齐合环保
CHIHO

CHIHO ENVIRONMENTAL GROUP LIMITED
齊合環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 976)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS

- The Group recorded a substantial increase in revenue, gross profit and profit for the period in the first half of 2017, which was mainly attributable to Scholz Group's financial performance being fully accounted in this period. The Group completed the acquisition of Scholz Group, a world leading mixed metal recycling giant, at the end of last year.

- The Group recorded a revenue of HK$8,802 million for the first half of 2017, representing an increase of HK$7,289 million or approximately 4.8 times over that of HK$1,513 million in the same period of 2016.

- The Group recorded a gross profit of HK$1,045 million for the first half of 2017, representing an increase of HK$979 million or approximately 14.8 times over that in the same period of 2016.

- The Group recorded a profit for the period of HK$214 million for the first half of 2017, representing a turnaround from the loss for the period of HK$172 million in the same period of 2016.

- The Group sold over 2,424,000 tonnes of mixed metal scrap during the interim period, representing an increase of approximately 9.4 times when compared to 234,000 tonnes in the same period of 2016.

- The Board does not recommend the payment of interim dividend for the six months ended 30 June 2017 (2016: Nil).

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Chiho Environmental Group Limited (the "Company"), I present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017.

The Group's revenue for the first six months of 2017 increased substantially by approximately 4.8 times when compared to the same period of last year, and achieved profit turnaround. The Group completed the acquisition of the entire share capital of Scholz Holding GmbH ("Scholz Holding" and together with its subsidiaries, "Scholz Group"), a world leading mixed metal recycling giant in Germany at the end of last year, and presented consolidated financial statements from 2017 onwards. The outstanding performance by Scholz Group and the Group's main operation base in Greater China, coincided with the gradual recovery of the commodity market, contributed to the Group's better than expected results during the period under review.

The Group implements a "Go Global" strategy and seeks to establish a sustainable business model through vertical integration. This is to ensure the Group's greater participation in the industry while reducing its dependence on any single market and maximising the synergy between different regional segments. Currently, the Group is the only listed metal recycling corporation with major operation bases across three continents (Asia, Europe and North America) in the world. The objective of the Group is to become a global leader in the metal recycling and environmental protection industries. The acquisition of Scholz Group represented an important step for us to achieve such objective.

Established in 1872, Scholz Group is based in Europe, with a business presence spanning Europe, North and Central America. It is one of the largest mixed metal recyclers in the world with advanced end-of-life vehicle processing capability. With over a century of history, Scholz Group has developed several advanced technologies to become one of the few companies capable of handling and recycling multiple types of materials in the world.

2017 INTERIM RESULTS

The operating revenue for the six months ended 30 June 2017 amounted to HK$8,802 million (2016: HK$1,513 million), which increased substantially by 4.8 times when compared to the same period of 2016. The adjusted operating profit and profit for the period were HK$433 million and HK$214 million respectively, achieving a turnaround from the adjusted operating loss and loss for the period of HK$141 million and HK$172 million respectively in the same period of 2016.

REGIONAL PERFORMANCE

Europe and America

The performance of Scholz Group in Europe and America in the first half of 2017 was good. The Group's optimisation measures on the financial situation of Scholz Group including deleveraging, balance sheet restructuring and improving liquidity were effective and helped boost its processing volume. This coincided with the commodity pricing recovery since the end of 2016, contributed to the substantial improvement in its income and earnings when compared to the same period of last year.

In the first half of 2017, the Europe and America recorded a revenue of HK$6,521 million and the adjusted operating profit of HK$232 million.

Scholz Group possesses excellent business managers who have been supporting its operation. With accumulated rich professional knowledge and experience in the industry, these staff members are the Group's important assets. The Group will take further restructuring measures to strengthen Scholz Group's management and organisational efficiency.

In addition, the synergy between the two regional segments were gradually shown, especially with Hong Kong taking up the agency role for Scholz Group for more exports and third party trading business.

Greater China

In the first half of 2017, the revenue of the Greater China region increased by 50.7% to HK$2,281 million when compared to the same period of last year, and the adjusted operating profit of HK$130 million was recorded, making a turnaround from the adjusted operating loss of HK$54 million in the same period of last year. The impressive interim results of the Greater China region were mainly attributable to the growth in the domestic market of non-ferrous metal scrap in China which led to the increase in the sales price, as well as the adjustments to business strategies and strengthened internal management.

In compliance with the regulations on the processing and export of E-waste by the Hong Kong Environmental Protection Department as well as the Promotion of Recycling and Proper Disposal (Electrical Equipment and Electronic Equipment) (Amendment) Ordinance 2016, the Group has invested more than HK$120 million in its plant located in Yuen Long for purchasing various processing lines so as to comprehensively enhance the processing of electronic wastes, waste electrical and electronic equipment and scrap cables, which are expected to be completed, tested and put into operation within this year.

Prospects

Recycling is not just about making money; it is for the benefit of Earth's ecology as well as all mankind and our descendants. As the global population grows, its impact on the environment and resources increases. More recycling will help reduce our damage to the environment, mitigate the exploitation of natural resources, and reduce our reliance on fossil fuels and non-renewable resources.

For the People's Republic of China ("PRC") market, resources recycling plays an important role in the development of its economy, security and society. As the PRC is a developing country with relatively insufficient resources, it is the most effective way to support sustainable development by enhancing the efficiency of natural resource recycling and utilisation.

For the sake of environmental protection, the PRC government has introduced the Implementation Plan of Solid Waste Import Management System Reform as a more stringent system to further regulate the market. We expect that there will be gradually fewer illegal business activities in the market and less illegally imported solid waste, to give room for the domestic solid waste processing and recycling industry to develop within a more regulated framework. This would enhance the competitiveness of large-scale and compliant enterprises such as the Group.

The Group believes that a balance between environmental protection and the development of resources recycling industry could be struck. To go with the flow, we will consider doing preliminary metal scrap processing in the countries of the Association of Southeast Asian Nations or other neighboring countries before exporting them to the PRC to meet its demand for scrap metal resources. On the other hand, we will also consider an upgrade of the plants in Taizhou to engage in deep-processing business. The recycling industry in Europe and America is mature especially in terms of the recycling technologies and establishment of recycling systems, with Scholz Group being an example in this regard. The Group expects to effectively apply those abilities and experience in Europe and America to the PRC market.

Brexit is said to bring challenges to Europe for at least two to three years to come but the Group has no significant investment in the United Kingdom. The Group mainly has investment and operations of a considerable size in Germany and neighboring European Union member countries supplying raw materials for the heavy industrial production of steel, the foundation of which is expected to remain solid. In the current global economic context, we believe the Group's existing business in Europe will continue to recover and maintain reasonable returns.

The Group owns Liberty Iron & Metal Holding, Inc. ("Liberty") through Scholz Group and carries out its business in North and Central America. Such business also developed steadily during the period under review. Liberty is a leading processor and broker of ferrous and non-ferrous metals in North America. This was attributable to the US government encouraging local production, and the brand effect of Liberty.

As the only metal recycling corporation with major operation bases across three continents (Asia, Europe and North America) in the world, we will continue to make full use of our advantages backed by our global layout of operations and Scholz Group and Liberty's brand name, purchasing networks and advanced technology, in order to generate synergy for the Group.

In conclusion, the Group made an exciting start in the first half of 2017. We are delighted but not complacent with this. The business of Scholz Group is now back on the right track. We will continue to implement stringent financial policies on the management of our core business and adopt prudent capital management for all investment activities, to enable the Group to achieve its growth strategy while continuously improving its cash flow and indebtedness position.

Looking ahead to the second half of 2017, the Group will continue to uphold the abovementioned investment management principles and remain cautiously optimistic about the business prospects. I strongly believe a progressive implementation of the Company's strategy is conducive to increasing shareholder value, and look forward to sharing fruitful results with all shareholders in the future.

We attach great importance to the cultural integration among the Group's different regions. We hope to become a multinational and multicultural company. At the same time, we value local wisdom, which we call "glocally".

Last but not least, I would like to extend my gratitude to the loyalty, effort, professionalism and valuable contribution of the Board and all staff members of the Group around the world. I would also like to express my sincere thanks to our clients, suppliers and other business partners for their trust and faith in the Group all along.

INTERIM RESULTS

The Board is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**8,801,545**	1,513,398
Cost of sales		**(7,757,022)**	(1,447,793)
Gross profit		**1,044,523**	65,605
Other income		**50,106**	10,447
Other gains/(losses), net	*4*	**51,519**	(100,457)
Distribution and selling expenses		**(275,863)**	(6,023)
Administrative expenses		**(489,798)**	(110,777)
		380,487	(141,205)
Finance income		**23,238**	9,932
Finance costs		**(185,528)**	(40,760)
Finance costs, net		**(162,290)**	(30,828)
Share of (loss)/profit of an associate		**(33)**	314
Share of profits of joint ventures		**52,861**	–
Profit/(loss) before income tax		**271,025**	(171,719)
Income tax expense	*5*	**(57,033)**	(423)
Profit/(loss) for the period	*6*	**213,992**	(172,142)
Profit/(loss) attributable to:			
Owners of the Company		**197,940**	(170,498)
Non-controlling interests		**16,052**	(1,644)
		213,992	(172,142)
Earnings/(loss) per share attributable to owners of the Company (expressed in HK$ per share)			
Basic earnings/(loss) per share		**0.122**	(0.106)
Diluted earnings/(loss) per share		**0.122**	(0.106)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Profit/(loss) for the period		**213,992**	(172,142)
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		**271,435**	(17,400)
Other comprehensive income/(loss) for the period		**271,435**	(17,400)
Total comprehensive income/(loss) for the period		**485,427**	(189,542)
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		**466,655**	(188,797)
Non-controlling interests		**18,772**	(745)
		485,427	(189,542)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**3,142,497**	3,002,859
Leasehold land and land use rights		**536,441**	529,330
Investment properties		**81,588**	81,754
Intangible assets		**1,298,651**	1,211,412
Investments accounted for using equity method		**502,250**	425,937
Other non-current assets		**89,319**	70,943
Deferred income tax assets		**197,059**	149,568
		5,847,805	5,471,803
Current assets			
Inventories		**2,616,903**	1,808,758
Trade and other receivables	9	**2,403,101**	1,752,379
Fixed return investment		**327,649**	316,800
Financial assets at fair value through profit or loss		**10,368**	–
Amounts due from related parties		**304,034**	262,336
Derivative financial instruments		**10,484**	7,928
Tax recoverable		**9,979**	11,345
Pledged bank deposits		**419,194**	422,732
Cash and cash equivalents		**409,843**	1,656,701
		6,511,555	6,238,979
Assets classified as held for sale		**143,579**	161,234
Total assets		**12,502,939**	11,872,016

	Notes	At 30 June 2017 HK$'000 (Unaudited)	At 31 December 2016 HK$'000 (Audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**16,051**	16,197
Other reserves		**6,689,290**	6,485,848
Accumulated losses		**(2,187,040)**	(2,384,834)
		4,518,301	4,117,211
Non-controlling interests		**(13,978)**	(32,750)
Total equity		**4,504,323**	4,084,461
Non-current liabilities			
Borrowings		**2,020,679**	1,930,123
Derivative financial instruments		**–**	11,944
Retirement benefit obligations		**26,365**	24,086
Other payables		**307,000**	279,485
Deferred income tax liabilities		**491,259**	447,246
		2,845,303	2,692,884
Current liabilities			
Trade and other payables	*10*	**2,041,785**	1,503,501
Current income tax liabilities		**95,103**	113,091
Borrowings		**2,847,815**	3,104,205
Amounts due to related parties		**151,322**	354,311
Derivative financial instruments		**17,288**	19,563
		5,153,313	5,094,671
Total liabilities		**7,998,616**	7,787,555
Total equity and liabilities		**12,502,939**	11,872,016

NOTES:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34"), 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

3. SEGMENT INFORMATION

The Group's revenue represents the amounts received or receivable for the sales of metal scrap, net of sales related taxes, during the period.

There are differences in the basis of operating and reportable segments from the last annual consolidated financial statements.

Before the completion of acquisition of the entire equity interest in Scholz Holding GmbH ("Scholz Holding" and together with its subsidiaries, "Scholz Group"), a world's leading metal recycler in Germany, in December 2016, the legacy Group was originally and principally engaged in metal recycling, including the recycling of mixed metal scrap into copper scrap, steel scrap, aluminum scrap, iron scrap and other metal scrap, foundry business and wholesales business in Greater China region. In the previous interim period of six months ended 30 June 2016, the Group's Chief Operating Decision Maker ("CODM") reviewed the internal report based on gross profit/(loss) derived from different business activities and different products to assess performance and allocate resources of the Group.

After the acquisition of Scholz Group, the Group has extended its metal recycling business from Greater China to worldwide (including Europe and America). The main business activity of the Group is metal recycling while foundry and wholesales businesses become immaterial to the Group. From 2017 onward, the management organises the Group and reviews the Group's financial performance and allocates resources on a geographic basis and hence the operating and reportable segments are identified based on the location of main operation of legacy Group ("Greater China" region) and Scholz Group (Europe and America, collectively known as "Non-Greater China" region).

In current interim period, the Group's CODM assesses the performance of the operating segments based on the measure of adjusted operating profit/(loss). This measurement basis excludes the effects of non-operating gains/(losses), such as gain on bargain purchase on acquisition of a subsidiary, gain/(loss) on fair value change of financial assets at fair value through profit or loss and gain/(loss) on disposal of property, plant and equipment and investment property. The measure also excludes centralised costs such as the Group's key managements' remunerations and other central administrative expenses. Finance income, finance costs, income tax expenses and those unallocated income and expenses are not included in the result for each operating segment that is reviewed by the Group's CODM.

The comparative segment information for the six months ended 30 June 2016 and as at 31 December 2016 has been restated to align with the presentation of the current period's segment information disclosure.

Capital expenditure represents additions of intangible assets, property, plant and equipment and leasehold land and land use rights.

Total segment assets exclude deferred income tax assets, fixed return investment, tax recoverable, financial assets at fair value through profit or loss, derivative financial instruments and cash and cash equivalents which are managed centrally. Information relating to segment liabilities is not disclosed as such information is not regularly reported to the CODM.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Inter-segment sales are charged at prevailing market price.

The following tables present revenue and adjusted operating profit/(loss) information regarding the Group's reportable segments for the six months ended 30 June 2017 and 2016 respectively.

	For the six months ended 30 June							
	2017				2016			
	Greater China	**Non-Greater China**	**Unallocated**	**Total**	Greater China	Non-Greater China	Unallocated	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000* (restated)	*HK$'000* (restated)	*HK$'000* (restated)	*HK$'000* (restated)
Revenue								
External sales	**2,280,981**	**6,520,564**	**–**	**8,801,545**	1,513,398	–	–	1,513,398
Inter-segment sales	**–**	**359,240**	**–**	**359,240**	–	–	–	–
Total segment revenue	**2,280,981**	**6,879,804**	**–**	**9,160,785**	1,513,398	–	–	1,513,398
Adjusted operating profit/(loss)	**130,307**	**231,978**	**71,030**	**433,315**	(54,133)	–	(86,758)	(140,891)
Finance income				**23,238**				9,932
Finance costs				**(185,528)**				(40,760)
Profit/(loss) before income tax				**271,025**				(171,719)
Income tax expense				**(57,033)**				(423)
Profit/(loss) for the period				**213,992**				(172,142)
Depreciation and amortisation expenses	**(37,783)**	**(146,511)**	**–**	**(184,294)**	(27,558)	–	–	(27,558)
Dividend income on financial assets at fair value through profit or loss	**–**	**–**	**13**	**13**	–	–	8,468	8,468
Fair value loss on financial assets at fair value through profit or loss	**–**	**–**	**(1,384)**	**(1,384)**	–	–	(88,581)	(88,581)
Gain on bargain purchase	**–**	**–**	**–**	**–**	–	–	88,940	88,940
Unallocated exchange loss	**–**	**–**	**–**	**–**	–	–	(70,608)	(70,608)
(Loss)/gain on disposal of property, plant and equipment and investment property	**(276)**	**(2,603)**	**47,929**	**45,050**	(162)	–	–	(162)

Segment assets

Reconciliation of segment assets to total assets for the period/year ended 30 June 2017 and 31 December 2016 are provided as follows:

	For the six months ended 30 June			For the twelve months ended 31 December		
	2017			2016		
	Greater China	**Non-Greater China**	**Total**	Greater China	Non-Greater China	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	**3,559,921**	**7,977,636**	**11,537,557**	2,706,914	7,022,760	9,729,674

Segment assets	**11,537,557**	9,729,674
Deferred income tax assets	**197,059**	149,568
Fixed return investment	**327,649**	316,800
Financial assets at fair value through profit or loss	**10,368**	–
Tax recoverable	**9,979**	11,345
Derivative financial instruments	**10,484**	7,928
Cash and cash equivalents	**409,843**	1,656,701
Total assets	**12,502,939**	11,872,016

4. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Gains/(losses) on fair value change of:		
– derivative financial instruments	**17,663**	(331)
– financial assets at fair value through profit or loss	**(1,384)**	(88,581)
– embedded derivative components of convertible bond	**4**	2,468
Gain on bargain purchase on acquisition of a subsidiary	**–**	88,940
Net foreign exchange gain/(loss)	**5,166**	(107,023)
Provision for impairment of trade and other receivables	**(15,872)**	(482)
Reversal of impairment of trade and other receivables	**1,807**	5,154
Gain/(loss) on disposal of property, plant and equipment and investment properties	**45,050**	(162)
Others	**(915)**	(440)
	51,519	(100,457)

5. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the current interim period. No provision for Hong Kong profit tax has been made as the Hong Kong subsidiaries had no assessable profit for last period.

Under the law of the PRC on Enterprise Income Tax (the "EIT") and the relevant EIT Implementation Regulations, the tax rate of PRC EIT was 25% in the previous interim period.

Germany income tax has been provided at rate of approximately 30% on the estimated assessable profit in current interim period.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates respectively. Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

The amount of taxation charged to the condensed consolidated financial information of profit or loss represents:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Current income tax:		
Germany	**54,905**	–
PRC EIT	**–**	141
Hong Kong profits tax	**58**	–
Other jurisdictions	**3,253**	101
	58,216	242
Deferred income tax (credit)/expense	**(1,183)**	181
Income tax expense	**57,033**	423

6. PROFIT/(LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Profit/(loss) for the period has been arrived after charging/(crediting):		
Changes in inventories of finished goods	**(490,903)**	310,190
Raw materials and consumables used	**7,409,811**	1,156,736
Provision for/(utilisation of provision for) inventories, net	**5,164**	(76,167)
Employee benefit expenses	**527,598**	83,465
Depreciation and amortisation expenses	**184,294**	27,558
Legal and professional fee	**66,255**	35,566

7. DIVIDENDS

No dividends were paid, declared or proposed during the current and previous interim periods. The directors of the Company have determined that no dividend will be paid in respect of the six months ended 30 June 2017 and 2016.

8. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Profit/(loss) for the period attributable to owners of the Company	**197,940**	(170,498)
Weighted average number of ordinary shares in issues	**1,617,805,507**	1,606,010,572
Basic earnings/(loss) per share (HK$ per share)	**0.122**	(0.106)

(b) Diluted

Diluted earnings per share equals basic earnings per share as there were no potential dilutive shares in issue during the six months ended 30 June 2017 and 2016.

9 TRADE AND OTHER RECEIVABLES

	At 30 June	At 31 December
	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**2,082,592**	1,475,173
Less: Provision for impairment	**(25,546)**	(17,564)
Trade receivables, net	**2,057,046**	1,457,609
Bills receivables	**–**	1,217
Other receivables	**36,598**	73,953
Deposits and prepayments	**89,061**	67,718
Deposits paid for purchase of raw materials	**77,566**	25,429
VAT recoverable	**142,830**	126,453
	2,403,101	1,752,379

The Group generally grants credit terms ranging from 30 to 90 days to customers upon the approval of management according to the credit quality of individual customers. At 30 June 2017 and 31 December 2016, the aging analysis of the trade receivables based on invoice date were as follows:

	At 30 June	At 31 December
	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**1,817,604**	1,304,704
91 – 180 days	**229,557**	33,658
Over 180 days	**35,431**	136,811
	2,082,592	1,475,173

10. TRADE AND OTHER PAYABLES

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
Trade payable	**1,465,350**	919,923
Other tax payable	**83,961**	37,012
Accrued salaries	**94,645**	111,661
Provision for claims and contingencies	**52,697**	70,748
Accrued professional expenses	**23,767**	50,718
Asset retirement obligations	**75,273**	71,660
Other payables and accruals	**553,092**	521,264
	2,348,785	1,782,986
Less: Non-current portion		
Other payable	**(307,000)**	(279,485)
	2,041,785	1,503,501

The aging analysis of the trade payables based on invoice date was as follows:

	At 30 June 2017 *HK$'000*	At 31 December 2016 *HK$'000*
0 – 90 days	**1,386,919**	825,561
91 – 180 days	**54,534**	23,127
Over 180 days	**23,897**	71,235
	1,465,350	919,923

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

After USUM Investment Group Hong Kong Limited became the Company's single largest shareholder by acquiring 62% interest in the Company at the end of 2015, we had successfully achieved an important milestone by acquiring the entire share capital of Scholz Holding GmbH ("Scholz Holding" and together with its subsidiaries, "Scholz Group") in December 2016. Scholz Group is one of the world's largest mixed metal recycler with advanced end-of-life vehicles processing capability. It has developed several advanced technologies to become one of the few companies in the world capable of handling and recycling multiple types of material. We act as a pioneer to integrate the rather fragmented recycling industry while consolidating and integrating our business operations worldwide.

The Group's performance has significantly improved and an impressive result was recorded in the first half of 2017 due to the following key success factors:

1. A stable economic environment with less commodity price volatility helped the metal recycling industry to recover gradually after it bottomed out in the fourth quarter of 2016.

2. A series of restructuring steps and deleveraging measures were carried out by the Company to improve the operational and financial performance of Scholz Group since the second half of 2016.

3. Synergistic effects were created between the newly acquired business and original businesses.

The Group's performance

The Group recorded a substantial increase in revenue, gross profit and profit for the period in the first half of 2017, which was mainly attributable to the financial performance of Scholz Group being fully accounted in this period and the impressive results of the main operation base in Taizhou in the Greater China region. The Group's revenue was approximately HK$8,802 million in the first half of 2017, representing an increase of approximately 4.8 times compared to approximately HK$1,513 million in the same period of 2016. During the period, the Group's gross profit was approximately HK$1,045 million, representing an increase of approximately 14.8 times when compared with the gross profit of approximately HK$66 million in the same period of 2016. Also, the gross profit ratio improved from 4.3% for the six months ended 30 June 2016 to 11.9% in the same period of 2017. The improvement of the operating performance in the first half of 2017 resulted in a turnaround in the results with profit for the period of HK$214 million, as compared to the loss for the period of HK$172 million in the same period of 2016.

The Group sold in aggregate over 2,424,000 tonnes of recycled products during the first half of 2017. This represents a remarkable increase of 9.4 times when compared to 234,000 tonnes sold in the same period of 2016. 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. Moreover, the Group made efforts to streamline and improve the inventory cycle so as to mitigate the short-term impact of price volatility on the overall performance of the Group.

Basic earnings per share attributable to owners of the Company amounted to HK$0.122 in 2017 (2016: Basic loss per share HK$0.106).

Operation performance

After the acquisition of Scholz Group which was completed in December 2016, the Group has extended the metal recycling business from Greater China to worldwide (including Europe and America). The management organises the Group and reviews the Group's financial performance and allocates resources on a geographical basis and hence the operating and reportable segments are identified based on the location of the main operation bases of the original business ("Greater China" region) and the newly acquired business ("Europe and America" region).

Europe and America

As one of the largest European-based global network of companies and affiliates active in this industry, Scholz Group is principally engaged in processing mixed metal scrap. Founded in 1872, Scholz Group provides all steps in recycling mixed metal scraps and is equipped with the one-stop system for collecting, gathering, sorting and processing. Scholz Group is among the processing and technology leaders in ferrous and non-ferrous metal recycling worldwide. In 2016, Scholz Group sold around 4 million tonnes of recycled ferrous and non-ferrous through its business activities in Europe, North and Central America. Scholz Group has a global network of over 300 collecting and processing yards in 20 countries with a regional focus on Germany, Austria, the Balkans as well as America including Mexico. Sufficient provision of recycling materials, the movement of raw material prices, efficient logistics as well as efficient processing steps are the major factors affecting the business model of Scholz Group. The Group's business in America is mainly carried out by Liberty Iron & Metal Holding, Inc. ("Liberty") in the United State of America ("USA"), which is wholly-owned by Scholz Group.

In the few years before the acquisition of Scholz Group in December 2016, Scholz Group was significantly over-leveraged, poorly managed and its equity value was negative before the acquisition by the Company. Following a series of restructuring steps with respect to its financial situation and deleveraging measures carried out by the Company, its finance costs and legal and professional fees in relation to the restructuring were significantly reduced. In addition, the continuing liquidity provided by the Company increased its working capital and processing volume. Those efforts helped to bring Scholz Group's business back on track by regaining its suppliers and customers' confidence. As a result, the operating performance of Scholz Group has improved since January 2017 which has led to an increase in revenue, ultimately improving the profitability of Scholz Group.

During the current interim period, Scholz Group recorded the revenue of HK$6,521 million, or approximately 74.1% of the total revenue of the Group. During the period, both its processing tonnage and average selling prices of its metal scrap products increased substantially as a result of the gradual recovery of commodity pricing, the strong demand from electric arc furnace in various regions for steel scrap out of Europe and USA, and the increased purchase of steel scrap in USA by metal traders. The adjusted operating profit of Scholz Group for the first half of 2017 was HK$232 million.

Greater China

The global economic outlook showed modest signs of recovery in the first half of 2017, with less volatility in commodity prices and interest rates, alongside the weakening of the U.S. Dollar as the Federal Reserve may not pursue interest rate hikes at market's expectation. These factors provided a stable environment for the metal recycling industry to recover gradually after it bottomed out in the fourth quarter of 2016.

The global metal market had shown a prolonged downward trend in the past six years. After reaching the lowest price level in the first half of 2016, the metal prices rebounded significantly in the fourth quarter of 2016 and have been growing steadily with less volatility since the first half of 2017.

As a result, the average selling prices of our metal scrap products increased substantially, hence the revenue of HK$2,281 million was recorded for the period, which increased significantly by approximately 51% or HK$768 million, when compared to that of HK$1,513 million for the same period in 2016. The stable growth of metal price is the key driver to improve the profitability and the operating performance, hence the adjusted operating profit of HK$130 million was recorded for the six months ended 30 June 2017, making a turnaround from the adjusted operating loss of HK$54 million in the same period of 2016.

The PRC's domestic policy on the import of solid waste is becoming more stringent gradually, which will foster further development and improvement of the domestic solid waste recycling system. Meanwhile, special actions combating illegal behavior in the imported waste processing and utilisation industry are underway. The policy on the import of metal scrap is also under adjustment. These present challenges as well as opportunities for fully compliant enterprises such as the Group.

Some uncertainties over the global economy and metal market in the coming months may affect our business, such as the demand of metal scrap being affected by the slowdown of the growth in infrastructure, excess capacity of ferrous metals continuing and intense competition within the industry despite many small and medium-sized industry peers closing down due to the cyclical decline in last few years. The management still believes that the Group will have a promising prospect in 2017 by capitalising on the synergies created through trading across Europe, North America and Greater China and the full sharing of market intelligence and knowledge.

Our Procurement Network

In 2017, the Group further strengthened its procurement network with established and developed suppliers across the globe, spanning Europe, America, Oceania, the Middle East and East and Southeast Asia. The vast procurement network of Scholz Group comprises over 300 collecting and processing yards mainly located in Europe (Germany, Poland, Austria, Czech Republic, Romania, the Balkans) and over 20 plant sites in North and Central America. We start experiencing synergetic effects within the whole Group by obtaining stable upstream materials and more transparency on the cost of materials by sharing the market information within Europe, America and Greater China and hence enhance our bargaining power with other suppliers. The profitability of the Group has increased as a result of better control of the supply chain.

Our sales

Our recycled metals products are raw materials by nature for which there is a ready market, so long as our selling price is in line with the market price. Our customers select us mainly for our good credibility and steady supply of quality recycled metal products.

In 2017, our sales were made to customers globally while a majority of our sales were made to domestic customers located in the PRC in 2016.

Our production facilities

In Europe, we have over 300 collecting and processing yards located in Germany, Czech, Denmark, Austria, Romania, Poland and the Balkans. We also have over 20 plant sites in the USA and Mexico. In Greater China, our major production facilities are located in Hong Kong, Taizhou (Zhejiang) and Yantai (Shandong).

Corporate and Business Development

The Group will formulate a long-term development policy for Scholz Group to integrate various subsidiaries in Europe and the USA and strive to strengthen organic growth of core businesses so as to increase sales revenue. At the same time, the Group will continue to improve the financial condition of Scholz Group by further reducing its debt and financial expenses and improve its liquidity to gradually enhance its processing capacity. In addition, the synergetic effect between Europe, America and Greater China region is to be enhanced to foster more agency or third party trading businesses through the Hong Kong platform.

As for mainland China, in addition to the principal operation of the metal recycling and foundry business, the Group is considering a business transformation to focus on other deep processing business other than the processing of motor scrap in order to diversify our businesses.

Meanwhile, the Group has upgraded its plant and equipment automation in Hong Kong, with the production facilities expected to be put into operation within this year, which will substantially enhance the Group's processing capacity of electronic waste. In addition, Hong Kong serves as an established trading platform for Scholz Group, and is conducive to the Group's further integration of its domestic and foreign resources and technologies.

The Group will invest renewable resources recycling projects in Tangshan City of the PRC. For more information, please refer to the announcements of the Company dated 31 March 2017, 10 April 2017 and 27 April 2017.

OUTLOOK

The Group expects that the global economy will continue to recover orderly in the second half of this year with stable demand for metal products. The adoption of electric arc furnace, which is more environmentally friendly, for steelmaking in global regions will maintain the demand for recycled metals. It is expected that the commodity market will move steadily upward, supporting the selling prices of the Group's recycled products. In light of the characteristics of the two major business segments, the Group will attach equal importance to organic growth as well as opportunities for mergers and acquisitions in the industrial chain. As resources recycling can benefit the environment, we are fully confident in its future.

Key Financial Ratios

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

	At 30 June 2017	At 31 December 2016
Liquidity Ratios		
Current ratio	**1.26**	1.22
Quick ratio	**0.76**	0.87
Gearing ratio (%)	**38.9**	44.15

	Six months ended 30 June	
	2017	2016
Inventory turnover days	**52**	111
Debtor's turnover days	**37**	7
Creditor's turnover days	**28**	9

Liquidity and Financial Resources and Capital Structure

The net current assets which included cash and various bank balance and pledged bank deposit amounted to HK$829 million (31 December 2016: HK$2,079 million). It was mainly due to the increase in working capital for increasing business operation. As a result, the current ratio increased from 1.22 as at 31 December 2016 to 1.26 as at 30 June 2017, while the quick ratio decreased from 0.87 as at 31 December 2016 to 0.76 as at 30 June 2017. Total external borrowings were approximately HK$4,868 million (31 December 2016: HK$5,034 million). Such borrowings were mainly denominated in Euro, U.S. Dollars and Renminbi. Approximately HK$1,381 million (31 December 2016: approximately HK$638 million) of bank borrowings are at fixed interest rates.

The gearing ratio of the Group as at 30 June 2017 was 38.9% (31 December 2016: 42.4%), which is calculated based on the total external borrowings over total assets.

Debtor's turnover days and creditor's turnover days increased from 7 days and 9 days for the same period of 2016 to 37 days and 28 days for this period of 2017 respectively.

Inventory turnover days decreased from 111 days for the same period of 2016 to 52 days for this period of 2017.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2017, we had pledged certain plant and buildings, land use rights and bank deposits with an aggregate carrying value of approximately HK$4,018 million (31 December 2016: approximately HK$3,446 million) to secure borrowings.

As at 30 June 2017, we 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 condensed consolidated financial information amounted to HK$456 million (31 December 2016: HK$130 million).

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

The Group has contingent liabilities of approximately HK$9 million (31 December 2016: approximately HK$27 million) which consist of non-financial guarantee in favour of investee entities.

A writ of summons was issued by Delco Participation B.V. ("**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$57,827,000 together with interest and costs. The claim relates to an alleged non-payment of a portion of the loans advanced by Delco Asia Company Limited ("**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. The Company filed its defence on 23 September 2016 and further filed its amended defence on 13 December 2016 after Delco added Mr. Fang Ankong ("**Mr. Fang**") as a defendant to the proceedings. The case is still in progress.

Each of Mr. Fang, a former director of the Company, and HWH Holdings Limited ("**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$57,827,000 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.

A writ of summons was issued by Delco as plaintiff on 10 November 2016 in the High Court of Hong Kong (High Court Action No. 2939 of 2016, "**HCA 2939/2016**") against the Company as the 1st defendant, Chiho-Tiande (HK) Limited ("**CTHK**"), a wholly-owned subsidiary of the Company, as the 2nd defendant, HWH as the 3rd defendant and Mr. Fang as the 4th defendant. So far as the Company and its subsidiaries are concerned, Delco claimed against the Company for damages for an alleged breach of a letter of undertaking dated 3 March 2015 in relation to a convertible bond issued by the Company and subscribed for by Delco on 1 March 2012. Delco further claimed against CTHK for a sum of US$1,000,000, allegedly advanced by Delco Asia to CTHK on or around 16 April 2009. Delco further claimed interests, costs and further or other relief. The Company and CTHK gave notice of the intention to contest the proceedings on 23 December 2016. The case is still in progress.

Whilst the Board does not consider HCA 2939/2016 to be a claim of material importance for the reason set out above, details of HCA 2939/2016 are disclosed herein for the sake of completeness.

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, 2015 and 2016 and its annual reports for the years ended 31 December 2014 and 2015. On 18 December 2015, 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. Shanghai JV received the decision from Shanghai High People's Court on 16 February 2017 that the re-trail has been revoked. The Court judgement of the legal proceedings has taken effect and enforced.

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

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 29 July 2016, the Board adopted a revised version of the policy regarding dealings in metal futures contracts (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.chihogroup.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 Euro and Renminbi to U.S. Dollar and other currencies, and consider various measures to minimise the foreign currency risk, such as entering foreign currency forward contracts.

With the relatively low interest rates in 2017, the Group has entered into insignificant amount of interest rate hedging contracts or any other interest rate related derivative financial instruments. 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.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group had a workforce of 5,451 employees. In addition, the Group engaged approximately 2,515 separation and selection workers through local contractors. We have not experienced any strikes, work stoppages or significant labor disputes which have affected its operations in the past and we have not experienced any significant difficulties in recruiting and retaining qualified staff. We continue to maintain good relationships with our employees.

The Group's total staff costs for the current interim period were approximately HK$528 million. The remuneration package of staff consists of basic salary, mandatory provident fund, insurances and other benefits as considered appropriate. Remuneration of the employees of the Group is determined by reference to the market, individual performance and their respective contribution to the Group.

The emoluments of the Directors are subject to the recommendations of the remuneration committee of the Company and the Board's approval. Other emoluments including discretionary bonuses, are determined by the Board with reference to the Directors' duties, abilities, reputation and performance.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Group considers that investor relations are important to a listed company. The Board believes that maintaining good relationship with investors and keeping them up-to-date on the latest corporate communications and business development in a timely fashion would enhance transparency and strengthen corporate governance of the Group. With the support of the Board, Mr. Goh Kian Guan, the Chief Investment Officer and General Manager of Investment & Development Department of the Company, has been assigned to take responsibility for all matters relating to investor relations of the Group.

Going forward, the Company will continue to make effort to keep our investors abreast of the corporate and business developments, and to introduce the Group's strengths and strategies in order to gain support and recognition from them and also the market in general.

CHANGES SINCE 31 DECEMBER 2016

Save as disclosed in this announcement, there were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2016.

CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules after the publication of the Annual Report 2016 of the Company are set out below:

Experience including other directorships

(a) **Mr. Tu Jianhua** (涂建華), an executive Director of the Company, has resigned as the Chairman of the Board and the Chairman of each of the Nomination Committee, the Executive Committee and the Strategy and Investment Committee of the Company with effect from 17 July 2017. The annual salary of Mr. Tu has been adjusted to HK$2,300,000 which is determined with reference to his duties and responsibilities in the Company, qualificiations, experience, the prevailing market conditions and the Company's remuneration policy.

(b) **Mr. Qin Yongming** (秦永明), an executive Director of the Company, has resigned as the Chief Executive Officer of the Company and has been re-designated as the Chairman of the Board and the Chariman of each of the Executive Committee and the Strategy and Investment Committee of the Company and has been appointed as the Chariman of the Nomination Committee of the Company with effect from 17 July 2017. The annual salary of Mr. Qin has been adjusted to HK$2,800,000 which is determined with reference to his duties and responsibilities in the Company, qualificiations, experience, the prevailing market conditions and the Company's remuneration policy.

(c) **Mr. Zhu Patrick Xiangdong** (朱向東), an executive Director of the Company, has tendered his resignation as the Vice President and Chief Operation Officer of the Company and has been re-designated as the Chief Executive Officer of the Company with effect from 17 July 2017. The annual salary of Mr. Zhu has been adjusted to HK$2,400,000 which is determined with reference to his duties and responsibilities in the Company, qualificiations, experience, the prevailing market conditions and the Company's remuneration policy.

(d) **Dr. Loke Yu alias Loke Hoi Lam** (陸海林), an independent non-executive Director of the Company, has been appointed as an independent non-executive Director at Hong Kong Resources Holdings Company Limited (Stock Code: 2882) with effect from 31 May 2017 and he became a fellow member of the Hong Kong Independent Non-Executive Director Association in 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company recognises the importance of corporate transparency and accountability and is committed to achieving a high standard of corporate governance. Throughout the six months ended 30 June 2017, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report, contained in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all Directors, who have confirmed that, during the six months ended 30 June 2017, they have complied with provisions of the Model Code.

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

During the six months ended 30 June 2017, the Company repurchased 14,586,000 ordinary shares on the Stock Exchange at an aggregate consideration of HK$65,565,000. The highest and lowest prices paid were HK$5.27 and HK$3.34, respectively. The repurchase was effected by the Directors for the enhancement of shareholders' value.

Except as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2017.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017. Accordingly, no closure of the Register of Members of the Company is proposed.

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the "**Audit Committee**") comprises all three independent non-executive directors, namely Dr. Loke Yu (as chairman), Mr. Zhu Dajian and Ms. Qian Liping. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the financial reporting matters and internal control systems, including review and approval of the Group's unaudited condensed consolidated results for the six months ended 30 June 2017.

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

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chihogroup.com). The interim report of the Company for the six months ended 30 June 2017 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and posted on the above websites in due course.

APPRECIATION

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

By order of the Board
Chiho Environmental Group Limited
Qin Yongming
Chairman

Hong Kong, 28 August 2017

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

Executive Directors:	Tu Jianhua, Qin Yongming, Zhu Patrick Xiangdong
Independent Non-Executive Directors:	Loke Yu, Zhu Dajian, Qian Liping

* *For identification purpose only*