisional assessment of their existence and their fair values. Due to the short period since the transaction the accounting for the business combination has not yet been completed by Scholz Group.

Due to materiality reasons, Kovosrot Group CZ was included in the Financial Information as of 1 January 2016 instead of 1 June 2016. Therefore Kovosrot Group CZ contributed EUR 30,833k of revenue and EUR 3,653k of profit before tax.

Acquisition of non-controlling interests

On 15 December 2014 Scholz entered into a purchase agreement with the non-controlling shareholders of Scholz Bulgaria AD to acquire the additional 30% interest in Scholz Bulgaria AD and to increase its ownership to 100% effective as of 1 January 2015.

The total possible cash consideration amounts to EUR 1,321k and consists of a fixed and variable portion. The fixed portion of the purchase price of EUR 900k was paid to the non-controlling shareholders in 2015. An additional variable portion of EUR 421k was due in 2016 because of a change of control event with respect to Scholz Holding GmbH.

The difference between the purchase price of EUR 1,321k and the carrying amount of the additional interest in Scholz Bulgaria AD of EUR 429k amounts to EUR 892k was recognised as an increase of retained losses. The negative carrying amount of the net assets of Scholz Bulgaria AD amounted to EUR 1,429k.

On 25 November 2014 Scholz acquired the additional 25% interest in Scholz Edelstahl GmbH and increased its ownership to 100%. The cash consideration amounted to EUR 2,300k and was partly offset with a loan of EUR 1,743k Scholz has granted to the non-controlling shareholder. The negative carrying amount of the additional interest amounted to EUR 17,381k. The difference of EUR 19,681k between the purchase price and the carrying amount of the non-controlling interest was recognised as an increase of retained losses.

Sale of Euro Trend d.o.o. and an 80% interest in DINOS d.d. in 2014

On 18 June 2014, Scholz sold the 100% interest in Euro Trend d.o.o. and 30.01% of its interest in DINOS d.d. to C.I.O.S. d.o.o.. As Euro Trend d.o.o. holds a 49.99% interest in DINOS d.d., Scholz effectively sold an 80% interest in DINOS d.d..

Due to the provisions of the articles of association, the remaining 20% interest in DINOS d.d. provide Scholz and C.I.O.S. d.o.o. with joint control.

The loss of control in DINOS d.d. and Euro Trend d.o.o. resulted in a loss of EUR 14,618k. The remaining interest of 20% was measured at fair value resulting in a loss of EUR 581k. This loss is presented within share of profit (loss) from investments accounted for at equity.

Net cash-flow from losing control of subsidiaries and assets and liabilities other than cash and cash equivalents in the subsidiaries or other business over which control is lost, summarised by each major category

	31 December			30 June
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
ASSETS				
Property, plant and equipment	7,343	49,618	–	12,591
Intangible assets	99	789	–	106
Other non-current assets	3,623	7,890	–	–
Inventories	7,400	19,968	195	8,499
Trade, bills and other receivables	1,469	47,932	637	3,052
Bank balances and cash	878	318	52	584
	20,812	126,515	884	24,832
LIABILITIES				
Other non-current liabilities	–	960	–	–
Trade and other payables	15,627	50,400	103	18,985
Current portion of bank borrowings	–	25,052	–	53
Current provision	–	–	–	46
	15,627	76,412	103	19,084
Selling price	8,000	48,900	51	4,329
Net cash in subsidiary disposed of	(878)	(318)	(52)	(584)
Equity contribution in C.I.O.S. d.o.o.	–	(16,100)	–	–
Transfer of liabilities	–	(2,400)	–	–
Outstanding receivable	(7,570)	(21,900)	(51)	(1,429)
Settlement of receivables from disposal in prior years	–	1,000	22,700	400
NET CASH-FLOW FROM DISPOSAL	(448)	9,182	22,648	2,716

8. FINANCIAL INSTRUMENTS

Categories of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

The fair values of financial instruments on the statement of financial position were calculated based on market information available. Derivative financial instruments are determined as the sum of all purchase and sales contracts. The market values of forward foreign currency contracts are determined based on current European Central Bank reference rates taking into account the forward premiums or discounts and those for metal forward contracts based on London Metal Exchange ("LME") price quotations. Foreign exchange options are valued using price quotations or option price models. The market values of the interest rate swaps are determined by discounting future expected cash flows, using the market interest rates applicable for the remaining term of the financial instruments.

Further, the following methods and premises were used: Trade, bills and other receivables, and Bank balances and cash generally have short maturities. For this particular reason, their carrying amounts approximate their fair values.

The fair values of interest and foreign currency derivative financial instruments are calculated on the basis of the discounted estimated future cash-flows using the market interest rates appropriate to the remaining terms of the financial instruments. The fair values of commodity contracts are determined on the basis of current reference prices with consideration of forward premiums and discounts. Due to the short maturities of the trade payables, it is assumed that their fair values approximate to the carrying amounts. The fair values of bank loans are calculated as present values of the estimated future cash-flows. For bonds, the directly quoted market value on an always active market is recognised as fair value.

	Carrying amount				Fair value		
	Held-for-trading	**Loans and receivables**	**Available for sale**	**Total**	**Level 1**	**Level 2**	**Level 3**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
31 December 2013							
Loans	–	59,350	–	59,350	–	–	59,350
Derivative financial assets	6,783	–	–	6,783	–	6,783	–
Trade and other receivables	–	498,762	–	498,762	–	–	–
Bank balances and cash	–	8,772	–	8,772	–	–	–
Other non- current financial assets	–	2,240	34,671	36,911	–	–	2,240
thereof loans and receivables	–	*2,240*	–	*2,240*	–	–	*2,240*
thereof equity instruments measured at cost	–	–	*34,671*	*34,671*	–	–	–
Total financial assets	6,783	569,124	34,671	610,578	–	6,783	61,590

	Carrying amount			Fair value		
	Held-for-trading	**Financial Liabilities measured at Amortised Cost**	**Total**	**Level 1**	**Level 2**	**Level 3**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
31 December 2013						
Bonds	–	181,248	181,248	133,134	–	–
Bank loans	–	768,941	768,941	–	688,791	–
Other non-current financial liabilities	–	2,977	2,977	–	2,378	–
Derivative financial liabilities	38,220	–	38,220	–	37,661	559
Trade and other payables	–	524,116	524,116	–	–	–
Finance lease	–	42,926	42,926	–	–	–
Total financial liabilities	38,220	1,520,208	1,558,428	133,134	728,830	559

	Carrying amount				Fair value		
	Held-for-trading	Loans and receivables	Available for sale	Total	Level 1	Level 2	Level 3
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
31 December 2014							
Loans	–	21,484	–	21,484	–	–	21,484
Derivative financial assets	4,056	–	–	4,056	–	4,056	–
Trade and other receivables	–	377,692	–	377,692	–	–	–
Bank balances and cash	–	6,340	–	6,340	–	–	–
Other non-current financial assets	–	1,052	6,547	7,599	–	–	1,052
thereof loans and receivables	–	*1,052*	–	*1,052*	–	–	*1,052*
thereof equity instruments measured at cost	–	–	*6,547*	*6,547*	–	–	–
Total financial assets	4,056	406,568	6,547	417,171	–	4,056	22,536

	Carrying amount			Fair value		
	Held-for-trading	Financial Liabilities measured at Amortised Cost	Total	Level 1	Level 2	Level 3
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
31 December 2014						
Bonds	–	181,658	181,658	183,778	–	–
Bank loans	–	581,164	581,164	–	563,207	–
Other non-current financial liabilities	–	69,584	69,584		65,715	
Derivative financial liabilities	36,494	–	36,494	–	35,453	1,041
Trade and other payables	–	370,947	370,947	–	–	–
Finance lease	–	33,962	33,962	–	–	–
Total financial liabilities	36,494	1,237,315	1,273,809	183,778	664,375	1,041

	Carrying amount				Fair value		
	Held-for-trading	Loans and receivables	Available for sale	Total	Level 1	Level 2	Level 3
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
31 December 2015							
Loans	–	16,232	–	16,232	–	–	16,232
Derivative financial assets	1,423	–	–	1,423	–	1,423	–
Trade and other receivables	–	154,585	–	154,585	–	–	–
Bank balances and cash	–	6,275	–	6,275	–	–	–
Other non-current financial assets	–	434	4,234	4,668	–	–	434
thereof loans and receivables	–	*434*	–	*434*	–	–	*434*
thereof equity instruments measured at cost	–	–	*4,234*	*4,234*	–	–	–
Total financial assets	1,423	177,526	4,234	183,183	–	1,423	16,666

	Carrying amount			Fair value		
	Held-for-trading	Financial Liabilities measured at Amortised Cost	Total	Level 1	Level 2	Level 3
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
31 December 2015						
Bonds	–	182,045	182,045	77,563	–	–
Bank loans	–	581,772	581,772	–	369,532	–
Other non-current financial liabilities	–	67,070	67,070	–	30,581	–
Derivative financial liabilities	9,226	–	9,226	–	9,226	–
Trade and other payables	–	233,346	233,346	–	–	–
Finance lease	–	44,944	44,944	–	–	–
Total financial liabilities	9,226	1,109,177	1,118,403	77,563	409,339	–

	Carrying amount				Fair value		
	Held-for-trading	Loans and receivables	Available for sale	Total	Level 1	Level 2	Level 3
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
30 June 2016							
Loans	–	15,705	–	15,705	–	–	15,705
Derivative financial assets	230	–	–	230	–	230	–
Trade and other receivables	–	220,887	–	220,887	–	–	–
Bank balances and cash	–	4,751	–	4,751	–	–	–
Other non-current financial assets	–	434	3,603	4,037	–	–	4,037
thereof loans and receivables	–	*434*	–	*434*	–	–	*434*
therefore equity instruments measured at cost	–	–	*3,603*	*3,603*	–	–	–
Total financial assets	230	241,777	3,603	245,610	–	230	19,742

	Carrying amount			Fair value		
	Held-for-trading	Financial Liabilities measured at Amortised Cost	Total	Level 1	Level 2	Level 3
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
30 June 2016						
Bonds	–	182,361	182,361	13,998	–	–
Bank loans	–	626,508	626,508	–	–	186,274
Other non-current financial liabilities	–	7,200	7,200	–	–	–
Derivative financial liabilities	8,159	–	8,159	–	8,159	–
Trade and other payables	–	332,371	332,371	–	–	–
Finance lease	–	28,870	28,870	–	–	–
Total financial liabilities	8,159	1,177,310	1,185,469	13,998	8,159	186,274

Financial risk management objectives and policies

Scholz Group's major financial instruments include loan receivables, trade, bills and other receivables, derivative financial assets, bank balances and cash, trade and other payables, derivative financial liabilities, bonds and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Scholz Group's business model, geographical focus and financing structure expose it to various risks pertaining to raw materials, foreign currencies and interest rates. Scholz Group makes use of derivative financial instruments to limit these risks in all three areas.

(a) Currency risk

Scholz Group is exposed to currency risk in USD and several other currencies. Only the exposures to USD, GBP and AUD are significant and disclosed in detail, as other currencies do not comprise significant portion of monetary assets and liabilities in total. Management closely monitors its foreign currency risk exposure and considers any foreign currency forward contracts should the need arise.

(i) Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR against USD, GBP and AUD would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. Other foreign currencies would not have caused significant effects on profit or loss before tax. This analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases (all numbers in thousands of Euro).

	31 December 2013		
	AUD	*GBP*	*USD*
local currency +10%	+448	+168	+4,449
local currency (10)%	(448)	(168)	(4,449)

	31 December 2014		
	AUD	*GBP*	*USD*
local currency +10%	+344	+480	+3,194
local currency (10)%	(344)	(480)	(3,194)

	31 December 2015		
	AUD	*GBP*	*USD*
local currency +10%	+87	+383	+1,520
local currency (10)%	(87)	(383)	(1,520)

	30 June 2016		
	AUD	*GBP*	*USD*
local currency +10%	+1	+138	+5,272
local currency (10)%	(1)	(138)	(5,272)

(b) Interest rate risk

Interest rate risks are understood as the negative impact of fluctuating interest rates on the profit or loss before tax of Scholz Group. Since most of Scholz Group's bank borrowings are subject to floating interest rates, interest rate risks are limited by appropriate interest hedge transactions (typically interest swaps). The interest derivative financial instruments were concluded exclusively for loans already drawn.

(i) Sensitivity analysis

The interest sensitivity analysis presented below shows the hypothetical effects that a change in the market interest rate at the end of the reporting period would have had on the profit or loss before tax. It is assumed here that the exposure at the end of each reporting period is representative of the year as a whole and that the assumed change in the market interest rate at the end of the each reporting period was plausible.

	31 December			30 June
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Increase + 100 bps	2,977	1,283	(6,573)	(6,581)
Decrease (100) bps	(3,985)	(2,757)	6,629	6,835

The amounts included above for the variable interest rate instruments are subject to change if changes in actual interest rates differ to those estimated at the end of the reporting period.

(c) Commodity price risks

In accordance with the hedging policy, Scholz Group concluded financial futures via the respective brokers at the London Metal Exchange ("LME") as economic hedging instruments. In some cases, Scholz Group also concluded OTC (over-the-counter) transactions with banks. These transactions do not relate to the physical delivery of goods but to cash settlement. As of the each reporting date, the brokers had appropriate margin lines at their disposal to hedge the relevant commodity volume in accordance with the defined hedging policy.

(i) Sensitivity analysis

The sensitivity analysis below is determined based on the exposure to commodity price risk of metal commodities future contracts at 30 June 2016 and 31 December 2015, 2014 and 2013. If the commodity price risk of metal commodities future contracts had been 40% higher/lower for nickel or 20% higher/lower for other metal commodities, Scholz Group's profit or loss before tax for the year/period would decrease/increase by the following magnitude:

	31 December 2013			
	Aluminium	**Copper**	**Steel**	**Nickel**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
commodity price +20%	(1,843)	(2,286)	(813)	–
commodity price (20)%	+1,843	+2,286	+813	–
commodity price +40%	–	–	–	(2,459)
commodity price (40)%	–	–	–	+2,459

	31 December 2014			
	Aluminium	**Copper**	**Steel**	**Nickel**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
commodity price +20%	(1,193)	(697)	(59)	–
commodity price (20)%	+1,193	+697	+59	–

	31 December 2015			
	Aluminium	**Copper**	**Steel**	**Nickel**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
commodity price +20%	(473)	(866)	–	–
commodity price (20)%	+473	+866	–	–

	30 June 2016			
	Aluminium	**Copper**	**Steel**	**Nickel**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
commodity price +20%	(171)	(391)	–	–
commodity price (20)%	+171	+391	–	–
commodity price +40%	–	–	–	(150)
commodity price (40)%	–	–	–	+150

Credit risk

As of 31 December 2013, 2014, 2015 and 30 June 2016, Scholz Group's maximum exposure to credit risk which will cause a financial loss to Scholz Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. Additionally financial guarantee contracts cause credit risks.

At 1 January 2013 Scholz Group had concentration of credit risk. 21% of its total trade receivables was due from its ten largest customers. The concentration of credit risk had been between 35% and 40% at the end of reporting years 2015, 2014, 2013 and in the first half of 2016. The ten largest customers have good repayment history and credit quality with reference to the track records of these customers under internal assessment by Scholz Group.

In order to minimize credit risk Scholz Group insures its receivables as far as possible. From the trade, bills and other receivables the amount financed under an asset-backed-securities program is completely covered by credit insurance, i.e. covered by 100%. The remaining amount is insured up to 95%. In addition, the receivables are generally issued with retention of title.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The objective of Scholz Group is to maintain funding through the use of bank borrowings.

The following table details Scholz Group's remaining contractual maturity for derivative and non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash-flows of Group's non-derivative financial liabilities based on the earliest date on which Scholz Group can be required to pay. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period. For financial guarantees for third parties, the table shows the maximum amount that might be contractually required to pay at the earliest period the guarantee might be called.

Contractual cash-flows:

	< 1 year EUR'000	1-5 years EUR'000	> 5 years EUR'000
As of 31 December 2013			
Bonds	15,167	217,403	–
Bank loans	201,366	630,973	852
Other non-current financial liabilities	–	2,977	–
Trade and other payables	524,116	–	–
Finance lease	8,963	37,015	–
Financial guarantees	114,012	–	–
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	863,624	888,368	852
Interest rate derivatives	14,649	37,222	–
Foreign currency derivatives	45,509	–	–
Commodity derivatives	4,931	–	–
TOTAL DERIVATIVE FINANCIAL LIABILITIES	65,089	37,222	–

	< 1 year EUR'000	1-5 years EUR'000	> 5 years EUR'000
As of 31 December 2014			
Bonds	15,513	201,891	–
Bank loans	77,701	602,332	8,346
Other non-current financial liabilities	–	69,584	–
Trade and other payables	370,947	–	–
Finance lease	9,255	26,516	–
Financial guarantees	54,422	–	–
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	527,838	900,323	8,346
Interest rate derivatives	12,602	24,702	–
Foreign currency derivatives	82,678	–	–
Commodity derivatives	2,607	–	–
TOTAL DERIVATIVE FINANCIAL LIABILITIES	97,887	24,702	–

	< 1 year *EUR'000*	1-5 years *EUR'000*	> 5 years *EUR'000*
As of 31 December 2015			
Bonds	15,513	186,378	–
Bank loans	82,865	641,595	445
Other non-current financial liabilities	–	67,070	–
Trade and other payables	233,346	–	–
Finance lease	23,279	26,868	–
Financial guarantees	35,254	–	–
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	390,257	921,911	445
Interest rate derivatives	7,823	1,594	–
Foreign currency derivatives	14,746	–	–
Commodity derivatives	229	–	–
TOTAL DERIVATIVE FINANCIAL LIABILITIES	22,798	1,594	–

	< 1 year *EUR'000*	1-5 years *EUR'000*	> 5 years *EUR'000*
As of 30 June 2016			
Bonds	194,134	–	–
Bank loans	643,852	1,491	1,042
Other non-current financial liabilities	–	7,200	–
Trade and other payables	332,371	–	–
Finance lease	19,279	22,805	–
Financial guarantees	23,943	–	–
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	1,213,579	31,496	1,042
Interest rate derivatives	7,155	918	–
Foreign currency derivatives	14,017	–	–
Commodity derivatives	537	–	–
TOTAL DERIVATIVE FINANCIAL LIABILITIES	21,709	918	–

Fair value measurements and valuation process

In estimating the fair value of a financial asset or financial liability, Scholz Group uses market-observable data to the extent it is available. Where Level 1 and 2 inputs are not available, Scholz Group engages qualified third parties to perform the valuation for financial instruments that are measured at fair value on a recurring basis. The accounting and treasury departments works closely with the engaged external parties to establish appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above. There were no transfers between Level 1 and Level 2 during the years 2013, 2014, 2015 and the six months ended 30 June 2016.

Financial instruments from Level 2 measured at fair value

Type	Measurement
Forward foreign exchange contracts	Par method, taking actively traded forward rates into account
Foreign currency options	Black-Scholes model
Interest rate swaps	Discounted cash flow method. This adds together the present value of the cash flows expected in the future and discounts them, utilizing a market-conform interest rate
Forward commodity contracts	Par method, taking actively traded forward rates into account

Financial instruments from Level 2 not measured at fair value

Type	Measurement
Financial liabilities	Discounted cash flow method

Financial instruments from Level 3 measured at fair value

Type	Measurement	Significant non-observable inputs
Embedded derivative financial assets	Discounted cash flow method	Expected CFs subject to estimation, which are not observable

Financial instruments from Level 3 not measured at fair value

Type	Measurement	Significant non-observable inputs
Non-derivative financial assets	Discounted cash flow method	Expected CFs subject to estimation, which are not observable
Financial liabilities	Discounted cash flow method	Expected CFs subject to estimation, which are not observable

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as of 31 December 2013, 2014, 2015 and 30 June 2016 are as shown below:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity of unobservable inputs	Sensitivity of the input to fair value
As of 31 December 2013	DCF method	WACC	13.20% – 19.78%	+/-10%	+/-119%
		EBITDA margin	1.97% – 42.92%	+/-25%	+/-58%
As of 31 December 2014	DCF method	WACC	12.75% – 19.33%	+/-10%	+/-106%
		EBITDA margin	3.07% – 18.56%	+/-25%	+/-288%
As of 31 December 2015	DCF method	WACC	12.29% – 19.35%	+/-10%	+/-63%
		EBITDA margin	1.61% – 15.35%	+/-25%	+/-68%
As of 30 June 2016	DCF method	WACC	12.29% – 19.35%	+/-10%	+/-63%
		EBITDA margin	1.61% – 15.35%	+/-25%	+/-68%

Reconciliation of fair value measurement of embedded derivative financial assets and liabilities:

	Embedded derivative financial instruments
	EUR'000
As of 31 December 2013	(559)
Financial expenses	(482)
As of 31 December 2014	(1,041)
Financial income (unaudited)	–
As of 30 June 2015 (unaudited)	(1,041)
Financial income (unaudited)	1,041
As of 31 December 2015	–
Financial income	–
As of 30 June 2016	–

Business and economic circumstances affecting fair value of measurements

During the years ended 31 December 2013, 2014, 2015 and six month period ended 30 June 2016, Scholz Group experienced the adverse impact of the prolonged volatility and the overall downward movement of the global metal prices. Scholz Group entered into metal commodities future contracts in order to manage its exposure to the volatility in metals' price risks. The decline in the commodity market prices led to a realised loss on fair value of derivative financial instruments.

Net gains or losses

The following table shows the net gains or losses of financial instruments included in the consolidated statement of profit or loss. Net gains and net losses of financial assets and liabilities held for trading primarily include gains and losses attributable to changes in fair values. Net gains and net losses on loans and receivables mainly include impairment losses and interest income. Foreign currency gains and losses are also included. Net losses on financial liabilities measured at amortised cost mainly include interest income as well as gains and losses from currency translation. Net gains on available-for-sale financial assets mainly include impairment losses as well as gains and losses realised on their disposal.

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Financial assets and liabilities held for trading	16,971	(11,611)	5,300	2,198	(3,911)
Loans and receivables	(13,424)	(27)	(3,997)	5,478	(21,981)
Financial liabilities at amortised cost	(81,344)	(85,042)	(79,159)	(53,697)	(20,730)
Available-for-sale	(45,289)	(29,425)	(836)	(105)	(2,787)
TOTAL NET INCOME (LOSS)	(123,086)	(126,105)	(78,692)	(46,126)	(49,409)

Loans and receivables contain mostly foreign exchange effects and impairment losses. Financial liabilities at amortised cost contain mostly interest expense.

Financial instruments subject to enforceable master netting agreements and similar agreement

The financial instruments that Scholz Group enters into are subject to netting agreements with financial institutions that include a mutual right of offset. However, some of these agreements do not fulfil the criteria for offsetting in the statement of financial position, as the netting right can only be utilised if one of the contracting parties defaults. The following table shows the financial assets and liabilities in Scholz Group which are subject to offsetting options.

	EUR'000
As of 31 December 2013	
Gross amounts of financial assets in the statement of financial position	14,149
Financial instruments that qualify for offsetting in the statement of financial position	(1,335)
Net values of financial assets in the statement of financial position	12,814
Can be offset due to framework agreements	(12,447)
TOTAL NET VALUE OF FINANCIAL ASSETS	367
Gross amounts of financial liabilities in the statement of financial position	13,335
Financial instruments that qualify for offsetting in the statement of financial position	(132)
Net values of financial liabilities in the statement of financial position	13,203
Can be offset due to framework agreements	(12,447)
TOTAL NET VALUE OF FINANCIAL LIABILITIES	756

	EUR'000
As of 31 December 2014	
Gross amounts of financial assets in the statement of financial position	9,643
Financial instruments that qualify for offsetting in the statement of financial position	(710)
Net values of financial assets in the statement of financial position	8,933
Can be offset due to framework agreements	(8,333)
TOTAL NET VALUE OF FINANCIAL ASSETS	600
Gross amounts of financial liabilities in the statement of financial position	11,185
Financial instruments that qualify for offsetting in the statement of financial position	(215)
Net values of financial liabilities in the statement of financial position	10,970
Can be offset due to framework agreements	(8,333)
TOTAL NET VALUE OF FINANCIAL LIABILITIES	2,637

	EUR'000
As of 31 December 2015	
Gross amounts of financial assets in the statement of financial position	3,877
Financial instruments that qualify for offsetting in the statement of financial position	(446)
Net values of financial assets in the statement of financial position	3,431
Can be offset due to framework agreements	(3,234)
TOTAL NET VALUE OF FINANCIAL ASSETS	197
Gross amounts of financial liabilities in the statement of financial position	2,852
Financial instruments that qualify for offsetting in the statement of financial position	–
Net values of financial liabilities in the statement of financial position	2,852
Can be offset due to framework agreements	(2,598)
TOTAL NET VALUE OF FINANCIAL LIABILITIES	254

	EUR'000
As of 30 June 2016	
Gross amounts of financial assets in the statement of financial position	2,092
Financial instruments that qualify for offsetting in the statement of financial position	(161)
Net values of financial assets in the statement of financial position	1,931
Can be offset due to framework agreements	(1,931)
TOTAL NET VALUE OF FINANCIAL ASSETS	–
Gross amounts of financial liabilities in the statement of financial position	2,213
Financial instruments that qualify for offsetting in the statement of financial position	–
Net values of financial liabilities in the statement of financial position	2,213
Can be offset due to framework agreements	(1,931)
TOTAL NET VALUE OF FINANCIAL LIABILITIES	282

Transfer of financial assets

Trade receivables in the amount of EUR 87,947k as at 30 June 2016 (31 December 2015: EUR 87,021k, 31 December 2014: EUR 162,046k, 31 December 2013: EUR 189,698k) are financed within an ABS program by Kebnekaise Funding (No. 3) Ltd, a structured entity which is neither consolidated by Scholz Group nor does Scholz Group hold any shares in it. Receivables overdue for more than 60 days are retransferred to Scholz Group. Therefore credit risk and late payment risk remains at Scholz Group. For the financed amount a corresponding financial liability has been recorded.

Trade receivables in the amount of EUR 14,032k as of 30 June 2016 (31 December 2015: EUR 15,622k, 31 December 2014: EUR 17,544k, 31 December 2013: EUR 21,977k) are financed within a factoring program. Receivables overdue for more than 60 days are retransferred to Scholz Group. Therefore credit risk and late payment risk remains at Scholz Group. For the financed amount a corresponding financial liability has been recorded.

9. COST OF SALES

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Cost raw materials, supply & purchased goods	1,912,636	1,434,871	962,611	575,257	365,955
Employee benefit expenses	83,140	69,369	57,160	27,982	29,552
Cost of purchased services	103,990	65,491	51,366	23,780	10,664
Cost of materials	20,169	40,160	35,022	18,736	19,764
Depreciation and amortisation	30,416	25,834	29,887	11,904	11,214
Other cost of sales	17,009	18,125	9,658	4,147	3,039
TOTAL	2,167,360	1,653,850	1,145,704	661,806	440,188

10. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Finance income	27,954	3,325	21,195	4,873	614
Interest income	17,896	13,477	11,513	6,190	3,250
Currency gains	30,714	25,150	38,985	25,654	4,760
Income from foreign exchange and commodity derivatives	15,943	9,847	7,295	9,303	1,559
Income from management fees	7,535	4,888	5,982	3,479	9,095
Gain from the disposal of assets	3,437	1,748	2,389	1,582	2,891
Gain from reversal of specific bad debt allowance	408	3,146	2,428	39	7,605
Rental income	1,329	3,264	2,704	940	1,566
Proceeds from insurance damages	1,096	770	1,366	600	691
Others	25,942	134,411	13,301	17,644	11,570
TOTAL	132,254	200,026	107,158	70,304	43,601

Other income in 2014, is primarily related to payments received for receivables which have already been written off in prior years.

11. OTHER LOSSES

Other losses mainly contain bad debt expenses (year ended 31 December 2013: EUR 183,026k; year ended 31 December 2014: EUR 18,614k; year ended 31 December 2015: EUR 70,006k; six months ended 30 June 2015: EUR 31,231k (unaudited) and six months ended 30 June 2016: EUR 3,412k) and foreign exchange losses (year ended 31 December 2013: EUR 36,953k; year ended 31 December 2014: EUR 28,562k; year ended 31 December 2015: EUR 48,267k; six months ended 30 June 2015: EUR 31,561k (unaudited) and six months ended 30 June 2016: EUR 3,888k).

12. ADMINISTRATIVE EXPENSES

Administrative expenses mainly include depreciation of property, plant and equipment amounting to EUR 11,215k EUR 12,785k and EUR 11,748k in the year ended 31 December 2013, 2014 and 2015, respectively, and EUR 6,687k (unaudited) and EUR 6,337k for the six month period ended June 2015 and 2016, respectively. Furthermore, administrative expenses contain employee benefit expenses which amount to EUR 43,740k, EUR 41,746k and EUR 36,975k in the year ended 31 December 2013, 2014 and 2015, respectively, and EUR 18,175k (unaudited) and EUR 17,556k in the six month period ended June 2015 and 2016, respectively.

13. DEPRECIATION AND AMORTISATION EXPENSE

	Year ended 31 December			**Six months ended 30 June**	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Included in cost of sales	30,416	25,834	29,887	11,904	11,214
Included in selling and distribution expenses	4,557	1,414	4,797	702	8,992
Included in administrative expenses	11,215	12,785	11,748	6,687	6,337
TOTAL	46,188	40,033	46,432	19,293	26,543

14. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December			**Six months ended 30 June**	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Included in cost of sales	83,140	69,369	57,160	27,982	29,552
Included in selling and distribution expenses	5,980	4,225	3,067	1,553	1,819
Included in administrative expenses	43,740	41,746	36,975	18,175	17,556
TOTAL	132,860	115,340	97,202	47,710	48,927

15. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Interest on bank borrowings and bond	83,971	85,397	79,271	35,845	20,834
Other finance costs	72,603	39,848	4,581	9,871	9,767
	156,574	125,245	83,852	45,716	30,601

Other finance costs contain primarily impairments of loans due from joint ventures and associates in the amount of EUR 47,742k and EUR 37,185k for the year ended 31 December 2013 and 2014, respectively.

16. INCOME TAX EXPENSE

The major components of income tax expense for the six months periods ended 30 June 2016 and 2015 and for the years ended 31 December 2013, 2014 and 2015 are:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Consolidated statement of profit or loss					
Current income tax:					
Current income tax charge	(3,026)	(2,036)	1,061	(3,409)	(6,494)
Adjustments in respect of current income tax of previous year	(6,917)	155	(60)	(46)	147
	(9,943)	(1,881)	1,001	(3,455)	(6,347)
Deferred tax:					
Relating to origination and reversal of temporary differences	(7,801)	(2,656)	(170)	(35)	(2,489)
Relating to recognition (utilisation) of tax losses	8,900	2,497	(27,090)	(5,534)	3,871
	1,099	(159)	(27,260)	(5,569)	1,382
Income tax expense reported in the statement of profit or loss	(8,844)	(2,040)	(26,259)	(9,024)	(4,965)

The tax rates applied for the calculation of the tax expenses range between 16% and 34% depending on the tax jurisdiction, in which Scholz Group operates.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Scholz Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The reconciliation of the expected tax income, which is calculated using a tax rate of 30% (reflecting the tax rate in Germany which consists of the combined corporate income tax rate (15.825%) and the trade tax rate (14.175%), based on combined local multiplier), to the tax expense presented in these consolidated statements of profit or loss is as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Accounting loss before income tax	(323,947)	(116,955)	(145,553)	(71,239)	(66,978)
Expected tax income at Germany statutory income tax rate of 30%	97,184	35,087	43,666	21,372	20,093
Non-deductible write down (-)/write-up of receivables	(59,487)	(2,982)	(1,101)	(441)	–
Current income tax related to previous periods	(6,917)	155	(60)	(46)	147
Other non-deductible expenses	(19,124)	(18,960)	(27,677)	(13,446)	(25,582)
Non-deductible impairment of investments in non-consolidated subsidiaries and joint ventures	(11,451)	(10,402)	(759)	(304)	–
Effect of different tax rates	(5,791)	(2,292)	(1,164)	(466)	(6,156)
Tax losses of the current period not recognised	(2,392)	(24,072)	(46,563)	(18,657)	(5,351)
Change in valuation of tax losses carried forward	(4,217)	(12,917)	(280)	(112)	(30)
Deductible temporary differences not recognised	(383)	(1,936)	(2,233)	(896)	(296)
Income not taxable for tax purpose	2,547	112	97	39	6,129
Utilisation of tax losses previously not recognised	1,187	24,902	2,631	1,054	5,820
Other	–	11,265	7,184	2,879	261
AT THE EFFECTIVE INCOME TAX RATE	(8,844)	(2,040)	(26,259)	(9,024)	(4,965)

Scholz Group has unused tax losses of in total EUR 355,201k as of 30 June 2016 (31 December 2015: EUR 328,590k; 31 December 2014: EUR 234,197k; 31 December 2013: EUR 160,922k), of which EUR 19,348k as of 30 June 2016 in conjunction with deferred tax assets were assessed to be available for future tax deduction as based on the available five-year tax planning sufficient taxable profit or other tax planning opportunities or other evidence of recoverability in the near future are available against which the unused tax losses can be utilised (31 December 2015: EUR 3,851k; 31 December 2014: EUR 96,407k; 31 December 2013: EUR 100,596k). As of 30 June 2016 a deferred tax asset of EUR 4,718k was capitalised on unused tax losses (31 December 2015: EUR 846k; 31 December 2014: EUR 27,936k; 31 December 2013: EUR 25,440k).

Of the unused tax losses as of 30 June 2016 unused tax losses of EUR 354,158k are available indefinitely to offset against future taxable profits (31 December 2015: EUR 321,429k; 31 December 2014: EUR 130,227k; 31 December 2013: EUR 34,585k) and as of 30 June 2016 EUR 153k are available 3-10 years to offset against future taxable profits (31 December 2015: EUR 3,310k; 31 December 2014: EUR 7,564k; 31 December 2013: EUR 25,741k).

On 29 August 2016 CTG and the current shareholders of Scholz Holding GmbH entered into a share purchase agreement which result in a change of the ownership structure of Scholz Holding GmbH. If the acquisition of the shares of Scholz Holding GmbH became effective and the change in the ownership structure occurred, tax losses of EUR 316,447k could not be further utilised against future taxable profits based on current applicable tax law.

17. DIVIDENDS

For each of the presented reporting periods no dividends were declared and/or paid on ordinary shares.

18. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Office furniture and equipment	Leasehold property	Construction in progress	Total
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Cost:						
At 1 January 2013	311,764	187,619	94,100	41,579	5,218	640,280
Currency translation differences	(711)	(195)	(130)	–	(26)	(1,062)
Disposal of subsidiaries	(6,944)	(10,948)	(2,125)	–	(108)	(20,125)
Additions	4,089	6,095	3,921	7,911	11,207	33,223
Disposals	(8,557)	(9,611)	(12,951)	–	(2,323)	(33,442)
Reclassifications	5,962	1,906	254	–	(8,149)	(27)
At 31 December 2013 and 1 January 2014	305,603	174,866	83,069	49,490	5,819	618,847
Currency translation differences	(482)	(330)	(174)	–	(5)	(991)
Disposal of subsidiaries	(27,985)	(9,588)	(2,806)	–	1,313	(39,066)
Additions	1,434	5,672	4,839	–	3,410	15,355
Disposals	(10,327)	(11,607)	(13,431)	–	(2,448)	(37,813)
Reclassifications	4,869	2,335	(478)	–	(6,724)	2
At 31 December 2014 and 1 January 2015	273,112	161,348	71,019	49,490	1,365	556,334
Currency translation differences	311	3,145	3,086	–	–	6,542
Additions	1,048	10,302	7,413	19,002	4,021	41,786
Disposals	(4,019)	(4,136)	(19,496)	–	–	(27,651)
Reclassifications	1,296	2,646	8	–	(4,224)	(274)
At 31 December 2015 and 1 January 2016	271,748	173,305	62,030	68,492	1,162	576,737
Currency translation differences	(594)	(1,168)	(173)	–	(1)	(1,936)
Acquisition of subsidiaries	23,910	1,279	23	–	258	25,470
Additions	83	14	1,420	–	884	2,401
Disposals	(9,616)	(3,387)	(1,254)	–	–	(14,257)
Reclassifications	276	288	97	–	(734)	(73)
At 30 June 2016	285,807	170,331	62,143	68,492	1,569	588,342

	Land and buildings *EUR'000*	Plant and machinery *EUR'000*	Office furniture and equipment *EUR'000*	Leasehold property *EUR'000*	Construction in progress *EUR'000*	Total *EUR'000*
Accumulated depreciation:						
At 1 January 2013	(88,909)	(115,386)	(75,159)	–	–	(279,454)
Currency translation differences	76	93	97	–	–	266
Additions	(11,093)	(17,218)	(5,820)	(11,210)	–	(45,341)
Disposals	5,875	9,533	12,065	–	–	27,473
Reclassifications	–	38	(36)	–	–	2
At 31 December 2013 and 1 January 2014	(94,051)	(122,940)	(68,853)	(11,210)	–	(297,054)
Currency translation differences	117	204	146	–	–	467
Impairment	(1,163)	–	–	–	–	(1,163)
Additions	(12,137)	(11,304)	(4,421)	(11,775)	–	(39,637)
Disposals	5,265	8,565	12,189	–	–	26,019
At 31 December 2014 and 1 January 2015	(101,969)	(125,475)	(60,939)	(22,985)	–	(311,368)
Currency translation differences	(177)	(3,130)	(3,075)	–	–	(6,382)
Impairment	(2,597)	–	–	–	–	(2,597)
Additions	(13,952)	(14,881)	(3,197)	(14,056)	–	(46,086)
Disposals	2,404	967	6,639	–	–	10,010
At 31 December 2015 and 1 January 2016	(116,291)	(142,519)	(60,572)	(37,041)	–	(356,423)
Currency translation differences	220	293	143	–	–	656
Impairment	(101)	–	–	–	–	(101)
Additions	(11,521)	(5,314)	(801)	(8,778)	–	(26,414)
Disposals	(3,782)	1,501	944	–	–	(1,337)
At 30 June 2016	(131,475)	(146,039)	(60,286)	(45,819)	–	(383,619)
Net book value:						
At 31 December 2013	211,552	51,926	14,216	38,280	5,819	321,793
At 31 December 2014	171,143	35,873	10,080	26,505	1,365	244,966
At 31 December 2015	155,457	30,786	1,458	31,451	1,162	220,314
At 30 June 2016	154,332	24,292	1,857	22,673	1,569	204,723

Notes:

(i) The property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives on a straight-line basis, after taking into account their residual value, as follows:

	Years
Land and buildings	20
Plant and machinery	5-10
Office furniture and equipment	5
Leasehold property	5-10

Impairment losses have been recognised in the line item "Other losses" of the consolidated statements of profit or loss. The impairment losses recognised in the year ended 31 December 2014 are attributable to the operating segment "Balkans (incl. Romania)"; the impairment losses recognised in the year ended 31 December 2015 are attributable to the segment Germany/Poland.

19. INTANGIBLE ASSETS

	Software	Goodwill	Total
	EUR'000	*EUR'000*	*EUR'000*
Cost:			
At 1 January 2013	8,867	19,479	28,346
Currency translation differences	(6)	(221)	(227)
Disposal of subsidiaries	(134)	–	(134)
Additions	261	–	261
Disposals	(2,483)	–	(2,483)
Reclassifications	27	–	27
At 31 December 2013 and 1 January 2014	6,532	19,258	25,790
Currency translation differences	(10)	331	321
Disposal of subsidiaries	(398)	–	(398)
Additions	78	2,187	2,265
Disposals	(1,302)	–	(1,302)
Reclassifications	(1)	–	(1)
At 31 December 2014 and 1 January 2015	4,899	21,776	26,675
Currency translation differences	1,654	392	2,046
Additions	1,060	–	1,060
Disposals	(73)	–	(73)
Reclassifications	243	–	243
At 31 December 2015 and 1 January 2016	7,783	22,168	29,951
Currency translation differences	(13)	–	(13)
Acquisition of subsidiaries	80	–	80
Additions	175	244	419
Disposals	(2,678)	(2,187)	(4,865)
Reclassifications	73	–	73
At 30 June 2016	5,420	20,225	25,645

	Software	Goodwill	Total
	EUR'000	*EUR'000*	*EUR'000*
Accumulated amortisation:			
At 1 January 2013	(5,972)	–	(5,972)
Currency translation differences	5	–	5
Additions	(847)	–	(847)
Disposals	2,141	–	2,141
Reclassifications	(2)	–	(2)
At 31 December 2013 and 1 January 2014	(4,675)	–	(4,675)
Currency translation differences	9	–	9
Additions	(396)	–	(396)
Disposals	962	–	962
Reclassifications	–	–	–
At 31 December 2014 and 1 January 2015	(4,100)	–	(4,100)
Currency translation differences	(1,221)	–	(1,221)
Additions	(346)	–	(346)
Disposals	26	–	26
Reclassifications	–	–	–
At 31 December 2015 and 1 January 2016	(5,641)	–	(5,641)
Currency translation differences	12	–	12
Additions	(129)	–	(129)
Disposals	435	–	435
Reclassifications	–	–	–
At 30 June 2016	(5,323)	–	(5,323)
Net book value:			
At 31 December 2013	1,857	19,258	21,115
At 31 December 2014	799	21,776	22,575
At 31 December 2015	2,142	22,168	24,310
At 30 June 2016	97	20,225	20,322

Software is amortised over its estimated useful life of 5 years on a straight-line basis.

Goodwill acquired through business combinations are mainly allocated to the subgroups Scholz Recycling GmbH & Co. KG, SRW metalfloat GmbH and Fegert Recycling GmbH, which represent the lowest level on which management monitors goodwill.

The carrying amount of goodwill allocated to Scholz Recycling GmbH & Co. KG ("Scholz Recycling"), SRW metalfloat GmbH ("SRW") and Fegert Recycling GmbH ("Fegert") remains unchanged and amounts to EUR 5,266k, EUR 5,081k and EUR 3,818k respectively as of the end of each reporting period ended 30 June 2016, 31

December 2015, 2014, 2013. Further goodwill is allocated to Remat Scholz Filiala Moldova s.r.l. of EUR 2,187k, Uniscrap A/S of EUR 1,382k, Scholz Recycling GmbH (Austria) of EUR 1,712k and to various other legal entities.

Scholz Group performed its annual impairment tests as of 31 December 2013, 2014 and 2015.

The recoverable amounts for the CGUs were determined based on a value in use calculation using cash-flow projections from financial budgets approved by management covering a three-year period. The projected cash-flows were updated to reflect the difficult economic situation in the scrap market, mainly resulting from decreased prices. The discount rate (after taxes) applied to cash-flow projections at 31 December 2015 is 8.6% (31 December 2014: 8.72%; 31 December 2013: 9.15%) and cash-flows beyond the three-year period are extrapolated using a 1.0% growth rate that is in line with the long-term average growth rate for the scrap industry. It was concluded that the fair value less costs of disposal did not exceed the value in use. As a result of the impairment tests performed, no impairment of goodwill was identified as of each of the reporting dates presented.

The calculation of value in use for both Scholz Recycling and Fegert is most sensitive to the assumptions for the EBITDA margin, discount rates and growth rates used to extrapolate cash-flows beyond the forecast period. The EBITDA margin for the terminal value is based on the average EBITDA margins of the three budgeted years.

The recoverable amount of Scholz Recycling exceeds the carrying amount of Scholz Recycling by EUR 74,714k. The recoverable amount would correspond to the carrying amount if the EBITDA margin decreased by 22.58%.

20. INVESTMENTS ACCOUNTED FOR AT EQUITY

The Scholz Group's interests in joint ventures are presented in the table below and are accounted for using the equity method in the Financial Information, whereas Scholz Group interests in associates are immaterial and therefore not included in the table below.

NAME OF JOINT VENTURE	PLACE OF OPERATION AND INCORPORATION	ATTRIBUTABLE EQUITY INTEREST AND VOTING POWER HELD BY SCHOLZ GROUP			
		31 December			30 June
		2013	2014	2015	2016
		%	%	%	%
MMG Aluminium AG	Mayen, Germany	60%	–	–	–
MFT Metall-Form-Technik Aluminiummegmunkáló Kft.	Várpalota, Hungary	60%	–	–	–
Gröger GmbH	Günzburg, Germany	50%	50%	50%	50%
RVR Rohstoffverwertung Regensburg GmbH	Regensburg, Germany	50%	50%	50%	50%
Geweniger Recycling GmbH	Meuselwitz, Germany	50%	50%	50%	50%
EKO Schrottrecycling GmbH	Eisenhüttenstadt, Germany	50%	50%	50%	50%
Noris Metallrecycling GmbH	Fürth, Germany	–	–	50%	50%
Nordhäuser Rohstoffhandel GmbH	Norshausen, Germany	50%	50%	50%	50%
Rematinvest s.r.l.	Cluj, Romania	52%	50%	50%	50%
Remat Scholz Filiala Moldova s.r.l.	Galati, Romania	52%	–	–	–
Green Metals Poland Sp. z o.o.	Walbrzych, Poland	45%	45%	45%	45%
Schrott und Metallhandel M. Kaatsch GmbH	**Plochingen, Germany**	**75%**	**75%**	**75%**	**75%**
Stachelski GmbH	Ludwigsburg, Germany	75%	75%	75%	75%
Stachelski Vermögensverwaltung GmbH & Co.KG	Ludwigsburg, Germany	75%	75%	–	–
Rohstoffverwertung Gröger GmbH & Co. KG	**Günzburg, Germany**	**50%**	**50%**	**50%**	**50%**
Container Service Gröger GmbH	Günzburg, Germany	50%	50%	50%	50%
L+N Recycling GmbH	Bubesheim, Germany	45%	45%	45%	45%
Weißtrans Logistik GmbH	Bubesheim, Germany	50%	50%	50%	50%
SRP Saarländische Rohprodukte GmbH	**Homburg, Germany**	**50%**	**–**	**–**	**–**
KRP Karlsruher Rohprodukte GmbH, Karlsruhe	Karlsruhe, Germany	50%	–	–	–

NAME OF JOINT VENTURE	PLACE OF OPERATION AND INCORPORATION	ATTRIBUTABLE EQUITY INTEREST AND VOTING POWER HELD BY SCHOLZ GROUP 31 December 2013	2014	2015	30 June 2016
		%	%	%	%
Liberty Iron & Metal Holdings, LLC	**Phoenix/Arizona, USA**	**57%**	**57%**	**57%**	**57%**
Liberty Iron & Metal, LLC	Erie/Pennsylvania, USA	57%	57%	57%	57%
Liberty Acquisitions Buckeye LLC	Phoenix/Arizona, USA	57%	57%	57%	57%
Liberty Iron & Metal International Inc.	Phoenix/Arizona, USA	57%	57%	57%	57%
Diamond Hurwitz Scrap LLC	Buffalo/New York, USA	57%	57%	57%	57%
Premier Metals Group LLC	Rochester/New York, USA	57%	57%	57%	57%
LNM Holdings, LLC[5]	Dover/Phoenix, USA	46%	46%	46%	57%
Niles Iron & Metal Company, LLC[5]	Niles/Ohio, USA	46%	46%	46%	57%
Mercer Co.[5]	Sharon/Pennsylvania, USA	46%	46%	46%	57%
Interstate Shredding LLC[5]	Girard/Ohio, USA	46%	46%	46%	57%
Interstate Alloys, LLC[5]	Niles/Ohio, USA	23%	23%	23%	29%
Kalischatarra Iron & Metal, LLC[5]	El Paso/Texas, USA	29%	29%	29%	29%
Kalischatarra Iron & Metal NM, LLC[5]	Santa Teresa/New Mexico, USA	29%	29%	29%	29%
LNM International Inc.[5]	Phoenix/Arizona, USA	46%	46%	46%	57%
Kalischatarra, S. de R.L.[5]	Chihuahua, Mexico	29%	29%	29%	29%
Liberty Southwest Holdings, LLC[3]	Phoenix/Arizona, USA	29%	40%	40%	40%
Liberty Iron & Metal Southwest, LLC[3]	Phoenix/Arizona, USA	29%	40%	40%	40%
We Buy scrap Liberty, LLC[3]	Phoenix/Arizona, USA	29%	40%	40%	40%
LSW Shredder, LLC[3]	Casa Grande/Arizona, USA	29%	40%	40%	40%
LSW International Inc.[3]	Phoenix/Arizona, USA	29%	40%	40%	40%
Southwest Metals, LLC[3]	Glendale/Arizona, USA	29%	–	–	–
Rematholding Co. s.r.l.	**Bucarest, Romania**	**50%**	**50%**	**50%**	**50%**
Remat Vrancea S.A.	Focsani, Romania	49%	49%	49%	49%
Remat Bucuresti Sud S.A.	Bucarest, Romania	47%	47%	47%	47%
Remat Dambovita S.A.	Dambovita, Romania	47%	47%	47%	47%
Almex Sp. z.o.o.	**Szczecin, Poland**	**50%**	**–**	**–**	**–**
Almex Recykling Sp. z o.o.	Gorzow Wielkopolski, Poland	50%	–	–	–

NAME OF JOINT VENTURE	PLACE OF OPERATION AND INCORPORATION	ATTRIBUTABLE EQUITY INTEREST AND VOTING POWER HELD BY SCHOLZ GROUP 31 December 2013	2014	2015	30 June 2016
		%	%	%	%
C.I.O.S. d.o.o.	**Zagreb, Croatia**	**51%**	**51%**	**51%**	**51%**
CE-ZA-R Centar za reciklazu d.o.o.	Zagreb, Croatia	51%	51%	51%	51%
Metis d.d.	Kukuljanovo, Croatia	27%	27%	27%	27%
Fratea d.o.o.	Zagreb, Croatia	26%	26%	26%	26%
DINOS d.d.[1]	Ljubljana, Slovenia	–	41%	41%	41%
Euro Trend d.o.o.	Ljubljana, Slovenia	–	51%	51%	51%
CIBOS d.o.o.	Sarajevo, Bosnia-Herzegovina	41%	41%	41%	41%
Centar za Reciklazu d.o.o.[2]	Belgrad, Serbia	40%	44%	44%	44%
METALIK-Co. d.o.o.[2]	Sabac, Serbia	32%	35%	44%	44%
Otpad d.o.o.[2]	Subotica, Serbia	31%	34%	34%	34%
Eco-Recycling d.o.o.[2, 5]	Novi Sad, Serbia	20%	22%	–	–
Centar za Reciklazu d.o.o.[2]	Niksic, Montenegro	40%	44%	44%	44%
DINOS d.d.[1]	**Ljubljana, Slovenia**	**–**	**20%**	**20%**	**20%**
Centar za Reciklazu d.o.o.[2]	**Belgrad, Serbia**	**12%**	**15%**	**15%**	**15%**
METALIK-Co. d.o.o.[2]	Sabac, Serbia	10%	12%	15%	15%
Otpad d.o.o.[2]	Subotica, Serbia	9%	12%	12%	12%
Eco-Recycling d.o.o.[2]	Novi Sad, Serbia	6%	8%	–	–
Centar za Reciklazu d.o.o.[2]	Niksic, Montenegro	12%	15%	15%	15%
Scholz Austria GmbH	**Vienna, Austria**	**63%**	**63%**	**63%**	**63%**
Scholz Rohstoffhandel GmbH	Vienna, Austria	63%	63%	63%	63%
Eisenhandel Gebeshuber GmbH	Steyr, Austria	63%	63%	63%	63%
Srot Gebeshuber s.r.o.	Sokolnice, Czech Republic	63%	63%	63%	63%
Schrott-Waltner Eisen, Metalle, Maschinen GmbH	Graz, Austria	63%	63%	63%	63%
Eisen Rath GmbH	Linz, Austria	63%	63%	63%	63%
metalimmo s.r.o.	Sokolnice, Czech Republic	–	63%	63%	63%
Fritz Kuttin Gesellschaft mbH	Knittelfeld, Austria	63%	63%	63%	63%
Kuttin Recycling GmbH	Knittelfeld, Austria	63%	63%	63%	–
Kuttin Metall GmbH	Klagenfurt, Austria	63%	63%	63%	63%
A. Haas – Schrott und Metalle GmbH[5]	Wals, Austria	32%	16%	16%	16%
Kovosrot Group CZ, a.s.[4]	Prague, Czech Republic	32%	63%	63%	–
NOVOSCHROTT, spol. s.r.o.[4]	Chodov, Czech Republic	32%	63%	63%	–
KD Metall s.r.o.[4]	Jaromer, Czech Republic	32%	63%	63%	–
Sberne suroviny, a.s.[4]	Ceske Budejovice, Czech Republic	25%	50%	50%	–

NAME OF JOINT VENTURE	PLACE OF OPERATION AND INCORPORATION	ATTRIBUTABLE EQUITY INTEREST AND VOTING POWER HELD BY SCHOLZ GROUP 31 December 2013	2014	2015	30 June 2016
		%	%	%	%
Kovosrot Group CZ, a.s.[4]	**Prague, Czech Republic**	**50%**	**–**	**–**	**–**
NOVOSCHROTT, spol. s.r.o.[4]	Chodov, Czech Republic	50%	–	–	–
KD Metall s.r.o.[4]	Jaromer, Czech Republic	50%	–	–	–
Sberne suroviny, a.s.[4]	Ceske Budejovice, Czech Republic	40%	–	–	–

1 Scholz controlled DINOS d.d. in 2013, since 2014 DINOS d.d. is a joint venture of Scholz and C.I.O.S. d.o.o.

2 Centar za Reciklazu d.o.o (Belgrad) and its subsidiaries METALIK-Co. d.o.o., Otpad d.o.o., Eco-Recycling d.o.o. and Centar za Reciklazu d.o.o. (Niksic) are jointly controlled by Scholz and C.I.O.S. d.o.o.

3 Liberty Southwest Holdings, LLC and the subsidiares are jointly controlled by Liberty Iron & Metal Holdings, LLC.

4 Kovosrot Group CT, s.s. and the subsidiares were jointly controlled by Scholz and Scholz Austria GmbH until 2013. In 2014 and 2015 the subgroup was controlled by Scholz Austria. In 2016 the subgroup was transferred to Scholz.

5 The entity is a joint venture of the joint venture itself.

Summarised financial information of the material joint ventures, based on their IFRSs financial statements and reconciliation with the carrying amount of the investment in the Financial Information are set out below.

Summarised statements of financial position of C.I.O.S. d.o.o.:

	31 December 2013	2014	2015	30 June 2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Non-current assets	77,375	92,782	94,624	96,205
Current assets	75,524	70,669	58,007	54,799
thereof bank balances and cash	729	1,201	1,441	1,049
Non-current liabilities	(21,714)	(26,801)	(33,355)	(32,400)
thereof non-current financial liabilities	(17,862)	(25,561)	(28,088)	(25,973)
Current liabilities	(34,655)	(30,673)	(21,536)	(29,005)
thereof current financial liabilities	(10,544)	(5,229)	(781)	(1,938)
Equity	96,530	105,977	97,740	89,599
thereof non-controlling interest	7,845	7,358	7,199	6,839
Share in equity (51.43%)	45,611	50,720	46,565	42,563
Impairment	–	(20,315)	(18,066)	(18,066)
Group's carrying amount of the investment	45,611	30,405	28,499	24,497

Summarised statements of profit or loss of C.I.O.S. d.o.o.:

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Revenue	149,792	125,176	97,322	88,969	36,907
Depreciation and Amortisation	(6,451)	(6,092)	(5,007)	(2,440)	(3,704)
Finance costs	(4,750)	(2,267)	(3,322)	(942)	(5,809)
Income tax expenses	(1,561)	(268)	(1,423)	(436)	(97)
Profit (Loss) for the year/period(continuing operations)	3,169	(9,815)	(4,214)	1,585	(5,657)
Other comprehensive income (expense) for the year/period (continuing operations)	–	–	–	–	–
Total comprehensive income (expense) for the year/period (continuing operations)	3,169	(9,815)	(4,214)	1,585	(5,657)

The joint venture partner holds an option to purchase an interest of 1.43% for a fixed amount. The option is measured at fair value at each reporting date.

The Scholz Group did not receive dividend payments from C.I.O.S. d.o.o. during the respective periods presented.

Summarised statements of financial position of Scholz Austria GmbH:

	31 December			30 June
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Non-current assets	61,000	71,760	66,451	32,711
Current assets	67,136	86,180	63,502	58,968
thereof bank balances and cash	15,271	23,295	22,909	22,118
Non-current liabilities	(9,410)	(4,034)	(8,700)	(83)
thereof non-current financial liabilities	–	(308)	(3,199)	–
Current liabilities	(64,760)	(82,718)	(61,052)	(77,171)
thereof current financial liabilities	(14,106)	(31,410)	(23,969)	(28,437)
Equity	53,966	71,188	60,201	14,425
thereof non-controlling interest	–	532	522	–
Share in equity (63.35%)	34,187	44,761	37,807	9,138
Group's carrying amount of the investment	34,187	44,761	37,807	9,138

Summarised statements of profit or loss of Scholz Austria GmbH:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Revenue	352,487	428,694	340,547	198,038	108,543
Depreciation and Amortisation	(6,105)	(4,993)	(6,105)	(2,731)	(1,483)
Finance costs	(1,295)	(6,384)	(1,767)	(373)	(7,707)
Income tax expenses	(1,297)	(1,149)	315	(967)	(562)
Profit (Loss) for the year/period (continuing operations)	4,271	10,484	(3,751)	3,113	(5,256)
Other comprehensive income (expense) for the year/period (continuing operations)	–	–	–	–	–
Total comprehensive income (expense) for the year/period (continuing operations)	4,271	10,484	(3,751)	3,113	(5,256)

The Scholz Group received dividend payments of EUR 3,801k in the year ended 31 December 2015 (31 December 2014: EUR 0; 31 December 2013: EUR 1,901k) from Scholz Austria GmbH. In 2016 Scholz Austria GmbH distributed the shares in Kovosrot Group CZ to Scholz Group.

Summarised statements of financial position of Liberty Iron & Metal Holdings, LLC:

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Non-current assets	75,892	87,590	76,612	67,237
Current assets	27,748	23,880	12,814	14,528
thereof bank balances and cash	1,026	2,138	2,507	4,246
Non-current liabilities	(49,054)	(53,929)	(18,097)	(14,572)
thereof non-current financial liabilities	(38,935)	(45,177)	(3,887)	–
Current liabilities	(12,424)	(14,773)	(37,436)	(26,367)
thereof current financial liabilities	–	–	(24,569)	(71)
Equity	42,162	42,768	33,893	40,826
thereof non-controlling interest	–	–	–	–
Share in equity (57%)	24,032	24,378	19,319	23,271
Group's carrying amount of the investment	24,032	24,378	19,319	23,271

Summarised statements of profit or loss of Liberty Iron & Metal Holdings, LLC:

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Revenue	74,003	95,611	102,899	60,539	39,262
Depreciation and Amortisation	(2,034)	(3,356)	(5,292)	(2,486)	(2,167)
Finance costs	(1,750)	(1,324)	(1,607)	(739)	(929)
Income tax expenses	–	–	1,084	–	–
Profit (Loss) for the year/period (continuing operations)	2,667	468	(6,002)	(7,108)	(346)
Other comprehensive income (expense) for the year/period (continuing operations)	–	–	–	–	–
Total comprehensive income (expense) for the year/period (continuing operations)	2,667	468	(6,002)	(7,108)	(346)

The Scholz Group received dividend payments of EUR 0 (31 December 2014: EUR 2,391k; 31 December 2013: EUR 1,501k) from Liberty Iron & Metal Holdings, LLC.

Summarised statements of financial position Kovosrot Group CZ:

	31 December 2013
	EUR'000
Non-current assets	29,016
Current assets	24,898
thereof bank balances and cash	582
Non-current liabilities	–
thereof non-current financial liabilities	–
Current liabilities	(23,372)
thereof current financial liabilities	(14,106)
Equity	30,542
thereof non-controlling interest	569
Share in equity (50%)	14,987
Impairment on at-equity interest	(14,987)
Group's carrying amount of the investment	–

The difference between Scholz Groups' share in Kovosrot Group CZ and the carrying amount relates to impairments amounting to EUR 14,987k.

Summarised profit or loss of Kovosrot Group CZ:

	Year ended 31 December 2013
	EUR'000
Revenue	121,361
Depreciation and Amortisation	(1,599)
Finance costs	(469)
Income tax expenses	(49)
Profit (Loss) for the year	47
Other comprehensive income (expense) for the year/period (continuing operations)	–
Total comprehensive income (expense) for the year/period (continuing operations)	47

The Scholz Group did not receive dividend payments from Kovosrot Group CZ during the respective period.

In 2014 Kovosrot Group CZ was sold to Scholz Austria GmbH and is therefore included in the summarized financial information of Scholz Austria GmbH in the years 2014 and 2015. Due to the transfer of the shares in Kovosrot Group CZ back to Scholz Group in 2016 via a non-cash distribution, Kovosrot Group CZ is no longer included in the summarized financial information for material joint ventures in the six month period ended 30 June 2016. Refer to note 7 for further information.

For the above disclosed material joint ventures no contingent liabilities or capital commitments as of 31 December 2013, 2014, 2015 and 30 June 2016 are existent. The joint ventures cannot distribute its profits without the consent from the joint venture partners.

Summarised financial information of the joint ventures that are not individually material, based on their IFRS financial statements are set out below.

		31 December		**30 June**
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Non-current assets	99,103	72,047	74,534	73,555
Current assets	101,257	71,150	66,660	76,850
thereof bank balances and cash	6,907	6,792	7,213	6,301
Non-current liabilities	(13,826)	(9,999)	(15,496)	(15,294)
thereof non-current financial liabilities	(4,781)	(2,716)	(2,868)	(2,805)
Current liabilities	(121,256)	(77,125)	(70,035)	(78,754)
thereof current financial liabilities	(33,077)	(21,883)	(19,944)	(21,054)
Equity	65,278	56,073	55,663	56,357

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Revenue	558,855	471,027	369,372	170,390	171,874
Depreciation and Amortisation	(7,826)	(7,898)	(7,826)	(3,389)	(3,178)
Finance costs	(7,987)	(4,502)	(2,077)	(817)	(954)
Income tax expenses	(3,901)	(2,720)	(996)	(1,058)	(1,226)
Profit (Loss) for the year/period (continuing operations)	(3,808)	6,644	(1,077)	1,115	4,970
Other comprehensive income (expense) for the year/period (continuing operations)	–	–	–	–	–
Total comprehensive income (expense) for the year/period (continuing operations)	(3,808)	6,644	(1,077)	1,115	4,970

21. OTHER NON-CURRENT ASSETS

The following table presents the breakdown of other non-current assets:

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Equity investments accounted for at cost	34,671	6,547	4,234	3,603
Other Non-current Financial Assets	2,240	1,052	434	434
Total Non-current Financial Assets	36,911	7,599	4,668	4,037
Claims on reinsurance from life policies	332	338	145	195
TOTAL	37,243	7,937	4,813	4,232

22. INCOME TAXES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset as following:

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Offsetting deferred tax assets against deferred tax liabilities	19,366	16,199	17,246	8,259

As of 30 June 2016, 31 December 2015, 2014 and 2013 deferred tax related to the following:

The temporary differences associated with investments in Scholz Group's joint ventures as of 30 June 2016, for which a deferred tax liability has not been recognised, amount to EUR 0 (31 December 2015: EUR 0; 31 December 2014: EUR 0; 31 December 2013: EUR 29,382k). Scholz Group has determined that the undistributed profits of its joint ventures will not be distributed in the foreseeable future. Furthermore, Scholz Group's joint venture will not distribute its profits until it obtains the consent of all joint venture partners.

Overview of deferred taxes:

	Consolidated statement of financial position				Consolidated statement of profit or loss				
	31 December			30 June	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2016	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Derivative financial liabilities	10,972	10,392	936	610	(7,567)	(580)	(9,456)	(1,932)	(326)
Trade and other payables	4,874	4,415	7,301	5,115	767	(459)	2,886	590	(2,186)
Provisions	1,970	1,957	2,166	2,192	(83)	(13)	209	43	(89)
Employee benefits	283	497	363	477	(8)	(27)	46	9	85
Other financial and non-financial liabilities	(982)	(2,625)	(2,392)	84	(1,221)	(1,643)	233	47	2,476
Other financial and non-financial assets	513	(856)	533	(113)	743	(1,369)	1,389	284	(646)
Investments in joint ventures and associates	(946)	(905)	(1,058)	(1,111)	(618)	41	(153)	(31)	(53)
Trade, bills and other receivables	(2,509)	(1,907)	(821)	(490)	(501)	602	1,086	222	331
Derivative financial assets	(2,035)	(1,217)	(427)	(69)	247	818	790	161	358
Property, plant and equipment	(19,290)	(16,641)	(13,695)	(15,199)	440	(25)	2,800	572	(2,439)
Losses available for offsetting against future taxable income	25,440	27,936	846	4,718	8,900	2,496	(27,090)	(5,534)	3,871
TOTAL	18,290	21,046	(6,248)	(3,786)	1,099	(159)	(27,260)	(5,569)	1,382

Temporary differences associated with employee benefits gave rise to tax income (expense) recognised in other comprehensive income amounting to EUR 29k in the six month period ended 30 June 2016 (2015: EUR (180k); 2014: EUR 241k; 2013: EUR (34k)).

23. INVENTORIES

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Raw materials	15,786	8,534	5,398	8,396
Work-in-progress	7,704	3,005	1,533	2,178
Finished goods	31,885	10,871	8,758	4,581
Merchandise	153,902	53,954	24,535	15,532
Advance payments on inventories	13,667	18,766	13,977	18,664
TOTAL	222,944	95,130	54,201	49,351

Management assesses whether the carrying value of inventories exceed their net realisable value at the end of the 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 the reporting period.

Items classified as merchandise are items of inventory which are traded and not going through any kind of production process. The significant decrease as of 31 December 2014 compared to 31 December 2013 is primarily related to lower trading volumes, lower purchase price levels, optimisations of trade working capital and the sale of certain businesses.

24. TRADE, BILLS AND OTHER RECEIVABLES

The following table presents the breakdown of trade, bills and other receivables:

	31 December			30 June
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Trade receivables	389,865	271,250	127,417	179,691
Bills	–	–	–	–
Other financial assets	108,897	106,442	27,168	41,196
Other non-financial assets	31,172	27,734	24,751	17,395
TOTAL	529,934	405,426	179,336	238,282

	31 December			30 June
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Trade receivables due within 180 days	389,865	271,250	127,417	179,691
Trade receivables due in more than 180 days	–	–	–	–
TOTAL	389,865	271,250	127,417	179,691

Other financial assets mainly consist of short term loan receivables against third parties, affiliated companies of the group and equity investments as well as bad debt of these loan receivables.

For terms and conditions relating to related party receivables, refer to Note 35. Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The following table breaks down the overdue trade receivables, which are not impaired:

	31 December			30 June
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Trade receivables				
0-40 days	1,322	232	177	–
41-50 days	522	616	917	432
51-60 days	741	583	88	28
Over 60 days	9,790	5,133	48	142
TOTAL	12,375	6,564	1,230	602

The aging analysis of Scholz Group's trade receivables at the end of the reporting period was prepared based on the invoice date which approximates to the date of revenue recognition.

Before accepting any new customer, Scholz Group assesses the potential customer's credit quality and defines its credit limit. Credit limits to customers are reviewed regularly.

Analysis of doubtful debts:

As of 31 December 2013 Scholz Group's current asset accounts (specific allowance of trade receivables as well as of receivables against subsidiaries and affiliated companies) depict write downs in amount of EUR 139.3 million. A major part thereof refers to a write down of loan receivables granted by Scholz Edelstahl GmbH in amount of EUR 32.6 million. This is driven by a write down of a receivable against an external party. The remaining predominantly refers to write downs made by Scholz Holding GmbH, which primarily refers to loans granted to affiliated companies (amounting to EUR 40.7 million), receivables against external parties in amount of EUR 30.4 million and other receivables against affiliated companies (amounting to EUR 16.3 million). The aforementioned write downs have been accumulated throughout the previous years, however, predominantly driven by 2013 due to the deterioration of the recycling business and scrap market. As most of Scholz Group's investments and customers either directly or indirectly depend on the scrap market, related write downs have been deemed as being appropriate by management.

As of 31 December 2014 Scholz Group's write downs have been increased slightly by EUR 6.0 million, mainly driven by write downs of Scholz Recycling GmbH & Co. KG.

A more significant increase has taken place from December 2014 to December 2015, i.e. write down of non-current assets (specific allowance of loans granted to affiliated companies) which increased from EUR 145.3 million to EUR 161.8 million. This is again predominantly driven by Scholz Recycling GmbH & Co. KG, of which related balances increased by EUR 12.2 million. The increase is mainly caused by an increase of write downs for trade receivables against external parties in the amount of EUR 7.1 million and by an increase of allowance for trade receivables against associated companies in the amount of EUR 6.2 million. The further increase of the trade receivable balances is mainly driven by the further deterioration of the recycling and metal scrap market (predominantly driven by unfavourable development of the metal scrap price).

Compared to 31 December 2015, as of 30 June 2016 Scholz Group's write downs have been further increased by EUR 4.4 million, mainly driven by write downs of SHG. These write downs are predominantly driven by an increase in write downs of loans granted to affiliated companies.

25. DERIVATIVE FINANCIAL INSTRUMENTS

		31 December		**30 June**
	2013	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Derivative Financial Assets				
Metal commodities future contracts current	3,961	2,163	615	111
Interest rate swap current	–	2	385	–
Interest rate swap non-current	2,427	1,538	–	–
Foreign currency forward contracts current	395	353	423	119
TOTAL	6,783	4,056	1,423	230
TOTAL CURRENT	4,356	2,518	1,423	230
TOTAL NON-CURRENT	2,427	1,538	–	–

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Derivative Financial Liabilities				
Metal commodities future contracts current	4,931	2,607	229	659
Interest rate swap current	1,167	629	462	202
Interest rate swap non-current	31,113	30,269	7,860	7,162
Foreign currency forward contracts current	1,009	2,989	675	136
TOTAL	38,220	36,494	9,226	8,159
TOTAL CURRENT	7,107	6,225	1,366	997
TOTAL NON-CURRENT	31,113	30,269	7,860	7,162

26. BANK BALANCES AND CASH

The item bank balances and cash in the statement of financial position includes only current funds.

27. SHARE CAPITAL AND RESERVES

	Number of shares	Amount
	'000	*EUR'000*
Authorised shares at 31 December 2013, 2014, 2015 and 30 June 2016	50,000	50,000
Issued and fully paid shares at 31 December 2013, 2014, 2015 and 30 June 2016	50,000	50,000

The reserves included in the line item "Reserves" primarily include retained earnings of the remeasurement of pension plans as well as of the translation of foreign operations to the presentation currency.

28. BOND AND BANK BORROWINGS

The following tables present an overview of the bond and bank borrowings including the ranges of interest rates as well the distinction between the borrowings with fixed and variable interest rates:

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Fixed-rate borrowings:	67,622	44,498	15,120	158,956
Variable-rate borrowings:	701,319	536,666	566,652	467,552
TOTAL	768,941	581,164	581,772	626,508
Unsecured bond 8.5%	181,248	181,658	182,045	182,361

	31 December			30 June
	2013	2014	2015	2016
	EUR	*EUR*	*EUR*	*EUR*
Fixed-rate borrowings:	3.60%-6.50%	2%-10%	2.50%-8.50%	2.50%-8.50%
Variable-rate	1M-EURIBOR + 3.90%	3M-EURIBOR + 2.75%	3M-EURIBOR + 3%	3M-EURIBOR + 3%
borrowings:	3M-EURIBOR + 10%	3M-EURIBOR + 7%	3M-EURIBOR + 7%	3M-EURIBOR + 7%

Pledged bank deposits and receivables

Scholz Group pledged financial securities in form of cash, receivables and loans as collateral for its liabilities. The carrying amount of those financial assets is EUR 108,263k at 30 June 2016, EUR 66,829k at 31 December 2015, EUR 134,696k at 31 December 2014 and EUR 247,281k at 31 December 2013.

Defaults and breaches

31 December 2013:

In the first quarter of 2013 Scholz Group had a covenant breach of its main financing instruments with banks (SynLoan, Real Estate Loan and Promissory Notes) resulting in a default. As a result, Scholz Group has issued a waiver request in June 2013, which was accepted by the banks and which was agreed upon covering an amount of EUR 700,186k.

Additionally a waiver request was addressed to the SynLoan lenders in July 2013 whereby the insolvency proceeds of CMA Corporation Limited, Sydney (amounting to EUR 498,676k as of 31 December 2013) do not affect the SynLoan provided at the level of Scholz Holding GmbH.

Based on these developments, in September 2013 three standstill agreements with Scholz Group were reached.

First, a standstill agreement for the main financing instruments with banks (SynLoan, Real Estate Loan, Promissory Notes) and Nord LB Factoring covering in total a value of EUR 714,186k as of 31 December 2013 was contracted for a period until 24 June 2014 (entry of TTC). This Standstill Agreement included (i) a covenant holiday for the period of standstill, (ii) the definition of restructuring disposals and holding accounts for mandatory prepayments, (iii) the suspension of repayment schedule, (iv) the definition of standstill fees, work fees and consent fees, (v) the definition of standstill coordinator and (vi) the implementation of a trustee for the company shares.

Subsequently, a standstill agreement for the Borrowing Base Facility (i.e. a credit line depending on a specific level of working capital) covering a value of EUR 17,198k as of 31 December 2013 was reached for a period until 24 June 2014 (entry of TTC). The standstill agreement for Borrowing Base Facility contained the definition of the restructuring disposals and holding accounts for mandatory prepayments as well as the definition of standstill fees, work fees and consent fees.

Furthermore, a Standstill Agreement was made with Postbank covering EUR 10,000k until 24 June 2014.

31 December 2014:

In 2014 the Standstill Agreement for its main financing instruments with banks (SynLoan, Real Estate Loan, Promissory Notes) and Nord LB Factoring and the standstill agreement with Postbank from September 2013 were closed in a common agreement in the process of refinancing and investor entry of Toyota Tsusho Corporation ("TTC"). Beforehand a new waiver request for SynLoan in the context of the entry of the investor (TTC) was made covering EUR 479,286k as of 31 December 2014.

Additionally, several waiver requests in the total amount of EUR 479,286k were made concerning SynLoan for transactions, for which a prior consent of the bank is required.

31 December 2015:

Due to the change of the headquarters from Essingen to London (centre of main interests shift) several waiver requests for the main financing instruments with banks (SynLoan, Promissory Notes, Real Estate Loan) PartnerFonds and Postbank were made in December 2015 covering the total amount of EUR 592,350k.

Additionally, several waiver requests concerning the SynLoan amounting to EUR 491,410k as of 31 December 2015 were made for transactions, for which a prior consent of the bank is required.

29. PROVISIONS

		Other current provisions	Non-current provisions
		EUR'000	*EUR'000*
1 January 2013		1,961	7,369
	Usage	(461)	–
	Additions	3,823	59
31 December 2013 and 1 January 2014		5,323	7,428
	Additions	–	67
	Reversal	(1,136)	–
31 December 2014 and 1 January 2015		4,187	7,495
	Usage	(1,844)	–
	Additions	7,575	73
	Reversal	(716)	–
31 December 2015 and 1 January 2016		9,202	7,568
	Usage	(193)	–
	Additions	18	–
	Reversal	(1,265)	(1)
30 June 2016		7,762	7,567

Current provisions have primarily been accounted for litigations and non-current provisions have primarily been accounted for contaminated sites.

30. EMPLOYEE BENEFITS

Scholz Group has four defined benefit pension plans in Germany, thereof one defined benefit plan is partially funded.

The calculations are based on the following actuarial assumptions and using the projected unit credit method on the basis of the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. Under the defined benefit plans, the directors and employees receive life-long pension payments once they have reached a certain age or suffered disability. In addition, surviving dependents also receive benefits. The benefit is determined by the length of service with the company and the employee's salary or guaranteed payment.

		31 December		30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Actuarial assumptions				
Discount rate	2.75%	1.25%	1.50%	0.75%
Salary increase	3.00%	3.00%	3.00%	3.00%
Pension increase	1.00%-2.00%	1.00%-2.00%	1.00%-2.00%	1.00%-2.00%

The amount of Scholz Group's liability as reported on the statement of financial position is derived as follows.

		31 December		30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Defined benefit liability	3,559	4,345	3,708	3,791
Fair value of plan assets	(369)	(420)	(472)	(569)
Provision for employee benefits	3,190	3,925	3,236	3,222

The following table summarises components of net benefit expense recognised in the consolidated statement of profit or loss for the benefit pension plans:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* (unaudited)	*EUR'000*
Current service cost	52	50	65	34	31
Interest expense	91	96	53	27	27
Interest income	(9)	(11)	(6)	(3)	(4)
Net Benefit Expense	134	135	112	58	54

The changes in the present value of the defined benefit liability are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
At 1 January	3,692	3,559	4,345	4,345	3,708
Service cost	52	50	65	34	31
Interest cost	91	96	53	27	27
Actuarial gains and (losses)	(122)	795	(603)	(651)	94
Benefits paid by Scholz Group	(118)	(119)	(116)	(58)	(51)
Benefits paid by fund	(36)	(36)	(36)	(18)	(18)
At 30 June or 31 December	3,559	4,345	3,708	3,679	3,791
Thereof partially funded	2,919	3,411	2,783	2,779	2,678
Thereof unfunded	640	934	925	900	1,113

The full amount of actuarial gains and losses during the periods shown below are reported in other comprehensive income. Actuarial gains and losses arise from the following effects:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Effects from changes in discount rates	(57)	785	(131)	(156)	215
Effects from changes in demographic assumptions	–	–	–	–	–
Effects from other experienced based adjustments	(65)	10	(472)	(495)	(121)
Gains and losses from remeasurement of plan assets	9	9	2	6	2
Actuarial (gains) and losses	(113)	804	(601)	(645)	96

In the year ended 31 December 2014, actuarial losses from the defined benefit obligation ("DBO") amounting to EUR 795k have arisen mainly from the decrease in the discount rate on which the actuarial calculation is based. The discount rate as of the year ended 31 December 2014 is 1.5 percentage points lower than the discount rate as of the year ended 31 December 2013.

The effects from other experience based adjustments in the year ended 31 December 2014 and the six months ended 30 June 2015 result from the cessation of a pension entitlement upon reaching the retirement age.

The table below shows the changes to the plan assets over the course of the financial periods:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
At 1 January	320	369	420	420	472
Interest income	9	11	6	3	4
Return on plan assets	(8)	(9)	(2)	(6)	(2)
Employer contributions	48	49	48	7	95
At 30 June or 31 December	369	420	472	424	569

The plan assets relate to the cash surrender value of employer's pension liability insurance. The fair value is determined as the unearned premium reserve plus any credit balance.

Sensitivity analysis of the defined benefit liability

Changes in the discount rate, pension increase rate, and the life expectancy affect the consolidated statement of profit or loss and the pension liability. The sensitivities to changes in assumptions as shown below are determined by changing one assumption as indicated and keeping all other assumptions constant. In reality, multiple assumptions may change at the same time, and the change of one parameter may result in a change of another parameter.

	31 December			30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Defined benefit liability	3,559	4,345	3,708	3,679	3,791
Discount rate					
increase by 0.5%	3,795	4,037	3,471	3,418	3,548
decrease by 0.5%	4,268	4,648	3,973	3,934	4,062
Pension increase rate					
increase by 0.25%	4,136	4,457	3,815	3,773	3,901
decrease by 0.25%	3,349	4,200	3,606	3,556	3,686
Life expectancy					
increase by 1year	4,226	4,551	3,905	3,853	3,993

The following table shows the expected benefits paid directly by Scholz Group or from the plan assets in the next ten years.

	31 December		
	2013	2014	2015
	EUR'000	*EUR'000*	*EUR'000*
Expected payments in following year (+)	145	108	98
Expected payments in current year + 2 (+)	164	109	98
Expected payments in current year + 3 (+)	165	108	97
Expected payments in current year + 4 (+)	164	107	96
Expected payments in current year + 5 (+)	162	76	107
Expected payments in current years + 6 through + 10 (in aggregate) (+)	2,927	1,649	1,400

The following table shows the pension obligations divided in different member groups.

	31 December			30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Active members	1,115	1,592	1,441	1,393	1,716
Deferred vested members	425	531	100	98	114
Pensioners	2,019	2,222	2,167	2,188	1,961
TOTAL DEFINED BENEFIT LIABILITY	3,559	4,345	3,708	3,679	3,791

31. OTHER NON-CURRENT LIABILITIES

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Non-current financial liabilities	1,580	9,411	6,940	7,076
Liabilities to shareholders	1,397	60,173	60,129	124
Other non-current finance lease obligation	33,963	24,707	21,665	10,883
Total non-current financial liabilities	**36,940**	**94,291**	**88,734**	**18,083**
Special reserve for investment subsidies	5	(92)	(93)	(92)
Other non-current liabilities	2,468	2,865	2,445	2,920
Total non-current non-financial liabilities	**2,473**	**2,773**	**2,352**	**2,828**
TOTAL	39,413	97,064	91,086	20,911

As of the year ended 31 December 2015 and 31 December 2014, liabilities to shareholders mainly relate to an interest bearing loan from a former shareholder amounting to EUR 60,000k granted in June 2014. The interest rate amounts to 5.0% per annum. As of the year ended 30 June 2016, the loan was reclassified to current financial liabilities due to the restructuring of Scholz Group as disclosed in Note 42, Going Concern.

32. TRADE AND OTHER PAYABLES

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Trade payables	230,242	118,007	65,002	89,096
Other financial liabilities	293,874	252,940	168,344	243,275
Other current finance lease obligation	8,963	9,255	23,279	17,987
Non-financial liabilities	50,216	47,411	24,250	23,467
TOTAL	583,295	427,613	280,875	373,825

As of the six months period ended 30 June 2016 an interest bearing loan to a former shareholder amounting to EUR 60,000k was reclassified from other non-current financial liabilities to current financial liabilities due to the restructuring of Scholz Group as disclosed in Note 42, Going Concern. The market interest rate amounts to 5% per annum.

		31 December		30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Trade payables due within 180 days	230,242	118,007	65,002	89,096
Trade payables due in more than 180 days	–	–	–	–
TOTAL	230,242	118,007	65,002	89,096

33. GOVERNMENT GRANTS

		31 December		30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
At 1 January	1,266	590	96	96
Received during the year	–	–	–	–
Released to the statement of profit or loss	(676)	(494)	–	(2)
At 30 June or 31 December	590	96	96	94
Current	494	96	96	94
Non-current	96	–	–	–
TOTAL	590	96	96	94

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

34. PLEDGE OF ASSETS

At the end of the reporting period, Scholz Group has pledged the following assets to banks to secure general banking facilities granted to Scholz Group:

		31 December		30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Property, plant and equipment	66,197	42,478	43,928	57,214
Inventories	90,742	65,622	38,412	33,728
Pledge on receivables and cash	247,281	134,696	66,829	108,263
TOTAL	404,220	242,796	149,169	199,205

35. RELATED PARTY DISCLOSURES

Note 44 provides the information about Scholz Group's structure including Scholz Group companies' names. As of 30 June 2016 the ultimate shareholders of Scholz Holding GmbH are Oliver Scholz, holding 59.9% of the shares, Berndt-Ulrich Scholz holding 16.1% of the shares and Scholz Beteiligungsgesellschaft mbH holding 24%, which were transferred by Oliver Scholz and Berndt-Ulrich Scholz by means of a fiduciary agreement to secure the interests of certain creditors of Scholz Group, to implement the restructuring measures in relation to the Scholz Group, to conduct the M&A process and to dispose of the shares to a third party through a structured sales process under the best conditions possible at the time this process is implemented. Furthermore, Oliver Scholz and Berndt-Ulrich Scholz have granted call-options over their shares to trustees, which can be exercised only in specific situations, to secure the interests of the beneficiaries. As such, the call options granted are considered to be protective rights and therefore non-substantive.

Due to the shareholder's agreement of Scholz Holding GmbH, which includes specific majority requirements in taking shareholder resolutions over the relevant activities, the relationships between the shareholders and Scholz Holding GmbH were as follows as of each of the respective reporting dates:

	31 December			30 June
Shareholder	**2013**	**2014**	**2015**	**2016**
Oliver Scholz	Control	Significant influence	Significant influence	Significant influence
Berndt-Ulrich Scholz	Significant influence	Significant influence	Significant influence	Significant influence
Scholz Beteiligungsgesellschaft mbH	–	–	–	Significant influence
Toyota Tsusho Corporation	–	Significant influence	Significant influence	–

Transactions

During the year, Scholz Group has the following transactions with related parties:

Transactions with Oliver Scholz and Berndt-Ulrich Scholz

	Year ended 31 December			Six months ended 30 June	
Nature of transaction	**2013**	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Purchase of goods	–	–	3	2	–
Sale of property and other assets	–	12	–	–	–
Services received	1,793	5,204	8,755	8,318	1
Services rendered	1,417	1,567	4,265	3,537	50
Lease income	–	–	–	–	4
Interest income	197	121	116	58	59
Interest expense	15	–	–	–	–
Loans given	3,038	5,630	116	–	59
Loans repaid or received	9,244	5,498	–	–	–

Transactions with associates

	Year ended 31 December			Six months ended 30 June	
Nature of transaction	**2013**	**2014**	**2015**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Sale of goods	14,317	13,923	5,102	3,753	1,227
Purchase of goods	18,968	16,682	2,797	6,821	3,466
Services received	23	98	6	10	36
Services rendered	186	279	447	55	297
Lease income	–	–	–	–	–
Lease expense	–	–	–	–	–
Interest income	306	655	95	35	98
Interest expense	–	–	–	–	–
Loans given	1,957	1,320	1,995	2,463	1,429
Loans repaid or received	–	–	–	–	–
Expense for doubtful debts	–	–	–	–	–

Transactions with joint ventures

Nature of transaction	Year ended 31 December 2013	2014	2015	Six months ended 30 June 2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Sale of goods	35,048	31,597	27,060	17,749	4,109
Purchase of goods	129,887	69,222	46,672	30,980	14,984
Services received	7,895	901	724	525	–
Services rendered	6,398	1,301	1,891	881	763
Lease income	114	105	38	19	–
Lease expense	3,167	1,235	810	405	390
Interest income	5,182	1,372	1,434	813	694
Interest expense	687	689	18	18	–
Loans given	19,574	6,894	11,238	10,087	7,311
Loans repaid or received	–	–	–	–	443
Expense for doubtful debts	14,352	(450)	9,802	–	5,355

Transactions with other related parties

Nature of transaction	Year ended 31 December 2013	2014	2015	Six months ended 30 June 2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Sale of goods	749	1	30	–	–
Purchase of goods	6,822	1,757	8,277	7	–
Sale of property and other assets	137	–	2,050	2,050	–
Services received	–	840	1,801	–	189
Services rendered	10	1,751	871	342	12
Lease income	–	–	–	–	–
Lease expense	2,043	295	299	150	97
Interest income	2,942	462	–	6	–
Interest expense	1,038	2,589	3,000	–	–
Loans given	8,272	4,218	–	–	–
Loans repaid or received	2,669	171,774	–	–	–
Expense for doubtful debts	98,970	5,559	–	–	–

In the year ended 31 December 2013 expenses for doubtful debts primarily relate to write downs of receivables against CMA Corporation Ltd.

In the year ended 31 December 2014 loans repaid or received predominantly relate to repaid loans which have already been written off.

Balances

Scholz Group has the following balances with related parties at the end of the reporting period:

Balances with Oliver Scholz and Berndt-Ulrich Scholz

Nature of balance	31 December 2013	2014	2015	30 June 2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Loan receivables (net)	3,669	3,801	3,916	3,976
Trade and other receivables (net)	–	–	–	4

Balances with associates

	31 December			30 June
Nature of balance	**2013**	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Loan receivables (net)	15,895	970	790	551
Trade and other receivables (net)	8,813	9,312	3,429	3,191
Trade and other payables	286	2,557	2,774	3,722
Provision for doubtful debts (loans)	1,383	3,996	2,173	2,173
Provision for doubtful debts (trade and other)	1,957	6,699	6,699	6,699

Balances with joint ventures

	31 December			30 June
Nature of balance	**2013**	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Loan receivables (net)	56,905	16,373	16,561	12,884
Trade and other receivables (net)	33,394	30,494	12,191	13,631
Trade and other payables	23,549	15,596	1,593	8,380
Provision for doubtful debts (loans)	35,263	14,801	13,536	13,696
Provision for doubtful debts (trade and other)	13,472	23,144	68,579	71,372

The tables presented above also include transactions and balances with subsidiaries, associates and joint ventures which are not consolidated due to immateriality.

Balances with other related parties

	31 December			30 June
Nature of balance	**2013**	**2014**	**2015**	**2016**
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Loan receivables (net)	2,565	400	–	–
Loan payables	10,000	60,000	60,000	–
Trade and other receivables (net)	6,713	1,994	3,752	3,626
Trade and other payables	2	1,845	4,664	–
Provision for doubtful debts (loans)	8,437	2,076	2,076	2,076
Provision for doubtful debts (trade and other)	675	–	1,505	444

All the above payable amounts are unsecured and interest-bearing in the range of up to 9.5%.

As part of the financing of an Australian entity considered as another related party, Scholz Group issued an unlimited guarantee in 2013 in favour of that entity's creditors. Due to the subsequent settlement of creditor's receivables from Scholz Group in 2014, the guarantee is no longer legally in force.

Compensation of key management personnel

Details of the emoluments paid by Scholz Group to key management of the Company for the periods are as follows:

Type of emolument	Year ended 31 December 2013	2014	2015	Six months ended 30 June 2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Fees	–	–	–	–	1,088
Salaries and allowances	1,794	2,237	1,402	719	246
Performance bonus	125	587	157	95	480
Retirement benefit scheme contributions	46	46	17	9	3
Termination benefits	–	433	–	–	–
TOTAL	1,965	3,303	1,576	823	1,817

Key management's emoluments shown above were mainly for their service in connection with the management of the affairs of the Company and Scholz Group and for their services as directors of the Company respectively.

36. OPERATING LEASES

Scholz Group as lessee

At the end of the reporting period, Scholz Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Year ended 31 December 2013	2014	2015	Six months ended 30 June 2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Within one year	12,703	11,980	5,444	4,353
After one year but not more than five years	37,015	26,516	18,220	11,379
More than five years	7,256	5,958	6,310	5,721
TOTAL	56,974	44,454	29,974	21,453

Operating lease payments represent rentals payable by Scholz Group for certain offices and production premises. Leases are negotiated for terms ranging from one to five years with fixed rentals.

	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Minimum lease payments paid under operating leases during the year/period	14,005	8,425	6,009	5,739
Premises	7,240	7,739	3,372	2,225

37. FINANCE LEASE COMMITMENT

Scholz Group has finance leases and hire purchase contracts for various items of plant and machinery. Scholz Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Within one year	8,963	9,255	23,279	19,279
After one year but not more than five years	37,015	26,516	26,868	22,805
More than five years	–	–	–	–
Total minimum lease payments	45,978	35,771	50,147	42,084
Less amounts representing finance charges	(3,052)	(1,809)	(5,202)	(4,067)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	42,926	33,962	44,945	38,017

In 2014 Scholz Group entered into a sale and finance lease-back transaction resulting in a cash inflow of EUR 11,203k. The difference between the carrying amounts of the assets sold and the cash consideration received was not recognised as a gain, but as a financial liability.

38. OTHER COMMITMENTS AND CONTINGENCIES

Scholz Group is faced with risks from litigations resulting from the general operations of Scholz Group. Scholz Group assesses as to whether the risks from litigations represent a present obligation, i.e. whether it is more likely than not that Scholz Group will be required to settle the obligation. If a provision for risks litigations is not recognised, the risks are disclosed as contingent liabilities unless the probability of an outflow of future economic benefits is remote.

As of 30 June 2016, an amount of EUR 1,207k has to be disclosed as contingent liabilities resulting from litigations.

Scholz Group has contingent liabilities which consist of non-financial guarantees and warranty obligations in favour of non-consolidated subsidiaries and participations. The contingent liabilities amount to EUR 4,145k as of 30 June 2016, EUR 1,432k as of 31 December 2015, EUR 2,657k as of 31 December 2014 and EUR 38,277k as of 31 December 2013.

39. MAJOR NON-CASH TRANSACTION

On 1 June 2016 Scholz Austria GmbH distributed the shares in Kovosrot Group CZ a.s., Prague, Czech Republic to Scholz Austria Holding GmbH, a 100% subsidiary of Scholz Holding GmbH. The fair value of the assets and liabilities distributed via a non-cash distribution amounts to EUR 31,509k. In 2014 and 2015 Kovosrot Group CZ a.s. was an investment of Scholz Austria GmbH, until 2013 Kovosrot Group CZ a.s. was jointly controlled by Scholz and Scholz Austria GmbH. Due to its strategic importance for Scholz Group, management decided to reacquire the investment.

40. SEGMENT INFORMATION

For management purposes, Scholz Group is organised into business units based on geographies in which operations are performed. Those segments are Germany/Poland, Austria/Czech Republic, Balkans (including Romania), USA/Mexico and Rest of World. No operating segments have been aggregated to form the above reportable operating segments.

Management of Scholz Group as the Chief Operating Decision Maker ("CODM") monitors the operating results of its segments separately for the purpose of making decisions about recourse allocation and performance assessment. Scholz Holding as the ultimate parent of Scholz Group has no operating segment. It has a financing function within the Scholz Group and does not earn revenues.

Segment performance is evaluated based on Earnings Before Tax (EBT) and is measured based on financial information prepared under German Generally Accepted Accounting Principles ("GAAP").

Assets and liabilities are not disclosed in the segment reporting as they are not reported to the CODM and therefore not regularly monitored. The column "adjustments and reconciliation" includes the elimination of Inter-segment revenues, Scholz Holdings activities as well as the GAAP adjustments to reconcile from the EBT prepared in accordance with German GAAP to the loss before tax as presented in the consolidated statements of profit or loss which are prepared in accordance with IFRS.

Year ended 31 December 2013	Germany/ Poland	Austria/ Czech Republic	Balkans (incl. Romania)	USA/ Mexico	Rest of World	Total segment	Adjustments and reconciliation	Consolidated
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Revenue								
External revenue	1,890,581	452,890	526,871	484,203	441,114	3,795,659	(1,538,000)	2,257,659
Inter-segment	348,771	129,949	107,797	75,467	107,187	769,171	(650,347)	118,824
Total Revenue	2,239,352	582,839	634,668	559,670	548,301	4,564,830	(2,188,347)	2,376,483
Income (expenses)								
Share of profit (loss) from investments accounted for at equity	5	–	–	–	–	5	7,082	7,087
Interest and finance income	4,299	2,346	5,971	5,613	13,253	31,482	14,368	45,850
Interest expense	(30,165)	(4,821)	(6,900)	(10,382)	(21,059)	(73,327)	(10,644)	(83,971)
Depreciation and amortisation	(56,367)	(22,804)	(48,383)	(10,579)	(84,524)	(222,657)	176,469	(46,188)
EBT	(76,408)	1,973	(29,109)	26,846	(83,385)	(160,083)	(163,864)	(323,947)

Year ended 31 December 2014	Germany/ Poland	Austria/ Czech Republic	Balkans (incl. Romania)	USA/ Mexico	Rest of World	Total segment	Adjustments and reconciliation	Consolidated
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Revenue								
External revenue	1,583,974	417,986	436,005	485,440	297,047	3,220,452	(1,551,352)	1,669,100
Inter-segment	293,888	109,071	78,579	76,750	79,078	637,366	(492,227)	145,139
Total Revenue	1,877,862	527,057	514,584	562,190	376,125	3,857,818	(2,043,579)	1,814,239
Income (expenses)								
Share of profit (loss) from investments accounted for at equity	5	–	–	–	–	5	(18,198)	(18,193)
Interest and finance income	3,931	1,770	1,643	4,981	11,626	23,951	(7,149)	16,802
Interest expense	(30,429)	(4,063)	(6,992)	(9,102)	(18,391)	(68,977)	(16,420)	(85,397)
Depreciation and amortisation	(33,049)	(24,137)	(20,908)	(11,366)	(71,474)	(160,934)	120,901	(40,033)
EBT	548	4,424	(7,126)	24,268	(81,798)	(59,684)	(57,271)	(116,955)

Year ended 31 December 2015	Germany/ Poland	Austria/ Czech Republic	Balkans (incl. Romania)	USA/ Mexico	Rest of World	Total segment	Adjustments and reconciliation	Consolidated
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Revenue								
External revenue	1,263,575	327,922	317,934	305,345	137,411	2,352,187	(1,159,307)	1,192,880
Inter-segment	208,176	68,820	44,075	42,144	17,986	381,201	(277,472)	103,729
Total Revenue	1,471,751	396,742	362,009	347,489	155,397	2,733,388	(1,436,779)	1,296,609
Income (expenses)								
Share of profit (loss) from investments accounted for at equity	5	–	–	–	–	5	(14,434)	(14,429)
Interest and finance income	2,974	1,056	1,897	6,596	8,674	21,197	11,511	32,708
Interest expense	(24,555)	(2,544)	(5,494)	(11,239)	(13,916)	(57,748)	(21,523)	(79,271)
Depreciation and amortisation	(88,530)	(5,437)	(24,338)	(64,714)	(24,753)	(207,772)	161,340	(46,432)
EBT	(59,765)	22,746	4,104	(173,826)	(31,606)	(238,347)	92,794	(145,553)

Six months ended 30 June 2015 (unaudited)	Germany/ Poland	Austria/ Czech Republic	Balkans (incl. Romania)	USA/ Mexico	Rest of World	Total segment	Adjustments and reconciliation	Consolidated
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Revenue								
External revenue	729,555	190,801	185,181	184,449	74,469	1,364,455	(665,537)	698,918
Inter-segment	125,111	41,363	27,090	20,075	13,029	226,668	(165,893)	60,775
Total Revenue	854,666	232,164	212,271	204,524	87,498	1,591,123	(831,430)	759,693
Income (expenses)								
Share of profit (loss) from investments accounted for at equity	–	–	–	–	–	–	(19,884)	(19,884)
Interest and finance income	1,360	512	814	1,981	4,881	9,548	1,515	11,063
Interest expense	(12,468)	(1,231)	(2,638)	(5,576)	(6,973)	(28,886)	(6,959)	(35,845)
Depreciation and amortisation	(9,724)	(2,661)	(6,900)	(8,143)	(6,377)	(33,805)	14,512	(19,293)
EBT	18,999	9,881	7,440	(7,437)	(7,291)	21,592	(92,831)	(71,239)

Six months ended 30 June 2016	Germany/ Poland	Austria/ Czech Republic	Balkans (incl. Romania)	USA/ Mexico	Rest of World	Total segment	Adjustments and reconciliation	Consolidated
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
Revenue								
External revenue	521,840	136,635	132,090	124,511	41,943	957,019	(454,295)	502,724
Inter-segment	50,637	26,362	12,792	12,859	1,738	104,388	(94,128)	10,260
Total Revenue	572,477	162,997	144,882	137,370	43,681	1,061,407	(548,423)	512,984
Income (expenses)								
Share of profit (loss) from investments accounted for at equity	–	–	–	–	–	–	(10,151)	(10,151)
Interest and finance income	2,064	482	1,562	3,452	2,196	9,756	(5,892)	3,864
Interest expense	(11,606)	(1,146)	(2,811)	(5,126)	(6,522)	(27,211)	6,377	(20,834)
Depreciation and amortisation	(9,203)	(2,430)	(7,992)	(4,217)	(1,493)	(25,335)	(1,208)	(26,543)
EBT	14,897	32,389	2,066	7,361	(8,308)	48,405	(115,383)	(66,978)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000* *(unaudited)*	*EUR'000*
Segment EBT	(160,083)	(59,684)	(238,347)	21,592	48,405
GAAP Differences	16,857	(10,418)	64,030	(60,998)	25,380
thereof change in consolidation method	(9,900)	(3,524)	24,056	(13,204)	23,841
thereof IFRS-adjustments	26,757	(6,894)	39,974	(47,794)	1,539
Holding activities	(342,176)	211,432	(220,121)	(23,819)	(59,104)
Consolidation effects	86,162	(32,192)	13,841	(2,500)	(130,377)
Group adjustments	75,293	(226,093)	235,044	(5,514)	48,718
Consolidated EBT	(323,947)	(116,955)	(145,553)	(71,239)	(66,978)

In none of the periods presented Scholz Group realised more than 10% of total revenues with one client.

Revenues with external customers attributable to Germany amount to EUR 2,075,324k, EUR 1,665,241k and EUR 1,169,769k in the year ended 31 December 2013, 2014 and 2015, respectively, and EUR 682,778k (unaudited) and EUR 430,667k in the six months period ended June 2015 and 2016, respectively. Revenues with external customers attributable to all foreign countries amount to EUR 301,159k, EUR 148,998k and EUR 126,840k in the year ended 31 December 2013, 2014 and 2015, respectively, and EUR 76,915k (unaudited) and EUR 82,317k and in the six months period ended June 2015 and 2016, respectively. Revenues are allocated based on the location of the selling entity.

Non-current operating assets located in Germany amount to EUR 256,262k, EUR 224,338k and EUR 210,525k as of 31 December 2013, 2014 and 2015, respectively, and EUR 174,626k as of June 2016. Non-current assets located in all foreign countries amount to EUR 86,646k, EUR 43,203k and EUR 34,099k as of 31 December 2013, 2014 and 2015, respectively, and EUR 50,419k as of June 2016.

41. CONDENSED STATEMENT OF FINANCIAL POSITION

	31 December			30 June
	2013	2014	2015	2016
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
ASSETS				
NON-CURRENT ASSETS	288,438	449,159	342,088	289,762
CURRENT ASSETS	455,590	318,931	187,785	159,393
TOTAL ASSETS	744,028	768,090	529,873	449,155
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Share capital	50,000	50,000	50,000	50,000
Reserves	(287,050)	(175,851)	(404,793)	(501,238)
TOTAL EQUITY	(237,050)	(125,851)	(354,793)	(451,238)
NON-CURRENT LIABILITIES	685,350	811,200	828,563	34,992
CURRENT LIABILITIES	295,728	82,741	56,103	865,401
TOTAL LIABILITIES AND EQUITY	744,028	768,090	529,873	449,155

42. GOING CONCERN

Risks to Scholz Group's ability to continue as a going concern

Given the fact that CTG has already acquired significant loans of Scholz Holding GmbH, initiated specific measures to secure Scholz Group's liquidity and will implement the Scholz Group's realignment in the short term, management considers it more likely than not that Scholz Group will be able to continue as a going concern. Scholz Group management also assumes it highly likely that the Scholz Group will have sufficient liquidity and capital resources beyond 22 November 2017 in view of the necessary financing and restructuring measures and therefore prepares its financial statements on a going concern basis. The conditions to be fulfilled in connection with restructuring are presented below.

Restructuring of Scholz Group

With the ultimate goal of obtaining control of the Scholz Group by means of a share purchase agreement, CTG purchased the majority of Scholz Holding GmbH's existing loans from the respective creditors. The ownership of the loans was transferred with effective date as of 22 July 2016. The loans transferred include an existing syndicated loan (in two tranches with a total credit facility of EUR 494 million; EUR 471 million was outstanding at the time the ownership of the loan was transferred to CTG), promissory notes of EUR 43 million and a further loan of EUR 10 million. Overall, loans with a nominal amount of EUR 524 million (together with relevant interest accrued but not yet paid out) were therefore purchased by CTG.

A further key component for the acquisition of the shares in Scholz Holding GmbH, as the ultimate parent of the Scholz Group, by CTG is the restructuring agreement signed on 20 July 2016. The agreement sets out that CTG shall waive loans of EUR 224 million (plus relevant interest accrued but not yet paid out). This means that, from the perspective of the Scholz Group, only EUR 300 million of the original EUR 524 million (excluding interest) will remain as liabilities, which will be split between Scholz Holding GmbH (EUR 100 million) and Scholz Recycling GmbH & Co. KG (EUR 200 million).

The restructuring agreement is tied to certain conditions, which have been completed by 31 August 2016.

Aside from the abovementioned purchases of loans, the following measures were carried out in connection with statement of financial position restructuring:

- A bond with a nominal value of EUR 182 million (including interest accrued but not yet paid out of EUR 202 million) issued by Scholz Holding GmbH and traded on the Vienna and Frankfurt am Main stock exchanges was restructured by means of a non-recurring payment of EUR 16 million and a waiver of claims, resulting in an outstanding earn-out amounting to EUR 5.8 million. This payment was made on 31 August 2016. The outstanding amount will be released subject to fulfilment of certain conditions.

- Various interest rate swaps with negative market values of EUR 19 million as of 30 June 2016, whose underlying transactions ceased to exist, were settled under two agreements dated 22 July 2016 by means of a non-recurring cash payment.

- A loan obligation of Scholz Holding GmbH of EUR 7 million was repaid by means of an exchange transaction. In this connection, a building complex located in Romania valued at around EUR 3 million (estimated by Scholz Holding GmbH) served, in addition to a cash settlement, as repayment of a significant portion of the principal.

- In addition, under the restructuring agreement CTG will purchase loans of EUR 60 million (plus interest of EUR 6 million accrued but not yet paid out as of 30 June 2016), which were originally granted by TTC, Nagoya, Japan, and have been transferred to a trustee on 24 November 2015, from the trustee and convert them into book equity.

CTG also contributed to the further stabilisation of Scholz Group by making an additional credit facility of EUR 80 million available to Scholz Recycling GmbH & Co. KG, Essingen. The credit facility was granted on 21 July 2016 of which EUR 56 million has been utilised as of 30 September 2016. The utilisation of the remaining EUR 24 million is tied to certain conditions (in particular evidence of liquidity requirement).

The entry of the investor CTG with its underlying financing and restructuring concept and the systematic implementation of this financing and restructuring concept, the support provided by CTG, the lending banks, factoring companies, goods credit insurers during the restructuring phase and the maintenance of existing financing are a precondition for the economic and financial restructuring of the Scholz Group. An extension or refinancing of the loans due in mid-2017 is a further precondition for the Scholz Group's continued solvency. Scholz Group management hereby assumes that a senior bridge facility with a volume of EUR 70 million, which expires in mid-2017, will be extended by existing creditors or replaced by new creditors, that the new funds of EUR56 million which CTG contributed in connection with the credit facility of EUR 80 million and the credit facility itself will be available over the long term and that CTG will subordinate the shareholder loans in the required amount or waive them. Scholz Group management also assumes it highly likely that the Scholz Group will have sufficient liquidity and capital resources during the period of management's assessment of the Scholz Group's ability to continue as a going concern (until 22 November 2017), in view of the necessary financing and restructuring measures and therefore prepares its financial statements on a going concern basis. Scholz Group management explicitly refer to the fact that the fulfilment by the contracting parties of the closing conditions of the restructuring agreement dated 20 July 2016 for the entry of the investor CTG as well as other conditions mentioned above and the continued implementation of all measures planned or initiated as part of the restructuring concept are preconditions for the Scholz Group to be able to continue as a going concern so that, through the provision and maintenance of sufficient credit lines by the new investor, the banks and other creditors, the Scholz Group is able to remain solvent until 22 November 2017 and appropriate measures to ensure an adequate equity position are successfully completed.

Anticipated business development

Scholz Group's business development depends in particular on the successful implementation of the investor and financial restructuring process, whose current progress has been explained in detail above.

For fiscal year 2016, management anticipates that Scholz Group's operating business will develop in line with 2015. Given the overall low prices on the scrap market (in particular in the first three months of 2016), revenue is expected to fall short (down by just under 25%) of the prior-year level again, with normalised EBITDA according to German GAAP, which consists of profit or loss before income taxes, financial result, depreciation and amortisation and adjustments of one-time effects expected to increase slightly to around EUR 72 million due to margin improvements. However, this assumption does not yet reflect the fact that the new investor intends to provide Scholz Group with an improved level of capital, also, with the stronger price discipline of Chinese steel exporters, the market for secondary materials is on the path to recovery and normalisation. Management also assumes that this positive trend will stabilise over the course of fiscal year 2016 and will see a return to less demanding market conditions.

43. EVENTS AFTER THE REPORTING PERIOD

Restructuring and share purchase agreement with CTG

CTG purchased the majority of Scholz Holding GmbH's existing loans (EUR 524 million, refer to Note 42) from the respective creditors with effective date 22 July 2016. A further key component for the acquisition of shares in Scholz Group is the restructuring agreement signed on 20 July 2016. Aside from the purchases of loans various measures were carried out in connection with the statement of financial position restructuring.

CTG also contributed to the further stabilisation of Scholz Group by making an additional credit facility of EUR 80 million available to Scholz Recycling GmbH & Co. KG, Essingen. The credit facility was granted on 21 July 2016 of which EUR 56 million has been utilised as of 30 September 2016.

On 29 August 2016 CTG and the current shareholders of Scholz Holding GmbH entered into a share purchase agreement which results in a change of the ownership structure of Scholz Holding GmbH and which is subject to certain closing conditions, esp. the approval of the transaction by CTG's shareholders.

For a detailed description of the restructuring arrangement please refer to Note 42.

Acquisition of Liberty Iron & Metals Holdings Group

In October 2016, in order to gain control over Liberty Iron & Metals Holdings, LLC ("LIMH") and its subsidiaries, Scholz United States Inc. ("SUSI") has purchased 36.91% of the equity interest in LIMH from the minority shareholders with overall purchase price of USD 1. The purchase of the equity interest was completed on 6 October 2016.

SUSI has also purchased shareholder loans, which were granted in 2009 and 2012, with aggregate outstanding amounts totalled to USD 14.3 million of LIMH, for a cash consideration of approximately USD 9 million that were paid by Letters of Credit from certain minority shareholders of LIMH. The acquisition was completed on 6 October 2016.

In addition, LIMH has purchased 28.89% of the equity interest in Liberty Southwest Holdings, LLC ("LSWH"), an immediate subsidiary of LIMH, from the minority shareholders of LSWH with an aggregate purchase price of USD 3.2 million. The acquisition was completed on 11 October 2016.

The assessment of the financial impact is in process.

Potential legal risks

A lawyer approached both the Company and Messrs Oliver and Berndt-Ulrich Scholz as the former Managing Directors of Scholz AG on 15 September 2016. He asserts misbehaviour of both Messrs Scholz and the Company related to the bond issue in 2012/2013. Currently, management is investigating any potential financial impact, however, due to the very early stage of the allegations management is not able to make a reliable assessment.

44. GROUP INFORMATION

General information of subsidiaries

NAME OF SUBSIDIARY	PLACE OF OPERATION AND INCORPORATION	ATTRIBUTABLE EQUITY INTEREST AND VOTING POWER HELD BY SCHOLZ GROUP 31 December 2013	2014	2015	30 June 2016
		%	%	%	%
Firemet s.r.o.	Decin, Czech Republic	100%	100%	100%	100%
Scholz Management Service GmbH	Frankfurt am Main, Germany	–	–	100%	100%
Scholz Bulgaria AD	Sofia, Bulgaria	70%	70%	100%	100%
Scholz United States Inc.	Wilmington, USA	100%	100%	100%	100%
SRW metalfloat GmbH	Espenhain, Germany	100%	100%	100%	100%
SIV Immobilien Verwaltungs-GmbH	Essingen, Germany	100%	100%	100%	100%
Scholz Industrieservice GmbH	Essingen, Germany	100%	100%	100%	100%
DINOS d.d.	Ljubljana, Slovenia	100%	–	–	–
Euro Trend d.o.o.	Ljubljana, Slovenia	100%	–	–	–
Scholz Internationale Handels GmbH	Essingen, Germany	100%	100%	100%	100%
Scholz Polska Sp. z.o.o.	Bedzin, Poland	100%	100%	100%	100%
Zaklad Przerobu Zlomu SKAW-MET sp. z o.o.	Skawina, Poland	100%	100%	100%	100%
Scholz Recycling Kft.	Tatabanya, Hungary	100%	100%	100%	100%
Scholz Recycling GmbH	Vienna, Austria	100%	100%	–	–
Scholz International Holding GmbH	Essingen, Germany	–	100%	100%	100%
Scholz Edelstahl GmbH	**Essingen, Germany**	**75%**	**100%**	**100%**	**100%**
BEW-Umformtechnik GmbH	Rosengarten-Westheim, Germany	75%	–	–	–
GHV Schmiedetechnik GmbH	Ennepetal, Germany	75%	–	–	–
HAPU Industrievertretungen GmbH	Witten, Germany	75%	–	–	–
M. Droste Stahlhandel GmbH	Bochum, Germany	71%	–	–	–
OWZ Ostalb-Warmbehandlungszentrum GmbH	Essingen, Germany	75%	–	–	–
Scholz Rissprüftechnik GmbH	Essingen, Germany	71%	–	–	–
SES Schmiedeholding GmbH	Essingen, Germany	75%	100%	100%	100%
WTL Werkstofftechnik-Labor GmbH	Essingen, Germany	75%	–	–	–
SCH-Stahl Trade s.r.o.	Prague, Czech Republic	45%	60%	–	–
Georg Grundstücksverwaltungs GmbH	Willroth, Germany	75%	–	–	–
Georg Umformtechnik GmbH	Willroth, Germany	75%	–	–	–

NAME OF SUBSIDIARY	PLACE OF OPERATION AND INCORPORATION	ATTRIBUTABLE EQUITY INTEREST AND VOTING POWER HELD BY SCHOLZ GROUP 31 December 2013 %	31 December 2014 %	31 December 2015 %	30 June 2016 %
Scholz Recycling GmbH & Co. KG	**Essingen, Germany**	**100%**	**100%**	**100%**	**100%**
Battle Tank Dismantling GmbH Koch	Mühlhausen, Germany	100%	100%	100%	–
EHG Verwaltungs-GmbH	Leipzig, Germany	100%	100%	100%	100%
Eisenbahn-Handels-Gesellschaft mbH & Co. KG	Espenhain, Germany	50%	50%	50%	50%
ESM Schrott– und Metallhandel GmbH	Schönebeck, Germany	100%	100%	100%	100%
Fegert Recycling GmbH	Magdeburg, Germany	100%	100%	100%	100%
Metallaufbereitung Zwickau GmbH	Leipzig, Germany	100%	100%	100%	100%
MRR Mitteldeutsche Rohstoff-Recycling GmbH	Bitterfeld-Wolfen, Germany	100%	100%	100%	100%
Rohstoff-Recycling Verwaltung GmbH	Lauchhammer, Germany	100%	100%	100%	100%
SRT Schrott Recycling Thüringen GmbH	Saalfeld, Germany	100%	100%	100%	100%
INTERSEROH HMR GmbH	Leipzig, Germany	100%	–	–	–
SRQ Schrott-Recycling Querfurt GmbH	Querfurt, Germany	90%	–	–	–
ScholzAlu Trading GmbH	**Essingen, Germany**	**100%**	**100%**	**100%**	**–**
ScholzAlu Stockach GmbH	Stockach, Germany	100%	100%	100%	–
Scholz Trading GmbH	Vienna, Austria	100%	100%	–	–
ScholzAlu Tatabanya Kft.	Tatabanya, Hungary	100%	–	–	–
Uniscrap A/S	**Copenhagen, Denmark**	**100%**	**100%**	**100%**	**100%**
Uniscrap Sverige AB	Älmhult, Sweden	100%	100%	100%	100%
Scholz Recycling International s.r.l.	**Bucarest, Romania**	**100%**	**100%**	**100%**	**100%**
Remat Scholz s.r.l.	Bucarest, Romania	99%	99%	99%	99%
Remat Scholz Filiala Oltenia s.r.l.	Drobeta Tumu Severin, Romania	99%	99%	99%	99%
Remat Scholz Filiala Moldova s.r.l.	Galati, Romania	–	99%	99%	99%
Kovosrot Group CZ, a.s.	**Prague, Czech Republic**	**–**	**–**	**–**	**100%**
NOVOSCHROTT, spol. s.r.o.	Chodov, Czech Republic	–	–	–	100%
Sberne suroviny, a.s.	Ceske Budejovice, Czech Republic	–	–	–	80%

None of the subsidiaries had issued any debt securities at the reporting dates.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests as of and for the years ended 31 December 2013 and 2014:

NAME OF SUBSIDIARY	PLACE OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	PROPORTION OF OWNERSHIP INTERESTS AND VOTING RIGHT HELD BY NON-CONTROLLING INTERESTS Year ended 31 December		(LOSS) PROFIT ALLOCATED TO NON-CONTROLLING INTERESTS Year ended 31 December		ACCUMULATED NON-CONTROLLING INTERESTS Year ended 31 December	
		2013	2014	2013	2014	2013	2014
		%	%	EUR'000	EUR'000	EUR'000	EUR'000
Scholz Edelstahl GmbH	**Essingen, Germany**	**25%**	**–**	**(8,776)**	**(9,166)**	**4,917**	**–**
BEW-Umformtechnik GmbH	Rosengarten-Westheim, Germany	25%	–	–	–	(580)	–
GHV Schmiedetechnik GmbH	Ennepetal, Germany	25%	–	–	–	130	–
HAPU Industrievertretungen GmbH	Witten, Germany	25%	–	–	–	(151)	–
M. Droste Stahlhandel GmbH	Bochum, Germany	29%	–	21	17	91	–
OWZ Ostalb-Warmbehandlungszentrum GmbH	Essingen, Germany	25%	–	–	–	–	–
Scholz Rissprüftechnik GmbH	Essingen, Germany	29%	–	26	–	192	–
SES Schmiedeholding GmbH	Essingen, Germany	25%	–	(2,741)	(4,002)	(9,181)	–
WTL Werkstofftechnik-Labor GmbH	Essingen, Germany	25%	–	–	–	7	–
SCH-Stahl Trade s.r.o.	Prague, Czech Republic	25%	40%	10	36	162	(155)

Summarised financial information in respect of Scholz Edelstahl GmbH and its subsidiaries are set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 December	
	2013	2014
	EUR'000	*EUR'000*
Non-current assets	83,670	5,709
Current assets	183,683	69,852
Non-current liabilities	18	8
Current liabilities	266,219	200,167
Equity attributable to owners of the Company	1,116	(124,614)
Non-controlling interests	–	–
Revenue	191,504	150,993
Expenses	(259,911)	(236,598)
Loss for the year (continuing operations)	(68,407)	(85,605)
Loss attributable to owners of the Company	(68,407)	(85,605)
Loss attributable to non-controlling interests	–	–
Net cash inflow from operating activities	22,848	15,165
Net cash outflow from investing activities	(9,920)	(6)
Net cash outflow from financing activities	(13,689)	(15,324)
Net cash outflow	(761)	(165)

As of and for the year ended 31 December 2015 as well as the period ended 30 June 2016 the Company had no material non-controlling interests.

No dividends have been paid to these non-controlling interests.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Scholz Group or any of its subsidiaries in respect of any period subsequent to 30 June 2016.

Yours faithfully
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose in this circular.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte. 德勤

To the Directors of Chiho-Tiande Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Chiho-Tiande Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2015 and related notes as set out on pages III-6 to III-18 of the circular issued by the Company dated 22 November 2016 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-4 to III-5 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire share capital of Scholz Holding GmbH (the "Acquisition") on the Group's consolidated financial position as at 30 June 2016 and the Group's consolidated financial performance and cash flows for the year ended 31 December 2015 as if the Acquisition had taken place at 30 June 2016 and 1 January 2015 respectively. As part of this process, information about the Group's consolidated financial position, consolidated financial performance and consolidated cash flows has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2016 and year ended 31 December 2015, on which a review conclusion and an auditor's report have been published respectively.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2016 or 1 January 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 November 2016

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

A. Basis of preparation

The following is an illustrative and unaudited pro forma financial information of the Group as enlarged by the Proposed Acquisition (the "**Unaudited Pro Forma Financial Information**"), comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the Group as enlarged by the Proposed Acquisition.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the Directors in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the consolidated financial position of the Enlarged Group as at 30 June 2016 or at any future date, or the consolidated results and cash flows of the Enlarged Group for the year ended 31 December 2015 or for any future period.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Company for the year ended 31 December 2015.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2016 is prepared as if the Proposed Acquisition had taken place on 30 June 2016 and is based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2016, which has been extracted from the published interim report of the Company for the period ended 30 June 2016; (ii) the audited consolidated statement of financial position of Scholz Group as at 30 June 2016 as extracted from the Accountants' Report of Scholz Group as set out in Appendix II to this Circular, after making pro forma adjustments that are (a) directly attributable to the Proposed Acquisition; and (b) factually supportable.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2015 are prepared as if the Proposed Acquisition had taken place on 1 January 2015 and are based on (i) the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2015, which have been extracted from the published annual report of the Company for the year ended 31 December 2015; (ii) the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of Scholz Group for the year ended 31 December 2015 as extracted from the Accountants' Report of Scholz Group as set out in Appendix II to this Circular, after making pro forma adjustments that are (a) directly attributable to the Proposed Acquisition; and (b) factually supportable.

Subsequent to 30 June 2016, certain material transactions have occurred. Despite the fact that such transactions are not directly attributable to the Proposed Acquisition, they may nevertheless have a significant financial impact on the Enlarged Group. Details of these transactions are set out on pages III-18 of this Appendix.

The Unaudited Pro Forma Financial Information of the Group after the Proposed Acquisition should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this Circular, and the financial information of Scholz Group as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

Unaudited Pro Forma Consolidated Statement of Financial Position

				Pro forma adjustments					
	The Group as at 30 June 2016	Scholz Group as at 30 June 2016	30 June 2016						The Enlarged Group as at 30 June 2016
	HK$ Million	*EUR Thousand*	*HK$ Million equivalent*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Non-current assets									
Property, plant and equipment	750	204,723	1,764						2,514
Prepaid lease payments	530	–	–						530
Investment property	20	–	–						20
Goodwill	15	20,225	174		758				947
Intangible assets	–	97	1		362				363
Investments in joint ventures and associates	2	81,600	703						705
Deposit paid for acquisition of property, plant and equipment	19	–	–						19
Loan receivables	130	10,417	90				(130)		90
Loan receivables from Scholz Group	–	–	–	2,206		(2,206)			–
Loan receivables due from joint ventures	–	5,288	46				130		176
Deposit paid for purchase of loan receivables	2,206	–	–	(2,206)					–
Deferred tax assets	–	9,450	81						81
Other non-current assets	–	4,232	37						37
	3,672	336,032	2,896	–	1,120	(2,206)	–	–	5,482
Current assets									
Inventories	784	49,351	425						1,209
Trade and other receivables	183	238,282	2,053						2,236
Prepaid lease payments	14	–	–						14
Fixed return investment	306	–	–						306
Held for trading investments	35	–	–						35
Derivative financial instruments	–	230	2						2
Tax recoverable	1	–	–						1
Pledged bank deposits	215	–	–						215
Bank balances and cash	820	4,751	41		–*			(44)	817
	2,358	292,614	2,521	–	–	–	–	(44)	4,835

* Less than HK$1,000,000

	The Group as at 30 June 2016	Scholz Group as at 30 June 2016	Scholz Group as at 30 June 2016	Pro forma adjustments					The Enlarged Group as at 30 June 2016
	HK$ Million	*EUR Thousand*	*HK$ Million equivalent*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
Current liabilities									
Trade, bills and other payables	374	376,006	3,240		(747)				2,867
Derivative financial instruments	–	997	9						9
Tax payable	2	15,617	135						137
Provisions	–	5,581	48						48
Contingent consideration payable	–	–	–		155				155
Bond	–	182,361	1,571		(1,521)				50
Bank borrowings	1,059	621,380	5,354	(4,517)					1,896
Other borrowings	128	–	–						128
Loan payables to the Group	–	–	–	4,517	(2,311)	(2,206)			–
Debt component of convertible bonds	63	–	–						63
Embedded derivative components of convertible bonds	7	–	–						7
	1,633	1,201,942	10,357	–	(4,424)	(2,206)	–	–	5,360
Net current assets (liabilities)	725	(909,328)	(7,836)	–	4,424	2,206	–	(44)	(525)
Total assets less current liabilities	4,397	(573,296)	(4,940)	–	5,544	–	–	(44)	4,957
Capital and reserves									
Share capital	16	50,000	431		(431)				16
Share premium and reserves	4,395	(680,895)	(5,866)		5,866			(44)	4,351
Equity attributable to owners of the Company	4,411	(630,895)	(5,435)	–	5,435	–	–	(44)	4,367
Non-controlling interests	(44)	373	3		(3)				(44)
	4,367	(630,522)	(5,432)	–	5,432	–	–	(44)	4,323
Non-current liabilities									
Bank borrowings	–	5,128	44						44
Derivative financial instruments	–	7,162	62						62
Provisions	–	7,567	65						65
Employee benefits	–	3,222	28						28
Deferred tax liabilities	30	13,236	113		112				255
Other non-current liabilities	–	20,911	180						180
	30	57,226	492	–	112	–	–	–	634
	4,397	(573,296)	(4,940)	–	5,544	–	–	(44)	4,957

Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Pro forma adjustments								
	The Group for the year ended 31 December 2015	**Scholz Group for the year ended 31 December 2015**	**31 December 2015**							**The Enlarged Group for the year ended 31 December 2015**
	HK$ Million	*EUR Thousand*	*HK$ Million equivalent*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 8*	*Note 9*	*Note 10*	*Note 11*	
Revenue	3,137	1,296,609	11,160							14,297
Cost of sales	(3,182)	(1,145,704)	(9,861)							(13,043)
Gross profit	(45)	150,905	1,299		–	–	–	–	–	1,254
Other income	23	63,356	545							568
Other gains and losses	(851)	(116,969)	(1,007)		1,125					(733)
Distribution and selling expenses	(10)	(50,996)	(439)							(449)
Administrative expenses	(143)	(93,568)	(805)						(26)	(974)
Other expenses	–	–	–			(44)				(44)
Finance costs	(117)	(83,852)	(722)	(17)			112	241		(503)
Share of loss of joint ventures and associates	(1)	(14,429)	(124)							(125)
Loss before tax	(1,144)	(145,553)	(1,253)	(17)	1,125	(44)	112	241	(26)	(1,006)
Income tax expense	–	(26,259)	(226)						9	(217)
Loss for the year	(1,144)	(171,812)	(1,479)	(17)	1,125	(44)	112	241	(17)	(1,223)
Other comprehensive (expense) income for the year										
Items that may not be reclassified subsequently to profit or loss:										
Remeasurement of defined benefit plans	–	419	4							4
Exchange difference arising on translation to presentation currency	(38)	–	–							(38)
	(38)	419	4	–	–	–	–	–	–	(34)

		Pro forma adjustments									
	The Group for the year ended 31 December 2015	Scholz Group for the year ended 31 December 2015	Scholz Group for the year ended 31 December 2015								The Enlarged Group for the year ended 31 December 2015
	HK$ Million	*EUR Thousand*	*HK$ Million equivalent*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*		*HK$ Million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 8*	*Note 9*	*Note 10*	*Note 11*		
Items that may be reclassified subsequently to profit or loss:											
Exchange difference arising on translation of foreign operations	–	1,075	395								395
Reclassification to profit or loss on disposal of available-for-sale investment	(5)	–	–								(5)
Fair value gain on available-for-sale investment	5	–	–								5
	–	1,075	395	–	–	–	–	–	–		395
Other comprehensive (expense) income for the year	(38)	1,494	399	–	–	–	–	–	–		361
Total comprehensive expense for the year	(1,182)	(170,318)	(1,080)	(17)	1,125	(44)	112	241	(17)		(862)
Loss for the year attributable to:											
Owners of the Company	(1,139)	(171,800)	(1,479)	(17)	1,125	(44)	112	241	(17)		(1,218)
Non-controlling interests	(5)	(12)	–*								(5)
	(1,144)	(171,812)	(1,479)	(17)	1,125	(44)	112	241	(17)		(1,223)
Total comprehensive expense for the year attributable to:											
Owners of the Company	(1,181)	(170,360)	(1,080)	(17)	1,125	(44)	112	241	(17)		(861)
Non-controlling interests	(1)	42	–*								(1)
	(1,182)	(170,318)	(1,080)	(17)	1,125	(44)	112	241	(17)		(862)

* Less than HK$1,000,000

Unaudited Pro Forma Consolidated Statement of Cash Flows

		Pro forma adjustments								
	The Group for the year ended 31 December 2015	Scholz Group for the year ended 31 December 2015	Scholz Group for the year ended 31 December 2015							The Enlarged Group for the year ended 31 December 2015
	HK$ Million	*EUR Thousand*	*HK$ Million equivalent*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 8*	*Note 9*	*Note 10*	*Note 11*	
OPERATING ACTIVITIES										
Loss before taxation	(1,144)	(145,553)	(1,253)	(17)	1,125	(44)	112	241	(26)	(1,006)
Adjustments for:										
Finance costs	117	83,852	722	17			(112)	(241)		503
Interest income	(14)	(11,513)	(99)							(113)
Depreciation of property, plant and equipment	29	46,086	397							426
Amortisation of intangible assets	–	346	3						26	29
Gain on disposal of property, plant and equipment and intangible assets	(2)	(2,389)	(21)							(23)
Gain on disposal of financial assets	–	(7,233)	(62)							(62)
Impairment losses	53	81,507	702							755
Share of loss of joint ventures and associates	1	14,429	124							125
Loss on fair value of embedded derivative components of convertible bonds	306	–	–							306
Net foreign exchange losses	112	9,282	80							192
Transaction costs for the Proposed Acquisition	–	–	–			44				44
Bargain purchase gain	–	–	–		(1,125)					(1,125)
Change of provisions	–	4,399	38							38
Other non-cash items	71	(35,573)	(306)							(235)
Operating cash flows before movements in working capital	(471)	37,640	325	–	–	–	–	–	–	(146)
Net change in working capital	240	35,009	301							541
Cash (used in) generated from operations	(231)	72,649	626	–	–	–	–	–	–	395
Interest paid	(74)	(78,385)	(675)				103	215		(431)
Tax paid	(3)	(1,136)	(10)							(13)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(308)	(6,872)	(59)	–	–	–	103	215	–	(49)

	The Group for the year ended 31 December 2015	Scholz Group for the year ended 31 December 2015	Scholz Group for the year ended 31 December 2015	Pro forma adjustments						The Enlarged Group for the year ended 31 December 2015
	HK$ Million	*EUR Thousand*	*HK$ Million equivalent*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 8*	*Note 9*	*Note 10*	*Note 11*	
INVESTING ACTIVITIES										
Placement of pledged bank deposits	(338)	–	–							(338)
Purchase of property, plant and equipment and intangibles assets	(137)	(28,755)	(247)							(384)
Payment for additions of prepaid lease payment	(130)	–	–							(130)
Purchase of available-for-sale investment	(129)	–	–							(129)
Deposit paid for acquisition of property, plant and equipment	(16)	–	–							(16)
Proceeds from disposal of assets held for sale	–	395	3							3
Transaction costs for the Proposed Acquisition	–	–	–			(44)				(44)
Net cash inflow on the Proposed Acquisition	–	–	–		55					55
Withdrawal of pledged bank deposits	379	–	–							379
Proceeds from disposal of available-for-sale investment	125	–	–							125
Proceeds from government grants	45	–	–							45
Proceeds from disposal of property, plant and equipment and intangible assets	14	20,077	173							187
Interest received	17	–	–							17
Dividends received from investments in joint ventures and associates	–	3,801	33							33
Net cash flow from disposal of subsidiaries	–	22,648	195							195
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(170)	18,166	157	–	55	(44)	–	–	–	(2)
FINANCING ACTIVITIES										
Repayment of bank borrowings	(2,808)	(29,040)	(250)	(2,066)						(5,124)
Repayment of other borrowings	(89)	–	–							(89)
Repayment of a director	(62)	–	–							(62)
Repayment of finance lease	–	(11,422)	(98)							(98)
Acquisition of non-controlling interest	–	(900)	(8)							(8)
Settlement of the Austrian Bond	–	–	–	(138)						(138)
Repayment of the TTC Loan	–	–	–							–
Net proceeds from issue of shares	4,095	–	–							4,095
New bank borrowings raised	2,546	30,000	258							2,804
Advance from a director	62	–	–							62
Proceeds from issue of shares through excise of share options	45	–	–							45
Capital contribution from non-controlling interests	7	–	–							7
NET CASH FROM (USED IN) FINANCING ACTIVITIES	3,796	(11,362)	(98)	(2,204)	–	–	–	–	–	1,494

				Pro forma adjustments						
	The Group for the year ended 31 December 2015	Scholz Group for the year ended 31 December 2015	31 December 2015							The Enlarged Group for the year ended 31 December 2015
	HK$ Million	*EUR Thousand*	*HK$ Million equivalent*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 8*	*Note 9*	*Note 10*	*Note 11*	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,318	(68)	–*	(2,204)	55	(44)	103	215	–	1,443
CASH AND CASH EQUIVALENTS AT 1 JANUARY	271	6,340	55	–	(55)	–	–	–	–	271
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(3)	3	–*	–	–	–	–	–	–	(3)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3,586	6,275	55	(2,204)	–	(44)	103	215	–	1,711

* Less than HK$1,000,000

Notes to the Unaudited Pro Forma Financial Information

1. The unadjusted consolidated statement of financial position of the Group as at 30 June 2016 is extracted from the published interim report of the Company for the period ended 30 June 2016. The unadjusted consolidated statement of profit or loss and other comprehensive income and the unadjusted consolidated statement of cash flows of the Group for the year ended 31 December 2015 are extracted from the published annual report of the Company for the year ended 31 December 2015.

2. The consolidated statement of financial position of Scholz Group as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of Scholz Group for the year ended 31 December 2015 are extracted from the Accountants' Report of Scholz Group which has been prepared under IFRS and using accounting policies materially consistent with those of the Group as set out in Appendix II to this Circular, with certain reclassification being made to be in line with presentation of the consolidated financial statements of the Group where appropriate.

3. For the purpose of this Unaudited Pro Forma Financial Information, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of Scholz Group for the year ended 31 December 2015 are translated into Hong Kong dollars using an exchange rate of EUR1 to HK$8.6067, being the average exchange rate adopted by the Group for the year ended 31 December 2015, and the consolidated statement of financial position of Scholz Group as at 30 June 2016 is translated into Hong Kong dollars using an exchange rate of EUR1 to HK$8.6158, being the exchange rate adopted by the Group as at 30 June 2016. No representation is made that EUR denominated amount have been, could have been or could be converted to HK$, or vice versa, at the rates applied or at any other rates or at all.

4. Pursuant to the German Debt Purchase Agreement dated 28 June 2016, the Group placed a deposit of EUR256 million (equivalent to HK$2,206 million) in an escrow account for acquisition of rights and obligations under certain loan agreements and promissory notes of Scholz Group with aggregate principal amount of EUR524 million (equivalent to HK$4,515 million) and accrued interest of EUR0.2 million (equivalent to HK$2 million) from certain independent lenders comprising German financial institutions, international debt providers and funds and settlement of the Austrian Bond issued by Scholz Group as stated in Note 5(iv). In addition, the Group is also obliged to pay a contingent consideration of EUR 20.4 million (equivalent to HK$176 million) to these independent lenders if Scholz Group's EBITDA, excluding amount attributable to non-controlling interests of Scholz Group, based on Scholz Group's consolidated annual financial statements prepared in accordance with German Generally Accepted Accounting Principles (the "German GAAP") is more than EUR100 million (equivalent to HK$862 million) for either of the fiscal year 2016 or fiscal year 2017. As at 30 June 2016 and 1 January 2015, the pro forma adjustment is made to recognise the carrying amount of contingent consideration payable of EUR18 million (equivalent to HK$155 million) and EUR15 million (equivalent to HK$141 million) respectively, which are calculated based on fair value estimated in accordance with HKFRS 3, *Business Combination*.

   For the purpose of the preparation of the unaudited pro forma consolidated statement of financial position, the adjustment represents the reclassification of deposit paid for purchase of loan receivables of EUR256 million (equivalent to HK$2,206 million) acquired by the Group and bank borrowings of EUR524 million (equivalent to HK$4,515 million) and accrued interest of EUR0.2 million (equivalent to HK$2 million) of Scholz Group acquired by the Group, as if the German Debt Acquisition had taken place on 30 June 2016.

   For the purpose of the preparation of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, the adjustment represents the imputed interest of EUR2 million (equivalent to HK$17 million) on the contingent consideration payable, as if the German Debt Acquisition had taken place on 1 January 2015. This adjustment is expected to have a continuing effect on the Enlarged Group.

For the purpose of the preparation of the unaudited pro forma consolidated statement of cash flows, the adjustment represents the recognition of repayment of bank borrowings of EUR240 million (equivalent to HK$2,066 million) and the settlement of the Austrian Bond of Scholz Group of EUR16 million (equivalent to HK$138 million), as if the German Debt Acquisition had taken place on 1 January 2015. This adjustment is not expected to have a continuing effect on the Enlarged Group.

5. The identifiable assets and liabilities of Scholz Group acquired by the Group will be accounted for in the consolidated financial statements of the Group at fair value under the acquisition method of accounting in accordance with HKFRS 3, *Business Combination*.

For the purpose of the preparation of the unaudited pro forma consolidated statement of financial position, the adjustments represent (i) the elimination of Scholz Group's capital and reserves at the date of acquisition of Scholz Group; and (ii) the inclusion of fair value adjustments resulted from the allocation of the pro forma purchase consideration to Scholz Group's identifiable assets and liabilities acquired, as if the Proposed Acquisition had taken place on 30 June 2016.

The provisional pro forma purchase price allocation to the identifiable assets and liabilities of Scholz Group has been based on a valuation carried out by the management with the assistance from an independent valuer, with respect to certain major assets to be acquired and certain major liabilities to be assumed after release of certain liabilities of Scholz Group pursuant to the relevant agreements (details in later section of this Note 5). For the purpose of the Unaudited Pro Forma Financial Information, apart from the assets and liabilities subject to the fair value adjustments stated in notes (ii), (iii), (iv) and (v) below, the fair values of the remaining identifiable assets and liabilities of Scholz Group are assumed to equal to their respective carrying amounts as at 30 June 2016. Specifically, in the absence of a formal valuation, the Directors have not made any fair value adjustments to property, plant and equipment and interests in joint ventures and associates, of which the fair value may be significantly different from their carrying amounts as at 30 June 2016. It is also assumed that there is no adjustment of deferred taxation to be recognised on temporary differences between the tax bases and carrying amounts of the identifiable assets and liabilities of Scholz Group as at 30 June 2016 with the assumptions that there is no change in recovery of the assets of Scholz Group and tax rates applied. The Company is still in the process of identifying and determining the fair values of the identifiable assets and liabilities of Scholz Group. The actual fair values of the identifiable assets and liabilities of Scholz Group, which will be determined as of the Completion Date and in turn, the resulting amount of goodwill, or bargain purchase gain if any, may differ materially from the provisional amounts disclosed below in the provisional pro forma purchase price allocation.

	Completion as of 30 June 2016	
	EUR Million	*HK$ Million*
Fixed consideration	–*	–
Contingent consideration *(Note 4)*	(18)	(155)
Carrying amount of net liabilities as at 30 June 2016 *(note i)*	(651)	(5,606)
Pro forma fair value adjustment to intangible assets *(note ii)*	42	362
Deferred tax liabilities arising from pro forma fair value adjustment to intangible assets *(note ii)*	(13)	(112)
Pro forma fair value adjustment to the TTC Loan *(note iii)*	66	569
Pro forma fair value adjustment to the Austrian Bond *(note iv)*	197	1,699
Pro forma fair value adjustment of loan payables to the Group *(note v)*	268	2,311
Goodwill arising from the Proposed Acquisition	(109)	(932)

* *Cash consideration of EUR1 (equivalent to HK$9)*

notes:

(i) The amount represent the net liabilities of EUR631 million (equivalent to HK$5,432 million), as extracted from the Accountants' Report of Scholz Group as set out in Appendix II to this Circular, deducting goodwill of EUR20 million (equivalent to HK$174 million).

(ii) The pro forma fair value adjustments to intangible assets mainly related to the recognition of trademark.

Scholz Group owns a trademark with pro forma fair value of EUR21 million (equivalent to HK$181 million), which was estimated based on royalty savings, i.e. cost of licensing the intangible asset from an independent third party, to be realised in the future by owning the intangible asset. The remaining amount in aggregate of EUR21 million (equivalent to HK$181 million) are patents, licenses and suppliers relationship.

The deferred tax liabilities relating to the pro forma fair value adjustment of intangible assets amounted to EUR13 million (equivalent to HK$112 million), which is calculated at the average income tax rate of Scholz Group of 30%.

The Directors have assessed whether there is any impairment on the intangible asset with indefinite useful life (i.e. trademark) and goodwill arising from the Proposed Acquisition as at 30 June 2016 in accordance with HKAS 36 *Impairment of Assets* ("HKAS 36") and concluded that there is no impairment in respect of the intangible asset with indefinite useful life and goodwill. The recoverable amount of the cash generating unit comprising these pro forma intangible asset and goodwill is determined based on value in use calculation. The calculation uses cash flow forecast based on the most recent financial budget of the cash generating unit for the next five years approved by the management of Scholz Group. Key assumptions of the value in use calculations of the cash generating unit relate to the estimation of cash inflows or outflows which include budgeted gross margins and operating expenses. Such estimation is based on the cash generating unit's past performance and the management's expectations for the market development.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation methods to assess impairment of the intangible asset and goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

(iii) Pursuant to the Restructuring Agreement dated 20 July 2016, the Group intended to acquire the TTC Loan of Scholz Group with principal amount of EUR60 million (equivalent to HK$517 million) and accrued interest of EUR6 million (equivalent to HK$52 million) for a nominal consideration of EUR1 (equivalent to HK$9) under a separate agreement and agreed to enter into a loan release agreement on the Restructuring Closing Date, in which the Group would irrevocably release the TTC Loan immediately. The pro forma fair value adjustment represents the release of the TTC Loan of Scholz Group, as if the acquisition and release of TTC Loan had taken place on 30 June 2016.

(iv) Pursuant to German Debt Purchase Agreement dated 28 June 2016, the Group had set aside EUR16 million (equivalent to HK$138 million) from the purchase price of EUR256 million (equivalent to HK$2,206 million) as stated in Note 4 for the settlement of the Austrian Bond issued by Scholz Group with principal amount of EUR182 million (equivalent to HK$1,568 million) and accrued interest of EUR21 million (equivalent to HK$181 million). The residual claim of bondholders would be released and Scholz Group is subject to pay EUR5.8 million (equivalent to HK$50 million) only if Scholz Group's EBITDA, excluding amount attributable to non-controlling interests of Scholz Group, based on Scholz Group's consolidated annual financial statements prepared in accordance with the German GAAP is more than EUR100 million (equivalent to HK$862 million) for either of the fiscal year 2016 or fiscal year 2017 pursuant to the bond term sheet dated 29 June 2016. The pro forma fair value adjustment represents the settlement and the release of the Austrian Bond of Scholz Group, as if the settlement and release of the Austrian Bond pursuant to the bond term sheet had taken place on 30 June 2016.

(v) Pursuant to the Restructuring Agreement dated 20 July 2016, the Group agreed to enter into a loan release agreement on the Restructuring Closing Date, in which the Group would irrevocably release the inter-company loan between the Group and Scholz Group with principal amount of EUR224 million (equivalent to HK$1,930 million) and accrued interest of EUR0.1 million (equivalent to HK$1 million). The pro forma fair value adjustment represents the release of the inter-company loan, as if the release of inter-company loan had taken place on 30 June 2016. In addition, the inter-company loan with principal amount of EUR300 million (equivalent to HK$2,585 million) and accrued interest of EUR0.1 million (equivalent to HK$1 million) should be made to adjust for the fair value of the loan based on the market interest rate.

For simplicity and the purpose of the preparation of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows as if the Proposed Acquisition had taken place on 1 January 2015, the pro forma fair value adjustments on the identified assets and liabilities arising from the Proposed Acquisition is computed by assuming the pro forma fair value adjustments of the identifiable assets and liabilities of Scholz Group in EUR as at 1 January 2015 approximate the relevant amounts as at 30 June 2016 as detailed above, as the management of the Company believes there were no material change between the two dates. The actual fair values of the identifiable assets and liabilities of Scholz Group, which will be determined as of the Completion Date and in turn, the resulting amount of bargain purchase gain may differ materially from the provisional amounts disclosed below in the provisional pro forma purchase price allocation.

	Completion as of 1 January 2015	
	EUR Million	*HK$ Million*
Fixed consideration	–*	–
Contingent consideration	(15)	(141)
Carrying amount of net liabilities as at 1 January 2015	(416)	(3,920)
Pro forma fair value adjustment to intangible assets	42	396
Deferred tax liabilities arising from pro forma fair value adjustment to intangible assets	(13)	(123)
Pro forma fair value adjustment to the TTC Loan	62	585
Pro forma fair value adjustment to the Austrian Bond	191	1,801
Pro forma fair value adjustment of loan payables to the Group	268	2,527
Bargain purchase gain arising from the Proposed Acquisition	119	1,125

* Cash consideration of EUR1 (equivalent to HK$9)

The pro forma net cash inflow of the Proposed Acquisition, excluding the net cash outflow in respect of the acquisition of the German Debt and the TTC loan, and settlement of the Austrian Bond, is EUR6.4 million (equivalent to HK$55 million) which represents the consideration of EUR1 (equivalent to HK$9) less cash and cash equivalents of Scholz Group acquired amounting to EUR6.4 million (equivalent to HK$55 million) as at 1 January 2015.

These adjustments are not expected to have a continuing effect on the Enlarged Group.

6. The adjustment represents the elimination of inter-company loan between the Group and Scholz Group with principal amount of EUR300 million (equivalent to HK$2,585 million) and accrued interest of EUR0.1 million (equivalent to HK$1 million) after the fair value adjustment of EUR44.1 million (equivalent to HK$380 million) as stated in Note 5(v) as if the German Debt Acquisition had taken place on 30 June 2016.

7. The adjustment represents the reclassification of loan receivables due from the joint ventures of Scholz Group.

8. The adjustment represents payment for estimated transaction costs on the Proposed Acquisition of approximately HK$44 million in cash. This adjustment is not expected to have a continuing effect on the Enlarged Group.

9. The adjustment represents the reversal of the interest expenses and interest paid of EUR13 million and EUR12 million (equivalent to HK$112 million and HK$103 million respectively) on loan payables to the Group with principal amount of EUR300 million

(equivalent to HK$2,585 million) from Scholz Group, as if the German Debt Acquisition had taken place on 1 January 2015. This adjustment is not expected to have a continuing effect on the Enlarged Group.

10. The adjustment represents the reversal of the interest expenses and interest paid of EUR28 million and EUR25 million (equivalent to HK$241 million and HK$215 million respectively) on loan payables to the Group with principal amount of EUR224 million (equivalent to HK$1,930 million), the TTC Loan with principal amount of EUR60 million (equivalent to HK$517 million) and the Austrian Bond with principal amount of EUR182 million (equivalent to HK$1,568 million) of Scholz Group, as if the settlement and release of those loans as stated in Notes 4, 5(iii), 5(iv) and 5(v) had taken place on 1 January 2015. This adjustment is not expected to have a continuing effect on the Enlarged Group.

11. The adjustment represents the additional amortisation of the intangible assets of EUR3 million (equivalent to HK$26 million), calculated with respect to the respective pro forma fair values as stated in Note 5(ii) and useful lives, which are assumed to be provided for the year as if the Proposed Acquisition had been completed on 1 January 2015. The amount of EUR1 million (equivalent to HK$9 million) represented the reversal of deferred tax liability relating to the additional amortisation of intangible assets. These adjustment are expected to have a continuing effect on the Enlarged Group.

12. As the Directors believe the tax effect of the above pro forma adjustments for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, if any, will be insignificant. Therefore, the above pro forma adjustments had not taken into account resulting tax effect.

    In addition, in respect of the bargain purchase gain and/or the release of certain liabilities of Scholz Group that may result from the Proposed Acquisition, the Directors have considered the potential income tax effects. After consulting certain tax advisors, the Directors are of the opinion that the Enlarged Group will be exempted under the relevant tax laws or by the relevant tax authorities. However, should the final tax assessment be different from what the Directors now estimated, the Enlarged Group may be subject to additional material income tax exposure which have not yet been reflected in the above pro forma adjustments.

13. Up to the date of this circular, the Directors were aware of certain significant events which are not directly attributable to the Proposed Acquisition but nevertheless may have significant impact on Scholz Group to be acquired including the acquisitions in October 2016 as set out in Note 43 of Appendix II “Accountants’ Report of Scholz Group” to this Circular.

14. No adjustments have been made to adjust any trading results or other transactions, including but not limited to the events as stated in Note 13, of the Group and Scholz Group subsequent to 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS OF SCHOLZ GROUP

Set out below is the management discussion and analysis of Scholz Group for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, which is based on the accountants' report of Scholz Group as set out in Appendix II to this circular.

GENERAL INFORMATION

Scholz Holding is the holding company of Scholz Group, incorporated under the laws of Germany, with its business seat in London, United Kingdom. It is the ultimate holding company of a global network of companies and affiliates in the business of treating and processing scrap and metal, and is one of the largest European-based global network of companies and affiliates active in this industry. Founded in 1872, Scholz Group provides all steps in recycling metal and scrap metals and is a one-stop shop, from collecting, gathering, sorting, and processing the material to its sale, utilisation, and recirculation. In 2014, Scholz Group treated and processed approximately 9.8 million tons of metal and scrap metal through its business activities in Europe, North- and Central-America.

SEGMENT INFORMATION

Under IFRS, most of Scholz Group's revenues were contributed by its operations in Germany and Poland for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 and the results of Scholz Group's joint ventures located in other places such as Austria/Czech Republic, the Balkans (including Romania) and USA/Mexico were reflected as share of profit (loss) from investments using the equity method of accounting.

For management purposes, Scholz Group is organised into business units based on geographies in which operations are performed. These segments are Germany/Poland, Austria/Czech Republic, the Balkans (including Romania), USA/Mexico and Rest of World. Details of segment information of Scholz Group prepared under German GAAP, together with a reconciliation to IFRS figures, for the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016 were set out in note 40 to the accountants' report of Scholz Group in Appendix II to this circular.

BUSINESS REVIEW

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, Scholz Group recorded:

	For the year ended 31 December 2013 *(audited)* (EUR'000)	For the year ended 31 December 2014 *(audited)* (EUR'000)	For the year ended 31 December 2015 *(audited)* (EUR'000)	For the six months ended 30 June 2016 *(audited)* (EUR'000)
Revenue	2,376,483	1,814,239	1,296,609	512,984
Loss before tax	323,947	116,955	145,553	66,978
Loss for the year/period	332,791	118,995	171,812	71,943

Results for the year ended 31 December 2013

Financial review

For the year ended 31 December 2013, Scholz Group recorded revenue and loss for the year of approximately EUR2,376.5 million and EUR332.8 million respectively. The loss was mainly driven by a failed investment in the Australian recycling business. Compared to year ended 31 December 2012, revenue decreased significantly by approximately EUR690.5 million mainly due to the deterioration of the scrap market. The loss for the year increased as compared to that for the year ended 31 December 2012 was in relation to the increase of other losses which mainly represented by written off of receivables.

Gross profit margin

The gross profit margin of Scholz Group for the year ended 31 December 2013 was approximately 8.8%. Due to deterioration of the scrap market, gross profit margin was also decreased as compared to that for the year ended 31 December 2012.

Other income and other losses

Other income amounted to approximately EUR132.3 million which was mainly contributed by currency gains and finance income. Other income increased significantly compared to year ended 31 December 2012 mainly due to increase in currency gains.

Total amount of other losses was approximately EUR316.2 million. It mainly contained bad debt expenses of approximately EUR183 million and foreign exchange losses of approximately EUR37 million. Increase of bad debt expenses caused the overall increase in other losses from the year ended 31 December 2012 to year ended 31 December 2013.

Distribution and selling expenses

For the year ended 31 December 2013, the distribution and selling expenses of Scholz Group amounted to approximately EUR72.4 million and represented 3% of Scholz Group's revenue. Compared to year ended 31 December 2012, related expenses decreased slightly mainly is caused by lower volume of sales.

Administrative expenses

Administrative expenses amounted to approximately EUR127.3 million which mainly represented personnel costs amounted to approximately EUR43.7 million and depreciation of property, plant and equipment amounted to approximately EUR11.2 million. Compared to year ended 31 December 2012, administrative expenses increased slightly mainly driven by increase of wages and salaries.

Finance costs

Finance costs charged to the consolidated statement of profit of loss amounted to approximately EUR156.6 million. Increase in finance costs from the year ended 31 December 2012 to year ended 31 December 2013 was due to significant amount of impairment of loans granted to joint ventures and associates were made during the year ended 31 December 2013. No finance charge being capitalised during the year ended 31 December 2013.

Share of profit from investments accounted for at equity

Share of profit from investments accounted for at equity amounted to approximately EUR7.1 million which was mainly contributed by share of profits from Scholz Group's joint ventures. Profits were resulted for the year ended 31 December 2013 due to well business contributed by joint ventures located in the Balkans and the United States of America.

Income tax expense

Income tax charged amounted to approximately EUR8.8 million for the year ended 31 December 2013. Increase in income tax was related to individual entities paid more tax during the year ended 31 December 2013 as compared to that for the year ended 31 December 2012.

Results for the year ended 31 December 2014

Financial review

For the year ended 31 December 2014, the Scholz Group recorded revenue and loss for the year of approximately EUR1,814.2 million and approximately EUR119 million respectively. Revenue of Scholz Group for the year ended 31 December 2014 decreased by approximately 23.7% as compared to that for the year ended 31 December 2013. The decrease of revenue was mainly caused by an ongoing difficult market environment and liquidity constraints prevalent at Scholz Group during that time. Loss for the year decreased by approximately 64.2% as compared to that for the year ended 31 December 2013 due to other losses were decreased significantly by approximately EUR156 million.

Gross profit margin

The gross profit margin of Scholz Group for the year ended 31 December 2014 was approximately 8.8%, which remained the same as approximately 8.8% for the year ended 31 December 2013.

Other income and other losses

Other income amounted to approximately EUR200 million which was mainly contributed by currency gains and payments received for receivables which had been written off in prior years of approximately EUR100 million. The latter was also the main driver for the increase in other income compared to year ended 31 December 2013.

Other losses amounted to approximately EUR160.2 million which mainly contained of bad debt expenses of approximately EUR18.6 million and foreign exchange losses of approximately EUR28.6 million. Other losses was decreased significantly by approximately EUR156 million from year ended 31 December 2013 to year ended 31 December 2014 mainly due to a significant decrease of bad debt expenses which dropped from approximately EUR183 million for the year ended 31 December 2013 to approximately EUR18.6 million for 31 December 2014.

Distribution and selling expenses

For the year ended 31 December 2014, the distribution and selling expenses of Scholz Group amounted to approximately EUR62.6 million and represented 3.5% of Scholz Group's revenue. Compared to the year ended 31 December 2013, related expenses were decreased by approximately EUR9.7 million which was in line with the decrease of revenue from year ended 31 December 2013 to year ended 31 December 2014.

Administrative expenses

Administrative expenses amounted to approximately EUR111.1 million for the year ended 31 December 2014. Administrative expenses mainly represented personnel costs amounted to approximately EUR41.7 million, expenses on vehicles amounted to approximately EUR18.5 million, professional services fee amounted to EUR16.5 million and depreciation of property, plant and equipment amounted to approximately EUR12.8 million and office and administration expenses amounted to approximately EUR10.5 million. The decrease in administrative expenses of approximately EUR16.2 million from year ended 31 December 2013 to year ended 31 December 2014 was mainly due to decrease in office and administration expenses and expenses on vehicles. Personnel cost decreased by approximately 4.6% and as compared to that for the year ended 31 December 2013.

Finance costs

Finance costs charged to the consolidated statement of profit of loss amounted to approximately EUR125.2 million. Finance costs was decreased by approximately EUR31.3 million mainly related to decrease of impairment of loans due from joint ventures and associates from approximately EUR47.7 million for the year ended 31 December 2013 to approximately EUR37.2 million for the year ended 31 December 2014. No finance charge being capitalised during the year ended 31 December 2014.

Share of loss from investments accounted for at equity

Share of loss from investments accounted for at equity amounted to approximately EUR18.2 million. Decrease of approximately EUR25.3 million from year ended 31 December 2013 to year ended 31 December 2014 was mainly contributed by share of losses from Scholz Group's joint ventures which were located in the Balkan region.

Income tax expense

Income tax charged amounted to approximately EUR2.0 million which was decreased by approximately EUR6.8 million as compared to approximately EUR8.8 million for the year ended 31 December 2013. This was affected by lower profits of individual subsidiaries generated during the year ended 31 December 2014.

Results for the year ended 31 December 2015

Financial review

For the year ended 31 December 2015, the Scholz Group recorded revenue and loss for the year of approximately EUR1,296.6 million and EUR171.8 million respectively. Revenue of Scholz Group for the year ended 31 December 2015 decreased by approximately EUR517.6 million or 28.5% as compared to that for the year ended 31 December 2014. Significant decrease in revenue mainly due to the fact that the financial distress situation and liquidity constraint of Scholz Group. Loss for the year increased by approximately EUR52.8 million or 44.4% as compared to that for the year ended 31 December 2014 was caused by the significant decrease in other income amounted to approximately EUR200 million for the year ended 31 December 2014 to approximately EUR107.2 million for the year ended 31 December 2015.

Gross profit margin

The gross profit margin of Scholz Group for the year ended 31 December 2015 was approximately 11.6%, which was higher than approximately 8.8% for the year ended 31 December 2014. This was mainly due to the fact that Scholz Group focused its business with higher margins due to operation restructuring.

Other income and other losses

Other income amounted to approximately EUR107.2 million which was mainly contributed by currency gains. Overall other income decreased by approximately EUR92.8 million was in relation to the one time payments received for receivables which had been written off in prior years of approximately EUR100 million during the year ended 31 December 2014.

Other losses amounted to approximately EUR160.8 million mainly contained bad debt expenses of approximately EUR70 million and foreign exchange losses of approximately EUR48.3 million. Other losses remained stable as compared to that for the year ended 31 December 2014.

Distribution and selling expenses

For the year ended 31 December 2015, the distribution and selling expenses of Scholz Group amounted to approximately EUR51 million and represented 3.9% of Scholz Group's revenue. Distribution and selling expenses decreased from approximately EUR62.6 million for the year ended 31 December 2014 to approximately EUR51 million for the year ended 31 December 2015 and it was in line with the decline in revenue from year ended 31 December 2014 to year ended 31 December 2015.

Administrative expenses

Administrative expenses amounted to approximately EUR93.6 million which mainly represented personnel costs amounted to approximately EUR37 million and depreciation of property, plant and equipment amounted to approximately EUR11.7 million. Overall administrative expenses decreased by approximately EUR17.5 million which mainly represented by the decrease of personnel cost approximately EUR4.7 million and decrease of expenses on vehicles approximately EUR8 million, as compared those for the year ended 31 December 2014, respectively.

Finance costs

Finance costs charged to the consolidated statement of profit of loss amounted to approximately EUR83.9 million and it was decreased by approximately EUR41.3 million compared to that for the year ended 31 December 2014 due to significant decrease of impairment of loans due from joint ventures and associates which represented approximately EUR37.2 million for the year ended 31 December 2014. No finance charge being capitalised during the year ended 31 December 2015.

Share of loss from investments accounted for at equity

Share of loss from investments accounted for at equity amounted to approximately EUR14.4 million. Decrease in share of loss approximately EUR3.8 million from approximately EUR18.2 million for the year ended 31 December 2014 to approximately

EUR14.4 million for the year ended 31 December 2015 was mainly contributed by share of losses from Scholz Group's joint ventures which were located in Balkans, United States of America and Austria.

Income tax expense

Income tax charged amounted to approximately EUR26.3 million. The significant increase from approximately EUR2 million for the year ended 31 December 2014 to approximately EUR26.3 million for the year ended 31 December 2015 was mainly caused by a written off of deferred tax assets considering the related tax loss carried forward might not be able to be utilised in the future.

Results for the six months ended 30 June 2016

Financial review

For the six months ended 30 June 2016, Scholz Group recorded revenue and loss for the period of approximately EUR513 million and EUR71.9 million respectively. Revenue of Scholz Group for the six months ended 30 June 2016 decreased by approximately 32.5% as compared to that for the six months ended 30 June 2015. The decrease in revenue from six months ended 30 June 2016 compared to the six months ended 30 June 2015 was mainly due to the continued financial distress situation and liquidity constraint of Scholz Group. Loss for the period decreased by approximately 10.4% as compared to the six months ended 30 June 2015 in relation to the decrease of finance costs from approximately EUR 45.7 million and other losses from approximately EUR 101.3 million for six months ended 30 June 2015 to approximately EUR 30.6 million and approximately EUR 52.8 million respectively for six months ended 30 June 2016.

Gross profit margin

The gross profit margin of Scholz Group for the six months ended 30 June 2016 was approximately 14.2%, which was slightly higher than approximately 12.9% for the six months ended 30 June 2015. Higher gross profit margin was related to Scholz Group continuing focused its business with higher margins because of operation restructuring.

Other income and other losses

Other income amounted to approximately EUR43.6 million which was mainly contributed by income from reversal of specific bad debt allowance and currency gains. It was decreased by approximately EUR26.7 million from approximately EUR70.3 million for six months ended 30 June 2015 to approximately EUR43.6 million for six months ended 30 June 2016 mainly due to decrease in currency gains by approximately EUR20.9 million from six months ended 30 June 2015 to six months ended 30 June 2016.

The other losses contained bad debt expenses of approximately EUR3.4 million and foreign exchange losses of approximately EUR3.9 million for six months ended 30 June 2016. These two items caused the significant decrease in other losses by approximately

EUR48.5 million from six months ended 30 June 2015 to six months ended 30 June 2016. Bad debt expenses and foreign exchange losses were decreased by approximately EUR27.8 million and approximately EUR27.7 million respectively for six months ended 30 June 2016 compared to those for six months ended 30 June 2015.

Distribution and selling expenses

For the six months ended 30 June 2016, the distribution and selling expenses of Scholz Group amounted to approximately EUR24.6 million and represented 4.8% of Scholz Group's revenue and the slight decrease of approximately EUR2.9 million from six months ended 30 June 2015 to six months ended 30 June 2016 was caused by reduced business generated during the six months ended 30 June 2016 as compared to that for six months ended 30 June 2015.

Administrative expenses

Administrative expenses amounted to approximately EUR65.2 million which mainly represented professional service fee in amount of approximately EUR25.8 million, personnel costs amounted to approximately EUR17.6 million and depreciation of property, plant and equipment amounted to approximately EUR6.3 million. Overall administrative expenses were increased by approximately EUR20.2 million mainly due to increase in professional service fees which were incurred for restructuring of the Scholz Group. This off set against the decrease in personnel cost approximately EUR0.6 million and as compared to that for the six months ended 30 June 2015 and decrease in depreciation of property, plant and equipment approximately EUR0.4 million as compared to that for six months ended 30 June 2015.

Finance costs

Finance costs charged to the consolidated statement of profit of loss amounted to approximately EUR30.6 million. Decrease of approximately EUR15.1 million from six months ended 30 June 2015 to six months ended 30 June 2016 was due to less interest expense on bank borrowings and bond during the six months ended 30 June 2016. No finance charge being capitalised during the six months ended 30 June 2016.

Share of loss from investments accounted for at equity

Share of loss from investments accounted for at equity amounted to approximately EUR10.2 million. Decrease in share of loss approximately EUR9.7 million from approximately EUR19.9 million for six months ended 30 June 2015 to approximately EUR10.2 million for six months ended 30 June 2016. The share of losses was mainly contributed from Scholz Group's joint ventures which were located in Balkans and Austria.

Income tax expense

Income tax charged amounted to approximately EUR5 million. It was decrease by approximately EUR4 million from six months ended 30 June 2015 to six months ended 30 June 2016 due to lower profits of individual subsidiaries generated during the six months ended 30 June 2016.

FINANCIAL POSITION OF SCHOLZ HOLDING AS AT 31 DECEMBER 2013

As at 31 December 2013, total consolidated assets of Scholz Group amounted to EUR1,379.5 million which was mainly made up of (i) property, plant and equipment amounting to EUR321.8 million; (ii) investments accounted for at equity amounting to EUR139.9 million; (iii) inventories amounting to EUR222.9 million; (iv) trade, bills and other receivables amounting to EUR529.9 million; and (v) cash and cash equivalents amounting to EUR8.8 million.

Total consolidated liabilities of Scholz Group amounted to EUR1,653.2 million which was mainly made up of (i) payables under the Austrian Bond amounting to EUR181.2 million; and (ii) bank borrowings amounting to EUR768.9 million; and (iii) trade and other payables amounting to EUR583.3 million.

The consolidated net liabilities of Scholz Group attributable to the owners of Scholz Holding amounted to approximately EUR269.6 million.

FINANCIAL POSITION OF SCHOLZ GROUP AS AT 31 DECEMBER 2014

As at 31 December 2014, total consolidated assets of Scholz Group amounted to EUR971.9 million which was mainly made up of (i) property, plant and equipment amounting to EUR245.0 million; (ii) investments accounted for at equity amounting to EUR129.4 million; (iii) inventories amounting to EUR95.1 million; (iv) trade, bills and other receivables amounting to EUR405.4 million; and (v) cash and cash equivalents amounting to EUR6.3 million.

Total consolidated liabilities of Scholz Group amounted to EUR1,365.8 million which was mainly made up of (i) payables under the Austrian Bond amounting to EUR181.7 million; and (ii) bank borrowings amounting to EUR581.2 million; and (iii) trade and other payables amounting to EUR427.6 million. The decrease of the total consolidated liabilities was mainly to TTC acquiring 39.9% of the shares in Scholz Holding and at the same time providing funds to repay existing bank debt.

The consolidated net liabilities of Scholz Group attributable to the owners of Scholz Holding amounted to approximately EUR394.0 million. The increase mainly resulted from loss for the year amounted to approximately EUR119.0 million.

FINANCIAL POSITION OF SCHOLZ GROUP AS AT 31 DECEMBER 2015

As at 31 December 2015, total consolidated assets of Scholz Group amounted to EUR620.3 million which was mainly made up of (i) property, plant and equipment amounting to EUR220.3 million; (ii) investments accounted for at equity amounting to EUR109.0 million; (iii) inventories amounting to EUR54.2 million; (iv) trade, bills and other receivables amounting to EUR179.3 million; and (v) cash and cash equivalents amounting to EUR6.3 million.

Total consolidated liabilities of Scholz Group amounted to EUR1,187.3 million which was mainly made up of (i) payables under the Austrian Bond amounting to EUR182.0 million; (ii) bank borrowings amounting to EUR581.8 million; and (iii) trade and other payables amounting to EUR280.9 million.

The consolidated net liabilities of Scholz Group attributable to the owners of the Scholz Holding amounted to approximately EUR566.8 million. The increase mainly resulted from loss for the year amounted to approximately EUR171.8 million.

FINANCIAL POSITION OF SCHOLZ GROUP AS AT 30 JUNE 2016

As at 30 June 2016, total consolidated assets of Scholz Group amounted to EUR628.6 million which was mainly made up of (i) property, plant and equipment amounting to EUR204.7 million; (ii) investments accounted for at equity amounting to EUR81.6 million; (iii) inventories amounting to EUR49.4 million; (iv) trade, bills and other receivables amounting to EUR238.3 million; and (v) cash and cash equivalents amounting to EUR4.8 million.

Total consolidated liabilities of Scholz Group amounted to EUR1,259.2 million which was mainly made up of (i) payables under the Austrian Bond amounting to EUR182.4 million; (ii) bank borrowings amounting to EUR626.5 million; and (iii) trade and other payable amounting to EUR373.8 million.

The consolidated net liabilities of Scholz Group attributable to the owners of the Scholz Holding amounted to approximately EUR630.9 million. The increase mainly resulted from loss for the period amounted to approximately EUR71.9 million. In the course of the financial restructuring of Scholz Group, which was implemented in connection with the Restructuring Agreement, the consolidated liabilities were significantly decreased by an amount of approximately EUR488 million with effect as at 31 August 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, 2014 and 2015 and 30 June 2016, Scholz Group had total liabilities of approximately EUR1,653.2 million, EUR1,365.8 million, EUR1,187.3 million, and EUR1,259.2 million, respectively. As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, Scholz Group had total cash and cash equivalents of approximately EUR8.8 million, EUR6.3 million, EUR6.3 million, and EUR4.8 million, respectively, and net current assets (liabilities) of approximately EUR(105.0) million, EUR48.9 million, EUR(101.4) million, and EUR(909.3) million, respectively.

For the year ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, net cash flow generated from (used in) operating activities were EUR(63.4) million, EUR25.7 million, EUR(6.9) million, and EUR(14.3) million, respectively.

As at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, Scholz Group had the following bonds, bank and other borrowings:

	31 December			**30 June**
	2013	**2014**	**2015**	**2016**
	(audited)	*(audited)*	*(audited)*	*(audited)*
	(EUR'000)	*(EUR'000)*	*(EUR'000)*	*(EUR'000)*
Bonds	181,248	181,658	182,045	182,361
Bank borrowings	768,941	581,164	581,772	626,508
Liabilities to shareholders	1,397	60,173	60,129	60,124
Finance lease obligation	42,926	33,962	44,944	28,870
Total borrowings	994,512	856,957	868,890	897,863

For the year ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, primarily the borrowings of Scholz Group were denominated in EUR and USD. Most of bank borrowings were based on floating interest rate and most of the other borrowings were based on a fixed interest rate. The management of Scholz Group anticipates that any repayments required will be met out of operating cash flows, by contributions of the shareholder or from financing from banks or other borrowings. The management of Scholz Group has a reasonable expectation that Scholz Group has adequate financial resources to continue in operational existence for the foreseeable future. In particular, as Scholz Group has significant funds available under the Bridging Loan.

Scholz Group's gearing ratio (defined as total borrowings divided by Scholz Group's total assets) was 72.1%, 88.2%, 140.1% and 142.8% as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively.

CHARGES ON SCHOLZ GROUP'S ASSETS

In connection with the syndicated senior facilities agreement, initially dated 24 September 2012 (the "**SFA**"), Scholz Group has granted security over a significant part of its assets. The security granted includes global assignments in relation to trade receivables, pledges in relation to bank accounts, pledges over shares, land charges and security transfers of moveable assets.

The obligors, which have granted security in connection with the SFA, are the following entities of Scholz Group:

- Scholz Holding
- Scholz Recycling GmbH (formerly Scholz Recycling GmbH & Co. KG)
- Scholz Alu Trading GmbH
- Scholz United States Inc.
- Scholz Alu Stockach GmbH
- SES Schmiedeholding GmbH
- Fegert Recycling GmbH
- ESM Schrott- und Metallhandel Gesellschaft mit beschränkter Haftung
- SRW metalfloat GmbH
- Metallaufbereitung Zwickau GmbH
- Uniscrap A/S
- SRT Schrott Recycling Thüringen GmbH
- Rohstoff-Recycling Verwaltung GmbH
- Scholz International Holding GmbH

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL

Scholz Group's management is not aware of any investments and material acquisitions, which occurred during the years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016.

Material disposals during the relevant period until 30 June 2016 have been the following:

Scholz Alu Stockach Transaction

In relation to material disposals Scholz Alu Trading GmbH and Holding Blanc Bleu 6 S.à.r.l. as purchaser entered into a share purchase agreement dated 13 April 2016 in relation to the acquisition of all shares in Scholz Alu Stockach GmbH at a total consideration of EUR8,140,000 (equivalent to approximately HK$72.4 million). The closing of the transaction occurred on 20 May 2016.

FER Kladno s.r.o Transaction

On 2 December 2015, Scholz Edelstahl GmbH as transferor and Vladimir Zivicnjak as transferee entered into a quota transfer agreement in relation to all shares in FER Kladno s.r.o., which in return held 60% of the shares in SCH Stahl Trade s.r.o. The consideration to be paid for the transfer of shares was at an amount EUR1,185,000 (equivalent to approximately HK$10.5 million). In addition Scholz Edelstahl GmbH as creditor assigned certain of its receivables held against FER Kladno s.r.o under a loan agreement for a total consideration of EUR7,399,600 (equivalent to approximately HK$65.9 million) to HEAT TREATMENT BOHEMIA s.r.o. under an assignment agreement dated 2 December 2015. Together with further additional receivables and intellectual property rights sold in the course of the transaction the overall transaction volume was at an amount of EUR12.7 million (equivalent to approximately HK$113.0 million).

BU Stainless Steel Transaction

On 11/12 July 2014, Scholz Edelstahl GmbH and SES Schmiedeholding GmBH as sellers, Scholz Holding as shareholder and SNEGLEHUS Vermögensverwaltungsgesellschaft mbH and SNARVEI Vermögensverwaltungsgesellschaft mbH as purchasers entered into a share purchase agreement relating to:

- 100% of the shares in HAPU Industrie Vertretungen GmbH;
- 95% of the shares in M. Droste Stahlhandel GmbH;
- 95% of the shares in Scholz Rissprüftechnik GmbH;
- 100% of the shares in WTL Werkstofftechnik-Labor GmbH;

- 100% of the shares in OWZ Sotalb-Warmbehandlungszentrum GmbH;
- 100% of the shares in GHV Schmiedetechnik GmbH;
- 100% of the shares in BEW-Umformtechnik GmbH; and
- the material assets of the business operations of Scholz Edelstahl GmbH.

Further and on the same date, Scholz Edelstahl GmbH, Mr. B-U. Scholz, OWZ Ostalb-Warmbehandlungszentrum GmbH and SES Grundstücksverwaltung GmbH & Co. KG as sellers, Scholz Holding as guarantor and Farington Way Limited and silvershore Investment Limited as purchasers entered into a share purchase agreement relating to all shares in OWZ Grundstücksverwaltung GmbH & KG and SES Grundstücksverwaltung GmbH & Co. KG (following the transformation of such entities into German limited liability companies).

In connection with such transactions, BEW-Umformtechnik GmbH as seller and Fairington Way Limited as purchaser entered in to a purchase agreement dated 11/12 July 2012 in relation to certain real estate property held by the seller. The consideration paid in connection with this transaction was at an amount of EUR3.75 million (equivalent to approximately HK$33.4 million). The overall consideration paid in connection with the aforementioned BU Stainless Steel transactions was at an amount of EUR29 million (equivalent to approximately HK$258.1 million).

Romanian Transaction

On 22 December 2014, REMATINVEST S.R.L. as seller and SIV Immobilien Verwaltungs GmbH as purchaser entered into an asset purchase agreement in relation to certain real estate and moveable assets in Romania with a total deal volume of EUR7.1 million (equivalent to approximately HK$63.2 million).

FUTURE PLAN FOR MATERIAL INVESTMENTS

As at 30 June 2016, Scholz Holding was exploring the possibility of increasing its control over its joint venture entities through the use of its own capital or external funding. Apart from the forgoing, Scholz Group did not have any future plan for material investments or capital assets as at 30 June 2016.

FOREIGN EXCHANGE EXPOSURES

During the three years ended 31 December 2013, 2014 and 2015 and the six months ended 2016, Scholz Group's transactions, assets and liabilities are denominated in various currencies. Scholz Group is exposed to foreign currency risk arising from the movements in the exchange rates of these different currencies against the functional currencies of Scholz Group's entities. Scholz Group manages its foreign currency risks (i) by having entered into various hedging agreements and (ii) by closely monitoring the movement of the foreign currency rates.

HEDGING

Since most of Scholz Group's financing is subject to floating interest rates, interest rate risks are limited by appropriate interest hedge transactions (typically interest swaps). The interest derivative financial instruments were concluded exclusively for loans already drawn.

Scholz Group uses derivative financial instruments to hedge its foreign currency risks, interest rate risks and commodity price risks. Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivative financial instruments is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash-flow or option pricing models. Derivative financial instruments are presented as assets if their fair value is positive and as liabilities if the fair value is negative.

In accordance with the hedging policy, Scholz Group has concluded financial futures via the respective brokers at the London Metal Exchange as economic hedging instruments. In some cases, Scholz Group also concluded OTC (over-the-counter) transactions with banks. These transactions do not relate to the physical delivery of goods but to cash settlement. As of each reporting date, the brokers had appropriate margin lines at their disposal to hedge the relevant commodity volume in accordance with the defined hedging policy.

Scholz Group does not apply hedge accounting, wherefore the gains or losses of derivative financial instruments are recognised in profit or loss.

CONTINGENT LIABILITIES

As of 30 June 2016, an amount of approximately EUR1.2 million has to be disclosed as contingent liabilities resulting from pending litigations of Scholz Group.

In addition, Scholz Group has contingent liabilities which consist of non-financial guaranties and warranty obligations in favour of non-consolidated subsidiaries and participations. The contingent liabilities amount to approximately EUR38.3 million, EUR2.7 million, EUR1.4 million and EUR4.1 million as of 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, respectively.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2013, 2014 and 2015 and 30 June 2016, Scholz Group employed a total of about 3,191, 2,431, 2,155 and 2,121 employees respectively. The remuneration and staff costs for the years ended 31 December 2013, 2014 and 2015 and the six-month period ended 30 June 2016 were approximately EUR132.9 million, EUR115.3 million, EUR97.2 million and EUR48.9 million respectively. Scholz Group's staff recruitment and promotion are primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which are formulated by reference to the market, are competitive and performance based.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and Scholz Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular 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 this circular or any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Director's Interests and Short Positions in Shares and Underlying Shares of the Company and Its Associated Corporations

As at the Latest Practicable Date, the interests or short positions of each of the Directors and chief executive of the Company in the Shares, underlying Shares, and debentures of the Company or any of its associated corporations which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange are as follows:

Long positions in Shares and underlying Shares:

Name of Director	Capacity/Nature of Interest	Total number of Shares interested	Approximate percentage shareholding in the Company *(Note 1)*
Mr. Tu Jianhua	Interest in controlled corporations	1,008,885,181 *(Note 2)*	62.29%

Notes:

(1) As at the Latest Practicable Date, the total number of issued Shares of the Company was 1,619,738,291 Shares.

(2) The 1,008,885,181 Shares were held by USUMHK, a company in which Mr. Tu Jianhua ("**Mr. Tu**") was indirectly interested in. USUMHK is directly wholly owned by USUM Investment Group Limited ("**USUM Group**"), a limited liability company incorporated in the PRC. The single largest shareholder of USUM Group is Loncin Holdings Co., Ltd. ("**Loncin Holdings**"), with an equity interest in USUM Group of 46.78%. The remaining equity interests in USUM Group are held by 21 individuals and 30 companies, all of whom are independent third parties of Loncin Holdings and Mr. Tu, and they each hold between 0.32% to 8.12% equity interests in USUM Group. Loncin Holdings is 98% owned by Loncin Group Co., Ltd. ("**Loncin**

Group") and 2% owned by Mr. Tu. Loncin Group is 98% owned by Mr. Tu; 1% owned by Ms. Tu Jianmin and 1% owned by Ms. Tu Jianrong, both being sisters of Mr. Tu. USUMHK held 1,008,885,181 Shares as at the Latest Practicable Date. Therefore, Mr. Tu was deemed to be interested in the Shares held by USUMHK pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company had any interests or short positions in any shares, underlying shares, or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at the Latest Practicable Date, so far as was known to any Director, the interests and short positions of the persons, other than the Directors, in the Shares, underlying Shares and debentures of the Company (a) which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein; or (b) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (c) which were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group, were as follows:

Long positions in Shares:

Name of Shareholder	**Capacity/Nature of Interest**	**Total number of Shares interested**	**Approximate percentage shareholding in the Company** *(Note 1)*
USUM Group	Interest in controlled corporations	1,008,885,181 *(Note 2)*	62.29%
Loncin Holdings	Interest in controlled corporations	1,008,885,181 *(Note 2)*	62.29%
Loncin Group	Interest in controlled corporations	1,008,885,181 *(Note 2)*	62.29%
USUMHK	Beneficial owner	1,008,885,181 *(Note 2)*	62.29%
Tai Security Holding Limited	Beneficial owner	110,197,990 *(Note 3)*	6.80%

Name of Shareholder	Capacity/Nature of Interest	Total number of Shares interested	Approximate percentage shareholding in the Company *(Note 1)*
Central Huijin Investment Ltd.	Person having a security interest in shares	100,000,000	6.17%
China Construction Bank Corporation	Person having a security interest in shares	100,000,000	6.17%
Good Union Hong Kong Investment Limited	Beneficial owner	65,000,000 *(Note 4)*	4.02%
Mr. Zhang Mingjie	Interest in controlled corporations	175,197,990 *(Notes 3 and 4)*	10.82%
Pengda Value Fund SPC (acting for and on behalf of DTC SP)	Beneficial owner	81,550,000	5.03%
Cinda Asset Management (Cayman) Limited	Interest in controlled corporation	81,550,000	5.03%
Cinda International Holdings Limited	Interest in controlled corporation	81,550,000	5.03%
China Cinda Asset Management Co., Ltd.*（中國信達資產管理股份有限公司）	Interest in controlled corporation	81,550,000	5.03%

Notes:

(1) As at the Latest Practicable Date, the total number of issued Shares of the Company was 1,619,738,291 Shares.

(2) The 1,008,885,181 Shares were held by USUMHK, a company in which Mr. Tu was indirectly interested in. USUMHK is directly wholly owned by USUM Group, a limited liability company incorporated in the PRC. The single largest shareholder of USUM Group is Loncin Holdings, with an equity interest in USUM Group of 46.78%. The remaining equity interests in USUM Group are held by 21 individuals and 30 companies, all of whom are independent third parties of Loncin Holdings and Mr. Tu, and they each hold between 0.32% to 8.12% equity interests in USUM Group. Loncin Holdings is 98% owned by Loncin Group and 2% owned by Mr. Tu. Loncin Group is 98% owned by Mr. Tu; 1% owned by Ms. Tu Jianmin and 1% owned by Ms. Tu Jianrong, both being sisters of Mr. Tu. USUMHK held 1,008,885,181 Shares as at the Latest Practicable Date. Therefore, Mr. Tu was deemed to be interested in the Shares held by USUMHK pursuant to the SFO.

(3) The 110,197,990 Shares were held by Tai Security Holding Limited ("**Tai Security**") as beneficial owner and Tai Security was wholly-owned by Mr. Zhang Mingjie ("**Mr. Zhang**") as at the Latest Practicable Date. Therefore, Mr. Zhang was deemed to be interested in the same number of Shares as held by Tai Security pursuant to the SFO.

(4) The 65,000,000 Shares were held by Good Union Hong Kong Investment Limited ("**Good Union**") as beneficial owner and Good Union was wholly-owned by Mr. Zhang as at the Latest Practicable Date. Therefore, Mr. Zhang was deemed to be interested in the same number of Shares as held by Good Union pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors and chief executives of the Company) who had interests or short positions in the Shares, underlying Shares or debentures of the Company (a) which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein; or (b) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (c) which were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group.

As at the Latest Practicable Date, save that Mr. Tu is the chairman of USUM Group, the director of Loncin Group and Loncin Holdings respectively, none of the Directors was a director or employee of a company (or its subsidiary) which had interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTOR'S SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Enlarged Group (excluding contracts expiring or determinable by the Enlarged Group within one year without payment of compensation, other than statutory compensation).

4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of prospects of the Group since 31 December 2015 (being the date to which the latest audited financial statements of the Group were made up).

5. MATERIAL LITIGATION

As at the Latest Practicable Date, save as disclosed below, no member of the Enlarged Group was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

(a) The Group

With regard to the legal proceedings in the PRC between Shanghai Chiho-Tiande Resource Recycling Co., Ltd.*（上海齊合天地再生資源有限公司）(“**Shanghai JV**”), an indirect 51%-owned subsidiary of the Company, and Shanghai Science and Technology Co., Ltd.*（上海民營科技實業發展公司）in relation to certain housing and land lease contracts, disclosures have been made by the Company in its announcements dated 14 December 2012, 15 January 2014, 22 January 2014 as well as its interim reports for the six months ended 30 June 2014 and 2015 and its annual report for the year ended 31 December 2014 and 2015.

On 18 December 2015, the Shanghai JV applied to Shanghai High People's Court for re-trial and sought for further legal relief. On the same date, Shanghai High People's Court accepted the re-trial application. The re-trial application was in the process of being reviewed as at the Latest Practicable Date.

Whilst the Directors do not consider this to be a litigation of material importance for the reasons set out below, for the sake of completeness, it is noted that a writ of summons was issued by Delco as plaintiff on 21 December 2015 in the High Court of Hong Kong (High Court Action No. 3040 of 2015, “**HCA 3040/2015**”) against the Company as defendant for a sum of HK$57,827,118 together with interest and costs. The claim relates to an alleged non-payment of a portion of the loans advanced by Delco Asia to subsidiaries of the Company in accordance with the terms of a Shareholders Loan Assignment and Capitalisation Agreement dated 24 June 2010 between, amongst others, Delco Asia and the Company. Delco alleged that it acquired all the assets and receivables of Delco Asia pursuant to an Assets & Liabilities Transfer Agreement dated 3 October 2011 between itself and Delco Asia.

The Company gave notice of intention to contest the proceedings on 4 January 2016. On 26 February 2016, the Company applied to the High Court of Hong Kong to strike out the claim of Delco in this action (the “**Striking Out Application**”). The Striking Out Application was heard before Deputy High Court Judge Manzoni, SC on 13 June 2016. Pursuant to the Decision of Deputy High Court Judge Manzoni SC dated 27 June 2016, the Striking Out Application was dismissed. The Company filed its defence in HCA 3040 of 2015 on 23 September 2016, and the proceedings are still in progress. Insofar as the Company is aware, no judgment has been entered against the Company.

Each of Mr. Fang and HWH undertook to the Company to indemnify and hold harmless on demand (on an after-tax basis) the Company against all losses arising out of, inter alia, HCA 3040/2015 in accordance with the terms of a letter of indemnity signed by Mr. Fang and HWH in favour of the Company on 17 December 2015. Further, HWH has also agreed that a sum including the amount of HK$57,827,118 be held in escrow as security for any liability of the Company in respect of, *inter alia*, HCA 3040/2015.

(b) Scholz Group

	Plaintiff	Defendant	Matter in Dispute	Amount in Dispute	Current Status
1.	Scholz Edelstahl GmbH, an indirect subsidiary of Scholz Holding	Gießtechnik Bremer GmbH	• Scholz Edelstahl GmbH claims for damages against Gießtechnik Bremer GmbH. • Gießtechnik Bremer delivered machines ("Hammerbären") for the production of several tools. These machines were defective (failure of properly welds, too many air pockets). As a consequence the machines were damaged by operating them. • Gießtechnik Bremer GmbH alleged that the damages did not result out of the welds and air pockets but out of the wrong use by Scholz Edelstahl GmbH.	EUR819,608.55	• Expert opinion of 15 April 2016 came not to a clear opinion of the reason of the damages. • Gießtechnik Bremer GmbH requested a further expert opinion and it is expected that the open questions will be answered within the next half year. • An oral hearing is not scheduled yet and it is expected that this will happen in around one year. • The judge already mentioned that a settlement should be reached.
2.	RA Tobias Hofer als InsVerw für Trost Terracotta GmbH & Co. KG	Scholz Holding	• Scholz Holding was sued in July 2013 by the liquidator Tobias Hofer on compensation for damages in relation to a sale of a land plot by Scholz Holding to Trost Terracotta GmbH & Co. KG in 2007. The claims are payable to the plaintiff as insolvency administrator claims.	EUR1,248,277.96	• Settlement negotiations with the plaintiff has taken place and further proceedings have been halted.
3.	C.I.O.S. d.o.o., an indirect subsidiary of Scholz Holding	Techcom GmbH	**Claim:** • Non-payment of purchase price re SPA re shares in ADRIA CELIK d.o.o. (C.I.O.S. as seller party, Techcom as buyer) • Contractual obligations of sellers are completely fulfilled **Counterclaim:** • Claim on damages from non-performance by C.I.O.S. re representations and warranties from the SPA	**Claim:** EUR11,134,525.34 plus default interest under Croatian law **Counterclaim:** EUR14,200,231.23	• A hearing is scheduled for 1 and 2 December 2016 for interrogation of the witnesses.

	Plaintiff	Defendant	Matter in Dispute	Amount in Dispute	Current Status
4.	ILB Investionsbank des Landes Brandenburg	Scholz Recycling, a subsidiary of Scholz Holding	• On 15 December 2005, the plaintiff issued an approval letter in favour of Scholz Recycling concerning the establishment of a facility for the recycling of scrap metal and waste materials in Hennigsdorf. Following subsequent amendments to the approval letter, the sum of EUR1,123,700.00 was disbursed to Scholz Recycling. This funding was provided inter alia, as is customary, subject to the following conditions: (i) Scholz Recycling must operate the facility for at least 5 years from 30 December 2008; (ii) The funded assets (in particular a shredder priced at approx. EUR5,900,000.00) must remain in the facility during this 5-year period; (iii) In the same 5-year period, 30 jobs and 3 apprenticeship places are to be created and filled. • By a purchase agreement dated 11 November 2010, Scholz Recycling sold the Hennigsdorf facility to TSR Recycling GmbH & Co. KG ("TSR") as per 31 December 2010. TSR removed the shredder from the facility in 2011. Furthermore, it was not at any time possible to fill apprenticeship places. • Scholz Recycling already notified the plaintiff of the sale of the facility in October 2010. In 2011 and 2012, there were various talks concerning the non-fulfilment of the conditions set forth in the approval letter. On 19 November 2012, the plaintiff revoked the approval letter and demanded repayment of the funding.	EUR1,123,700.00 plus interest	• At the hearing on 25 October 2016, the Administrative Court indicated that they will dismiss the action probably. However, there has not been a judgement yet. If the court decides that Scholz Recycling will have to repay the funding, it is possible to appeal against the judgement at the Higher Administrative Court of Berlin-Brandenburg. The chances of prevailing at the next instance, should the occasion arise, can only be estimated after the announcement of the court's reasons. Even in case of a final judgement at the expense of Scholz Recycling, it would be possible to apply for a deferment or (partial) remission to the ILB in case of economic difficulties of Scholz Recycling.
5.	AD Steel Forge GmbH	Scholz Edelstahl GmbH, an indirect subsidiary of Scholz Holding	• Insolvency rescission, the insolvency administrator had originally challenged an amount of over EUR2.2 million based on payments made by the plaintiff to Scholz Edelstahl GmbH after the plaintiff was already bound to file for insolvency.	EUR 2,785,921.75	• Scholz Edelstahl GmbH could reach a settlement agreement with the insolvency administrator in which Scholz Edelstahl GmbH committed to pay an amount of EUR150,000.00 in two installments of EUR100,000.00 due on 30 September 2016 and EUR50,000.00 due on 30 November 2016. The first payment was already received by the insolvency administrator. In return, all claims the insolvency administrator has or might have against Scholz Edelstahl GmbH are settled and Scholz Edelstahl GmbH is entitled to register the amount of EUR150,000.00 to the insolvency.

	Plaintiff	Defendant	Matter in Dispute	Amount in Dispute	Current Status
6.	Metallaufbereitung Zwickau GmbH, an indirect subsidiary of Scholz Holding	District of Zwickau	• On 15 May 2002, Metallaufbereitung Zwickau GmbH received from the competent authority a notice of exemption from costs for the removal of (possible) residual contamination or other damage caused to certain properties prior to 1 July 1990. The exemption applied to 19 properties in total and amounted to 90% of the total cost within the range of between EUR 1,356,184.14 and EUR7,749,626.30. The notice of exemption included the requirement that there be no material change to the use of the properties in each case. • The area of the property of Metallaufbereitung Zwickau GmbH in Werdau (plot 2135/6) of 11,657 sqm represented a share of 7.2% of the entire scope of the exemption. In 2005, Metallaufbereitung Zwickau GmbH stopped using the Werdau property as a scrap yard. In the meantime, individual (not extensive) measures were implemented to remove residual contamination on the site. As far as Metallaufbereitung Zwickau GmbH is aware, it is not known whether and to what extent further measures will be necessary in future. • On 15 May 2013, the District of Zwickau ("Zwickau") revoked the exemption notice (only) for the Werdau property because there had been a change in use.	It is not possible to predict whether, and to what extent, the outcome of the case will in fact have any financial consequences.	• Statement of claim was filed on 12 August 2016. • Date for the hearing has not yet been set.
7.	Scholz Recycling, a subsidiary of Scholz Holding	Thüringer Landesbeauftragter für den Datenschutz und die Infotmationsfreiheit	• On 17 August 2015, the defendant issued an administrative order, requesting Scholz Recycling to stop the collection of certain personal data immediately. • Since Scholz Recycling is convinced that the collection of these data is necessary to fulfill its obligations according to the German tax laws, it filed an action to the administrative court Stuttgart against the order.	The court has not yet set out a value in dispute but counsel expects that the court will in general set out a value in dispute of EUR5,000.00	• Written procedure before a hearing and pending the court's decision to set out a date for the oral proceedings.

	Plaintiff	Defendant	Matter in Dispute	Amount in Dispute	Current Status
8.	Bernegger GmbH, Scholz Rohstoffhandel GmbH (an indirect subsidiary of Scholz Holding), Porr Umwelttechnik GmbH, STRABAG AG, ASPG Altlastensanierungsprojekte GmbH	BALSA Bundesaltlasensanierungsgesellschaft m.b.H. ("BALSA")	• The defendant is contracting authority of a tender procedure for site remediation services of the site aluminum slag landfill (registered as contaminated site N6) where construction waste and powder of aluminum-slag of the Almeta Company were deposited. • The remediation services are tendered for in a two-staged negotiated procedure (EU-wide publication on Sep 14, 2013, publication number 2013/S 179-309384). The plaintiffs participated in the tender procedure as a consortium (the "Consortium"). • The Consortium was prequalified (admitted to the second stage of the tender procedure after submitting a request to participate) and subsequently submitted three offers, the third of which was the last and best offer submitted on 27 June 2016. • On 2 September 2016, the defendant published an award decision according to which it was planning to award the tendered contract (after expiration of the 10-day mandatory standstill period) to another consortium for an award/ contract sum of EUR166,680,450.00 excl. VAT (the "Award Decision"). • The plaintiffs then challenged the Award Decision with a request for review as well as a request for interim injunction before the Federal Administrative Court (the "FAC"). The plaintiffs argues that the Award Decision was illegal and that the prospective tenderer's offer is to be excluded from the tender procedure for several reasons (inter alia, inadequate pricing and infringement of tender specifications). • On 19 September 2016 the FAC granted interim relief prohibiting the defendant from awarding the contract to the prospective tenderer until the final decision by the Court on the legality of the Award Decision was rendered.	EUR170,000,000.00	• Written application for review has been filed. • Duration of such a review is expected to take up to six weeks and began on the week of 19 September 2016. • Although the deadline for the issuance of the Federal Administrative Court's (Bundesverwaltungsgericht – "BVwG") decision has expired, the BVwG has still not rendered its decision and the parties to the proceedings are still exchanging written pleadings (as of now there is no legal action available to oblige the BVwG to render its decision immediately). The injunction prohibiting BALSA from awarding the contract is still in place and valid until the BVwG renders its decision in the main proceedings.

	Plaintiff	Defendant	Matter in Dispute	Amount in Dispute	Current Status
9.	Scholz Recycling s.r.o., an indirect subsidiary of Scholz Holding	Slovak Republic	• Scholz Recycling demanded VAT refunds from the tax authority of Slovak Republic (the "Tax Authority") for April 2008 (EUR367,776.51), March 2009 (EUR147,366.38), April 2009 (EUR63,686.94) and May 2009 (EUR59,732.04). • The Tax Authority started a tax audit in 2009. The tax audit was finished in 2011. Based on that, the Tax Authority did not accept the VAT refunds request and instead demanded payments in a total amount of EUR132,509.33. • Scholz Recycling appealed at the Slovak Tax Directorate against the tax audit results and received a favourable ruling, cancelling the audit for procedural reasons. • According to Slovak law, after a tax audit is cancelled the VAT refunds are effective and the Tax Authority is obliged to pay them within 10 days. The Tax Authority did not pay the VAT refunds within this time period. • Instead the Tax Authority started a second tax audit. Scholz Holding is currently assessing possible courses of action.	EUR650,588.65	• There was no court hearings as at the Latest Practicable Date. • There is a dispute as to the competency of the Court in Komárno to adjudicate the matter.
10.	Poldi-Trade a.s. (sold in 2012 to Starkus One S.p.r.o.) Claim is in favour of Scholz Holding. Poldi-Trade a.s. has been a former indirect subsidiary of Scholz Holding	StG Group S.p.A.	• By request on 18 September 2012, a petition for the implementation of independent proceedings for the taking of evidence was filed to the Regional Court Ellwangen (file number 10 OH 3/12) for the Poldi Trade a.s. • The StG Group S.p.A. is the defendant and subject matter of the proceedings is the determination of the condition regarding an open-die forging plant which the defendant established for the petitioner.	When the petition was filed, an amount of EUR3,650,000.00 was indicated as amount in dispute. This is a preliminary indication for the potential damage which is directly connected with the faulty plant. The amount of dispute does not include a potential damage due to loss of production – which is currently not known. In order to satisfy claims for damages a payment from a guarantee in the amount of EUR500,000.00 has already been made.	• Scholz Group received the first expert opinion which partly confirms the conditions claimed by the petitioner. The opinion was examined by technical specialists of Poldi Trade a.s. and by Scholz Group to ascertain whether the current determinations of the expert are sufficient for the enforcement of the claims and whether the current determinations which do not confirm the claimed conditions are contestable. • The result of the examination was that additional determinations by the expert would be required for the confirmation of the assumed claims.

	Plaintiff	Defendant	Matter in Dispute	Amount in Dispute	Current Status
					• The independent proceedings for the taking of evidence is currently resting. This is connected to an instruction Poldi Trade a.s. issued to Scholz Group preferably ceasing all operations due to the economic plight of the StG Group S.p.A. and the Poldi Trade a.s. Apart from that, due to Scholz Group's economic situation, the attorney of the StG Group S.p.A. is apparently incapable of receiving information from his clientele, which would be necessary for the continuation of the proceedings.
11.	The Environmental Protection and Energy Efficiency Fund	State Commission for Supervision of Public Procurement Procedure/ CE-ZA-R (an indirect subsidiary of Scholz Holding), EKO-FLOR PLUS (an indirect subsidiary of Scholz Holding); KOMUNALAC DAVOR-as a third party (interested person)	• Claimant is the Environmental Protection and Energy Efficiency Fund (EPEEF), Ksaver 208, Zagreb, PIN 85828625994 • Defendant is State Commission for Supervision of Public Procurement Procedure (SC), Koturaška 43/IV, Zagreb • The amount of the claim is undetermined, for the reason that the claimant requests declaration that the disputed ruling of the defendant is null and void. • The Administrative court procedure is conducted before Administrative Court in Zagreb, No. Usl-2031/14 CE-ZA-R d.o.o., KOMUNALAC DAVOR d.o.o. and EKO-FLOR d.o.o. are participants in dispute procedure. • The disputed regulation was issued by the defendant on April 10th 2014. No. UP/II-354-02/14-01/228 • The disputed ruling states as follows: (i) the proposal for an oral hearing is dismissed; (ii) the negotiating public procurement procedure with prior announcement No. 2014/ S002-0006227 (subject of such procurement: Services of disposal of bundled mixed communal waste (key.no. 20 03 01) and non-hazardous waste from MBO plant (key no. 19 12 12 and 19 12 99) from location Brezje near Varaždin, loading, weighing, shipping, unloading and treatment in accordance with Act on Sustainable Waste Management (OG 94/13)) is null and void.	Amount undetermined	• The procedure is currently conducted before the Administrative Court in Zagreb under no. Usl-2031/14. Any further timing of the court's decision may currently not be foreseen.

	Plaintiff	Defendant	Matter in Dispute	Amount in Dispute	Current Status
			• The statement of grounds indicate that the subject of the disputed procurement procedure is identical with procurement procedure which ended with the valid ruling in favour of City of Varaždin No. UP/I-351-01/13-01/1 which was brought on March 21st 2013. For that reason, the defendant declared that the disputed ruling is null and void. • Basis of the claim: (i) lack of legal interest on the side of CE-ZA-R d.o.o., KOMUNALAC DAVOR d.o.o. and EKO-FLOR d.o.o. for filing the appeal against nulled ruling; (ii) the fact that Ministry of Environmental Protection ordered the company VARKOM d.d., Varaždin, as communal company, to dispose disputed bundled communal waste.		
12.	ZAGREBAČKI HOLDING, PODRUŽNICA ZGOS	EKO-FLOR PLUS, an indirect subsidiary of Scholz Holding	• The plaintiff filed a claim on 24 April 2013 against EKO-FLOR PLUS for indemnity related to the usage of RGO plant (destruction of equipment and lost profits). • On 30 October 2015, the Commercial Court in Zagreb delivered a verdict dismissing the claim filed by the plaintiff as unfounded in full and ordering the claimant to pay to EKO-FLOR PLUS the costs of civil proceedings in amount of 300,875.00 kn.	HRK3,878,416.64 (EUR518,697.05)	• On 23 November 2015, ZAGREBAČKI HOLDING Ltd., a subsidiary of PODRUŽNICA ZGOS, filed an appeal against the aforementioned verdict.
13.	TRIGLAV d.d.	METIS d.d., an indirect subsidiary of Scholz Holding	• The plaintiff filed a claim on 31 August 2015 against METIS d.d. for repayment of the amounts paid due to the harmful event i.e. fire which occurred on 17 September 2012 in the multifunctional hall owned by BRATI RITOŠA Ltd. The plaintiff was the insurer of BRATI RITOSA Ltd. and claims have been brought by the plaintiff against METIS d.d. for repayment of the insurance benefits as in its opinion two employees of METIS d.d. caused the harmful event.	HRK12,526,660.82 (EUR1,675,307.90)	• On 1 June 2016, the Court delivered a decision to stay the aforementioned proceedings until final and binding decision is reached in the criminal procedure pending before the Municipal Court in Pula, Permanent service in Buje, case number K-265/15. Latter procedure is conducted against METIS Jsc. (an indirect subsidiary of Scholz Holding) and its employees.

6. COMPETING INTERESTS

As at the Latest Practicable Date, the following Director had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Tu Jianhua is the substantial shareholder of Chongqing USUM Recycling Resources Development Co., Ltd. Although the scope of business of the above entity allows it to engage in businesses that are considered likely to compete with the Group, Mr. Tu Jianhua reported to the Board that the above entity is currently only engaged in the disintegration of automobile and trading of steel scrap, which are not the same as nor compete with the businesses of the Group. Further, the above entity has no intention to engage in businesses that compete with or are likely to compete with the Group's businesses. The boards of the Company and the above entity are independent of each other. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of the above entity in which Mr. Tu Jianhua has declared interests.

As at the Latest Practicable Date, save as disclosed above, none of the Directors and his/her respective close associates had interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

7. MATERIAL INTERESTS IN CONTRACTS OR ARRANGEMENTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or the experts described in section 9 of this appendix had any direct or indirect interest in any assets which have been, since 31 December 2015 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by, or leased to, any member of the Enlarged Group, or which were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The Enlarged Group had entered into the following contracts (not being contracts entered into in the Enlarged Group's ordinary course of business) within the two years preceding the Latest Practicable Date, which are or may be material:

(a) a Letter of Intent dated 1 December 2014 between CTIL and Mr. Li Yuhu, pursuant to which, among other things, the parties agreed to set up an investment company with registered capital of RMB80,000,000 (the "**Investment Company**") to acquire 80% (subsequently changed to 100%) equity interest in Yantai Liheng;

(b) a Letter of Intent dated 1 December 2014 between Yantai Liheng, CTIL, Mr. Li Yuhu and 烟台力揚工貿有限公司 (Yantai Liyang Industrial Co., Ltd.*) ("**Yantai Liyang**"), pursuant to which, among other things, the Investment Company acquires 55% and 25% (subsequently changed to 45%) equity interests in Yantai Liheng from Mr. Li Yuhu and Yantai Liyang respectively at an aggregate consideration of approximately RMB64 million (which was subsequently changed to approximately RMB44.35 million);

(c) the Delco Undertaking;

(d) the Delco Supplemental Undertaking;

(e) a letter dated 4 March 2015 pursuant to which the Company provided certain undertakings to Greenwoods China Alpha Master Fund in relation to the extension of the 4% coupon convertible bonds in the aggregate principal amount of HK$815,800,000 issued by the Company;

(f) a letter dated 4 March 2015 pursuant to which the Company provided certain undertakings to HWH in relation to the extension of the 4% coupon convertible bonds in the aggregate principal amount of HK$815,800,000 issued by the Company;

(g) a letter dated 4 March 2015 pursuant to which the Company provided certain undertakings to Sims Metal Management Dragon Holdings Limited in relation to the extension of the 4% coupon convertible bonds in the aggregate principal amount of HK$815,800,000 issued by the Company;

(h) a subscription agreement dated 21 March 2015 between the Company and USUMHK in relation to the subscription of 203,900,000 new shares in the capital of the Company at the subscription price of HK$9.01 per Share;

(i) a conditional subscription agreement dated 27 March 2015 between the Company and USUMHK in relation to the subscription for shares in the capital of the Company for an aggregate amount of HK$2,279,530,000 at an initial subscription price of HK$9.01 per Share;

(j) a letter agreement dated 8 April 2015 between the Company and Sims Metal Management Dragon Holdings Limited in relation to the 4% coupon convertible bonds in the aggregate principal amount of HK$815,800,000 issued by the Company;

(k) a supplemental Letter of Intent dated 29 May 2015 between CTIL and Mr. Li Yuhu to amend certain clauses in the Letter of Intent dated 1 December 2014 between CTIL and Mr. Li Yuhu;

(l) a supplemental Letter of Intent dated 29 May 2015 between Yantai Liheng, CTIL, Mr. Li Yuhu and Yantai Liyang to amend certain clauses in the Letter of Intent dated 1 December 2014 between Yantai Liheng, CTIL, Mr. Li Yuhu and Yantai Liyang;

(m) a memorandum of understanding dated 19 June 2015 between the Company, ITOCHU Corporation ("**Itochu**"), ITOCHU Metals Corporation and SUZUKI SHOKAI Co., Ltd. ("**Suzuki**") in relation to the acquisition of 大連新綠再生資源加工有限公司 (Dalian New Green Recycle & Resources Corporation*) ("**Dalian New Green Recycle & Resources**") and the formation of a new joint venture company. Pursuant to the memorandum of understanding, the Company intends to, through its wholly-owned subsidiary, acquire whilst Itochu and Suzuki intend to sell their respective equity interests, collectively constituting 100% equity interests, in Dalian New Green Recycle & Resources at a consideration to be settled by way of consideration shares to be allotted and issued by the Company to Itochu and Suzuki. Subject to the formal acquisition agreement, the initial issue price per consideration share is HK$13.5 as per the memorandum of understanding;

(n) a master agreement dated 21 August 2015 between Itochu, Suzuki, CTIL and the Company in relation to the acquisition of Dalian New Green Recycle & Resources at a total consideration of RMB345,614,057;

(o) a shareholders' agreement dated 21 August 2015 between CTIL, ITOCHU Metals Corporation and Suzuki in relation to the establishment of a new joint venture company;

(p) a sino foreign joint venture agreement dated 28 November 2015 between Jinlian International Group Limited and 山東大磁場環保工程有限公司(Shandong Dacichang Environmental Engineering Co., Ltd.*) ("**Shandong Dacichang**"), pursuant to which Jinlian International Group Limited and Shandong Dacichang will invest RMB48,000,000 (holding 60% equity interest) and RMB32,000,000 (holding 40% equity interest) respectively in the Investment Company;

(q) a memorandum of understanding dated 9 January 2016 between the Company, CTIL, Itochu, ITOCHU Metals Corporation and Suzuki. to amend certain clauses in the master agreement dated 21 August 2015 Itochu, Suzuki, CTIL and the Company and the shareholders' agreement dated 21 August 2015 between CTIL, ITOCHU Metals Corporation and Suzuki;

(r) an equity transfer agreement dated 16 January 2016 between the Investment Company, indirectly holding 60% equity interest by the Company, and Mr. Li Yuhu, pursuant to which the Investment Company acquires all of the equity interest in Yantai Liheng from Mr. Li Yuhu at the consideration of approximately RMB19.53 million;

(s) an equity transfer agreement dated 16 January 2016 between the Investment Company, indirectly holding 60% equity interest by the Company, and Yantai Liyang, pursuant to which the Investment Company acquires all of the equity interest in Yantai Liheng from Yantai Liyang at the consideration of approximately RMB24.82 million;

(t) the German Debt Purchase Agreement;

(u) a transfer agreement dated 19 May 2016 between the Company and CTRL, a company incorporated under the laws of the British Virgin Islands and an indirectly wholly-owned subsidiary of the Company, pursuant to which CTRL will assume all the rights and obligations of the Company under the German Debt Purchase Agreement once it becomes effective and the Company will remain jointly liable with CTRL for the obligations under the German Debt Purchase Agreement;

(v) the Assignment and Assumption Agreement;

(w) the agency assignment and assumption agreement and fifth amendment to the Credit Agreement entered into on 1 June 2016 between the Company, the US Assignors and the US Borrowers under which certain terms of the Credit Agreement are amended including, among other things, the appointment of the Company as administrative agent under the Credit Agreement;

(x) a fourth forbearance and sixth amendment agreement (the "**Forbearance Agreement**") dated 12 July 2016 among the US Borrowers and the Company, pursuant to which the Company has agreed to forbear exercising its rights and remedies under the Credit Agreement for a limited period of time;

(y) the Restructuring Agreement;

(z) the Bridging Loan Agreement;

(aa) an extension letter agreement dated 27 July 2016 among the US Borrowers and the Company, pursuant to which the parties thereto agreed to amend and extend certain dates in the Forbearance Agreement;

(bb) a sale and transfer agreement dated 4 August 2016 among CRDL, Scholz Beteiligungsgesellschaft and Scholz Holding, pursuant to which CRDL purchased the TTC Loan from Scholz Beteiligungsgesellschaft for a nominal consideration of EUR1.00 (equivalent to approximately HK$8.90). Subject to the satisfaction, or due waiver, of the Restructuring Closing Conditions, the TTC Loan will be transferred from Scholz Beteiligungsgesellschaft to CRDL on the Restructuring Closing Date;

(cc) the Share Purchase Agreement;

(dd) a settlement agreement dated 21 August 2016 among (i) Scholz United States Inc., (ii) Liberty Iron & Metal Holdings, LLC, (iii) Liberty Iron & Metal, LLC, (iv) Diamond Hurwitz Scrap, LLC, (v) Premier Metals Group LLC, (vi) SOD Check Cashing, LLC, (vii) Liberty Acquisition Buckeye, LLC, (viii) Liberty Iron & Metal International, Inc., (ix) LNM Holdings, LLC, (x) Mercer Co., (xi) Interstate Shredding, LLC, (xii) Liberty Ohio Iron & Metal Company, LLC, (xiii) LNM International, Inc., (xiv) Mike Greulich, (xv) Mr. O. Scholz, (xvi) Michael Diamond, (xvii) Joseph Diamond, (xviii) the Company, (xix) Liberty Southwest Holdings, LLC, (xx) Liberty Iron & Metal Southwest, LLC, (xxi) We Buy Scrap Liberty, LLC, (xxii) LSW Shredder, LLC, (xxiii) LSW International, Inc., (xxiv) Limco Inc., (xxv) Gerald Olgin; (xxvi) Chad Olgin; (xxvii) Steven Olgin; (xxviii) Marc Olgin; and (xxix) the Olgin Family Trust, Marc Olgin, Trustee, the Olgin Family Trust, Gerald Olgin, Trustee, Gerald & Marilyn Olgin, Trustees for the MEO Annuity Trust U/T/A dated 27 December 2012, and Gerald & Marilyn Olgin, Trustees for the GO Annuity Trust U/T/A dated 27 December 2012, pursuant to which the parties agree to settle certain affairs in relation to Liberty Iron & Metal Holdings, LLC, including, without limitation, (a) the purchase by Scholz United States Inc. of (1) approximately 36.7% of the equity interests in Liberty Iron & Metal Holdings, LLC for USD1 and (2) certain shareholder loans to Liberty Iron & Metal Holdings, LLC, with an aggregate outstanding principal and interests amount of approximately US$14.3 million for approximately USD9 million, and (b) the mutual release of (1) the selling equity holders and shareholder lenders and (2) the other parties to the settlement agreement, including the Company;

(ee) an unsustainable debt release agreement dated 31 August 2016 among CTRL, CRDL and Scholz Holding, pursuant to which CTRL agreed to irrevocably release approximately EUR224 million (equivalent to approximately HK$2.0 billion) of the German Debt (representing approximately 42.75% of the original nominal amount of the German Debt) and the relevant interest with immediate effect;

(ff) a TTC shareholder loan release agreement dated 31 August 2016 between CRDL and Scholz Holding, pursuant to which CRDL agreed to irrevocably release the TTC Loan with immediate effect; and

(gg) the LSH Membership Interest Purchase Agreement.

9. EXPERTS AND CONSENT

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
DTT	Certified Public Accountants
Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	Member of German Chamber of Public Accountants (Wirtschaftsprüferkammer)

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter as set out in this circular and references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Enlarged Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

10. GENERAL

(a) The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is situated at 48 Wang Lok Street, Yuen Long Industrial Estate, Hong Kong.

(c) The company secretary of the Company is Mr. Liu Huaiyu. Mr. Liu is a member of the Hong Kong Institute of Certified Public Accountants and serves on its Mainland Development Strategies Advisory Panel. He is also a member of The Institute of Chartered Accountants in England and Wales.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(e) In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays) at the branch office of the Company at Suite 1807, Two Pacific Place, 88 Queensway, Hong Kong from the date of this circular and up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) each of the material contracts referred to in the section headed "8. Material Contracts" in this appendix;

(c) the annual reports of the Company for the three years ended 31 December 2013, 2014 and 2015;

(d) the interim report of the Company for the six months ended 30 June 2016;

(e) the accountants' report of Scholz Group, the text of which is set out in Appendix II to this circular;

(f) the report from Deloitte Touche Tohmatsu, on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(g) the letters of consent referred to in the section headed "9. Experts and Consent" in this appendix;

(h) the MT Circular; and

(i) this circular.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Chiho-Tiande Group Limited (the "**Company**") will be held at Suite 1807, Two Pacific Place, 88 Queensway, Hong Kong on Thursday, 15 December 2016 at 10:00 a.m. or any adjournment thereof of for the purpose of considering, and if thought fit, passing with or without modification the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the proposed acquisition (the "**Proposed Acquisition**") of the entire share capital of Scholz Holding GmbH ("**Scholz Holding**"), the share purchase agreement dated 30 August 2016 (the "**Share Purchase Agreement**", a copy of which has been produced to this Meeting marked "A" and initialed by the chairman of this meeting for the purpose of identification), entered into among Chiho Renewable Development Limited ("**CRDL**"), Oliver Scholz ("**Mr. O. Scholz**"), Berndt-Ulrich Scholz ("**Mr. B-U. Scholz**"), Scholz Beteiligungsgesellschaft mbH ("**Scholz Beteiligungsgesellschaft**") and TBD Vermögensverwaltungs GmbH ("**TBD**"), pursuant to which CRDL (as purchaser) has conditionally agreed to purchase, and Mr. O. Scholz, Mr. B-U. Scholz and Scholz Beteiligungsgesellschaft have conditionally agreed to sell, the entire share capital in Scholz Holding for a cash consideration of EUR1.00 (equivalent to approximately HK$8.90) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which is of an administrative nature and ancillary to implementation of the Share Purchase Agreement and the transactions contemplated thereunder."

By Order of the Board
Chiho-Tiande Group Limited
Tu Jianhua
Chairman

Hong Kong, 22 November 2016

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111

Head Office and Principal Place of Business in Hong Kong:
48 Wang Lok Street
Yuen Long Industrial Estate
Hong Kong

Notes:

(1) A member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.

(2) Where there are joint holders of any share of the Company (the "Share"), any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled hereto, but if more than one of such joint holders are present at the meeting, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

(3) To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority, must be deposited at the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the EGM or any adjournment thereof and in such event, the form of proxy will be deemed to be revoked.

(4) The register of members will be closed from Tuesday, 13 December 2016 to Thursday, 15 December 2016, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the identity of the shareholders of the Company who are entitled to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the 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 Monday, 12 December 2016.

(5) Shareholders are advised to read the circular to the shareholders of the Company dated 22 November 2016 which contains information concerning the resolutions to be proposed in this notice.

(6) According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting of the Company must be taken by poll. Accordingly, the Chairman of the EGM will exercise his power under the articles of association of the Company to demand a poll in relation to the proposed ordinary resolutions at the EGM.

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

Executive Directors:	Tu Jianhua, Qin Yongming, Liu Huaiyu
Independent Non-executive Directors:	Loke Yu, Zhu Dajian, Qian Liping