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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- The Group recorded a substantial increase in revenue, gross profit and net profit in 2017. This was mainly attributable to the consolidation of the financial performance of the Scholz Group after its acquisition, performance improvement, as well as the recovery of ferrous and non-ferrous metal prices.

- The Group recorded a revenue of HK$18,491.0 million in 2017, representing a significant increase of HK$15,279.6 million or approximately 4.8 times higher compared to HK$3,211.4 million in 2016.

- The Group recorded a gross profit of HK$2,329.0 million in 2017, representing an increase of HK$2,110.4 million or approximately 9.7 times higher compared to the HK$218.6 million recorded in 2016. The gross profit margin also increased from 6.8% in 2016 to 12.6% in 2017, mainly due to higher margin in Europe and America regions.

- The Group recorded a profit attributable to shareholders of the Company of HK$426.8 million, increased substantially by HK$866.7 million, representing a turnaround from a loss of HK$439.9 million in 2016.

- The equity attributable to shareholders of the Company was HK$5,073.1 million, representing an increase of HK$955.9 million or approximately 23.2% compared to HK$4,117.2 million in 2016.

- The Board does not recommend the payment of final dividend in 2017 (2016: Nil).

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Chiho Environmental Group Limited (the "**Company**"), I present the audited consolidated financial results of the Company and its subsidiaries (the "**Group**", "**we**" or "**our**") for the year ended 31 December 2017.

The Board's aspiration on the Group is "Surpass, Transform and Excel". 2017 was undoubtedly a year that we surpassed our previous achievements, and at the same time transformed the Group into a truly multi-cultural, diversified, global group. With a strong foundation now, we will ultimately excel to help shape the sustainability development of the People's Republic of China ("**PRC**" or "**China**") and play a leading role in the global resources recycling industry.

The Group's revenue in 2017 surpassed the ten billion Hong Kong dollar mark, achieving record revenue of HK$18.5 billion. It increased substantially by approximately 4.8 times when compared to last year, and the Group achieved a strong 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 at the end of 2016, and presented consolidated financial statements from 2017 onwards. The outstanding turnaround efforts by the management, coincided with the gradual recovery of the commodity market, contributed to the Group's strong performance in 2017.

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 and Central America) in the world. The Group is one of the largest metal recyclers globally. The objective of the Group is to become a global leader in the resources recycling and environmental protection industries.

Established in 1872, the 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 ("**ELV**") 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. With the acquisition of Scholz Group, the Group has proudly become one of the top global players in the metal recycling industry.

During 2017, lots of efforts had been put into strengthening the leadership capability of the Group. I am confident that the new executive management team, with rich industrial and professional experience, will be able to bring the Group to a even higher level of performance.

2017 Annual Results

The operating revenue for the year ended 31 December 2017 amounted to HK$18,491.0 million (2016: HK$3,211.4 million), which increased substantially by approximately 4.8 times when compared to 2016.

The annual profit attributable to shareholders of the Company for the year ended 31 December 2017 was HK$426.8 million, achieving a turnaround from the loss attributable to shareholders of the Company of HK$439.9 million in 2016. The basic and diluted earnings per share for 2017 are HK$0.26, representing a substantial increase of 2.0 times year-on-year (2016: loss per share HK$0.27).

Regional Performance

Europe and America

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

In 2017, Europe and America recorded a revenue of HK$13,677.4 million and an segment profit of HK$457.8 million.

The Group's European and American operations possess 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 improvement measures to strengthen the region's management and organisational efficiency.

In addition, the synergy among different geographical segments are gradually shown, especially with Hong Kong as an important trading hub for the far east and access point to the Chinese markets.

Greater China

In 2017, the revenue of the Greater China region increased by 49.9% to HK$4,813.6 million when compared to last year, and a segment profit of HK$295.9 million was recorded, making a turnaround from the segment loss of HK$243.5 million in last year. The impressive results of the Greater China region were mainly attributable to the strong performance of our Taizhou processing plant through efficiency improvement, tighter cost control and a favorable rising price trend of non-ferrous metals throughout the year.

Strongly supported by the Hong Kong Environmental Protection Department, the Group has invested more than HK$120 million in 2017 in its processing plant located in Yuen Long to install two automatic processing lines so as to comprehensively enhance the processing of WEEE (Waste Electrical and Electronic Equipment) and scrap cables. These facilities will become operational in 2018.

Prospects

Recycling is not just about profiteering; it is for the benefit of the environment as well as of all the mankind and future generations. As the global population grows, the environmental footprints and demand for resources increase. More recycling will help reduce our dependency on natural resources from mining, thereby reducing impacts to the environment and reducing our reliance on fossil fuels and non-renewable resources.

For China, resources recycling plays an important role in the development of its economy, security and society. As China is rapidly growing with relatively insufficient resources, the most effective way to support sustainable development is by enhancing the efficiency of natural resources recycling and utilisation.

For the sake of environmental protection, the Chinese government has introduced the Implementation Plan for Prohibiting the Entry of Foreign Garbage and Advancing the Reform of the Solid Waste Import Administration System as a more stringent system reform to further regulate the market. During the summer time of 2017, there was a large-scale inspection carried out by the Chinese government to address illegal and environmentally non-complying operations in China. Our Taizhou plant was one of the few that successfully passed the inspection outright. Looking forward, we expect that there will be fewer illegal and non-complying business activities in the market, giving more opportunities to large-scale players like our Group.

Starting in 2018, China imposed stricter import restrictions on category 7 scrap motors. Instead of granting an annual import quota for the year, the Chinese authorities have decided to determine the import quotas to be granted on a quarterly basis. While our Taizhou plant is still the company that has been granted with the largest share of the quotas (58%), reflecting the leading position of the Group, we have to adopt a cautious but proactive approach in dealing with this change. We will thus increase our capacity in downstream processing of aluminium ingots production, as well as expanding our trading activities through leveraging our strong and large suppliers' network globally. We also look at this import restriction to be an opportunity for our Group to leverage our off-shore processing capability in Hong Kong, Europe and America to supply cleaner and processed materials into China, as well as to plan domestic collection and processing business in China, backed by the Group's expertise and track record in Europe and America.

China will bound to become a market with an improved regulatory framework. We expect that there will soon be proper government policies that will favor the development of the end of life vehicles processing activities. The Group will leverage on its industry-leading expertise and technology to enter this area.

While China will be the future engine of our growth, the Group's operation in Europe and America is expected to continue to consolidate, improve, and contribute a substantial source of revenue and profit of the Group. Continuous efficiency improvement and cost management will improve the margin of the business, while equal focus will be put on cultivating cross learning opportunities across different countries. Capacity and asset utilisation rate are expected to increase as we work on top line volume and sales growth through strengthened key account management focus and providing excellent customer service.

Going forward, while we will continue to drive organic growth, equal attention will be put on looking for other merger and acquisition opportunities, not only in metal recycling but also in other related environmentally friendly operations, to enable the Group to realise its mission as a resource recycling leader.

As a multinational company, we attach great importance to the cultural integration among the Group's different regions. We aspire to become a multicultural global company with local wisdoms fully respected.

In July 2017, a dedicated public relations and investor relations department was set up so that the Group can communicate and reach out to the global investor community more effectively. During the year, the Group won several awards including "the Most Valuable Medium-and-Small-cap Stock Award" and "2017 China Financial Market Award – Best Investment Value Award". Going forward, we expect continuous improvement in public and investor relations so as to improve the brand image of the Company and its dialogue with the investor community.

In conclusion, in 2017, the Group had a successful year of turning around the business from loss-making to profit-making. We are delighted but not complacent with this. Our business is now back on the right track.

Looking ahead to 2018, we will continue to implement stringent financial and risk management policies on our 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. The Group is cautiously optimistic about the business prospects. We strongly believe that a progressive implementation of the Company's strategy is conducive to increasing shareholder value, and we look forward to sharing fruitful results with all shareholders in the future.

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 customers, suppliers and other business partners for their trust and faith in the Group.

ANNUAL RESULTS

The Board is pleased to present the audited consolidated results of the Group for the year ended 31 December 2017 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") as follows (together with the comparative figures for the year ended 31 December 2016):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	**2017** ***HK$M***	2016 *HK$M*
Revenue	*3*	**18,491.0**	3,211.4
Cost of sales	*5*	**(16,162.0)**	(2,992.8)
Gross profit		**2,329.0**	218.6
Other income		**113.9**	15.2
Other gains/(losses), net	*4*	**237.1**	(335.1)
Distribution and selling expenses	*5*	**(562.3)**	(15.1)
Administrative expenses	*5*	**(1,303.0)**	(293.5)
		814.7	(409.9)
Finance income		**38.8**	47.9
Finance costs		**(416.1)**	(82.0)
Finance costs, net	*6*	**(377.3)**	(34.1)
Share of profit of an associate		**0.2**	0.4
Share of profit of joint venture		**108.6**	–
Profit/(loss) before income tax		**546.2**	(443.6)
Income tax (expense)/credit	*7*	**(110.6)**	0.4
Profit/(loss) for the year		**435.6**	(443.2)
Profit/(loss) attributable to:			
Shareholders of the Company		**426.8**	(439.9)
Non-controlling interests		**8.8**	(3.3)
		435.6	(443.2)
Earnings/(loss) per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
Basic earnings/(loss) per share	*9*	**0.26**	(0.27)
Diluted earnings/(loss) per share	*9*	**0.26**	(0.27)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	HK$M	*HK$M*
Profit/(loss) for the year	**435.6**	(443.2)
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**609.5**	(40.6)
Items that will not be reclassified to profit or loss:		
Remeasurement of post-employment benefit obligations	**0.4**	–
Other comprehensive income/(loss) for the year	**609.9**	(40.6)
Total comprehensive income/(loss) for the year	**1,045.5**	(483.8)
Total comprehensive income/(loss) for the year attributable to:		
Shareholders of the Company	**1,033.3**	(483.3)
Non-controlling interests	**12.2**	(0.5)
	1,045.5	(483.8)

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Notes	2017 HK$M	2016 HK$M (restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**3,559.3**	2,873.4
Leasehold land and land use rights		**412.9**	529.3
Investment properties		**3.5**	81.8
Intangible assets		**1,207.7**	1,008.3
Investments accounted for using the equity method		**591.2**	447.9
Other non-current assets		**128.8**	65.3
Deferred income tax assets		**168.1**	177.4
		6,071.5	5,183.4
Current assets			
Inventories		**2,338.5**	1,773.5
Trade and other receivables	*10*	**1,992.4**	1,751.1
Fixed return investment		**339.0**	316.8
Amounts due from related parties		**205.6**	262.5
Derivative financial instruments		**6.1**	7.9
Tax recoverable		**25.8**	23.1
Pledged bank deposits		**95.0**	422.7
Cash and cash equivalents		**976.4**	1,656.7
		5,978.8	6,214.3
Assets classified as held for sale		**43.4**	388.0
Total assets		**12,093.7**	11,785.7

	Notes	**2017** ***HK$M***	2016 *HK$M* (restated)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.2
Other reserves		**7,018.9**	6,485.9
Accumulated losses		**(1,961.9)**	(2,384.9)
		5,073.1	4,117.2
Non-controlling interests		**(26.0)**	(32.8)
Total equity		**5,047.1**	4,084.4
Non-current liabilities			
Borrowings		**1,133.0**	1,960.2
Derivative financial instruments		**–**	11.9
Retirement benefit obligations		**26.7**	24.1
Other payables		**105.2**	292.8
Deferred income tax liabilities		**416.5**	379.4
		1,681.4	2,668.4
Current liabilities			
Trade and other payables	*11*	**2,092.0**	1,487.1
Current income tax liabilities		**113.2**	108.4
Borrowings		**3,022.2**	3,057.7
Amounts due to related parties		**110.9**	360.1
Derivative financial instruments		**26.9**	19.6
		5,365.2	5,032.9
Total liabilities		**7,046.6**	7,701.3
Total equity and liabilities		**12,093.7**	11,785.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Chiho Environmental Group Limited (formerly known as Chiho-Tiande Group Limited) ("the Company") is an investment holding company. The Company and its subsidiaries (together "the Group") are mainly engaged in the principal business of metal recycling, involving the recycling of mixed metal scrap into copper scrap, steel scrap, aluminium scrap, iron scrap and other metal scrap in Asia, Europe and America.

The Company is incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's ultimate holding company is Loncin Group Co., Ltd. ("Loncin Group"), a limited liability company incorporated in the People's Republic of China (the "PRC"), and the Company's immediate holding company is USUM Investment Group Hong Kong Limited ("USUMHK"), a company incorporated in Hong Kong with limited liability. Loncin Group is 98% owned by Mr. Tu Jianhua ("Mr. Tu"), an executive director of the Company.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in Hong Kong Dollar ("HK$"), unless otherwise stated.

2 BASIS OF PREPARATION

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

During the year, the Group finalised the purchase price allocation and the assessment of the fair values of the identifiable assets and liabilities of the Scholz Group. The comparative information in the consolidated balance sheet have been restated reflecting the measurement period adjustments. Please refer to Note 12 for details.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

Amendment to HKAS 7, "Disclosure initiative". This amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Amendment to HKAS 12, "Recognition of deferred tax assets for unrealised losses". This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value.

Amendment from annual improvements to HKFRSs 2014-2016 Cycle, on HKFRS 12, "Disclosure of interests in other entities".

The amendments do not have a significant impact on the Group's consolidated financial statements.

(b) The following new standards, new interpretations and amended standards have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group

The following new standards and interpretations and amendments to existing standards are not effective for financial year beginning on 1 January 2017, and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKAS 28 (Amendment)	Long-term interests in an associate or joint ventures	1 January 2019
HKAS 40 (Amendment)	Transfers of investment property	1 January 2018
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (Amendment)	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"	1 January 2018
HKFRS 9	Financial instruments	1 January 2018[(i)]
HKFRS 9 (Amendment)	Prepayment features with negative compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	Not yet established by HKICPA
HKFRS 15	Revenue from contracts with customers	1 January 2018[(ii)]
HKFRS 15 (Amendment)	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019[(iii)]
HKFRS 17	Insurance contracts	1 January 2021
HKFRSs (Amendments)	Annual improvements 2014-2016 cycle	1 January 2018
HKFRSs (Amendments)	Annual improvements 2015-2017 cycle	1 January 2019
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019

The above new standards, new interpretations and amended standards are not expected to have a material impact on the consolidated financial statements of the Group, except those set out below:

(i) HKFRS 9 "Financial instruments"

Nature of change

HKFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The equity investment that is currently classified as available-for-sale will satisfy the conditions for classification as at fair value through other comprehensive income ("FVOCI") and the debt instruments currently classified as loans and receivables meet the conditions for classification at amortised cost under HKFRS 9. Hence there will be no change to the accounting for these assets. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to the statement of profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. For the year ended 31 December 2017, no gains were recognised in the consolidated statement of profit or loss in relation to the disposal of available-for-sale financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 "Financial instruments: Recognition and measurement" and have not been changed. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under "HKFRS 15 Revenue from contracts with customers", lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

HKFRS 9 is mandatory for financial years starting on or after 1 January 2018. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2018.

(ii) HKFRS 15 "Revenue from contracts with customers"

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management is currently assessing the effects of applying the new standard on the Group's financial statements and anticipates that the application of HKFRS 15 may result in the identification of separate performance obligations in relation to revenue contracts which could affect the timing of the recognition of revenue going forward. However, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amount of revenue recognised in the respective reporting periods. More detailed assessments will be carried out by the Group to estimate the impact of the new rules on the Group's financial statements.

Date of adoption by the Group

HKFRS 15 is mandatory for financial years starting on or after 1 January 2018. The new standard is not expected to be applied by the Group until the financial year ending 31 December 2018.

(iii) HKFRS 16 "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Date of adoption by the Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 year.

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 year ended 31 December 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 year, the Group's CODM assesses the performance of the operating segments based on the measure of segment profit/(loss). This measurement basis excludes the effects of non-operating gains/(losses), such as gain on bargain purchase on acquisition of subsidiaries, gain/(loss) on fair value change of financial assets at fair value through profit or loss. 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 year ended 31 December 2016 and as at 31 December 2016 has been restated to align with the presentation of the current year's segment information disclosure.

Total segment assets exclude deferred income tax assets, fixed return investment, tax recoverable, 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 segment profit/(loss) information regarding the Group's reportable segments for the year ended 31 December 2017 and 2016 respectively.

	For the year ended							
	31 December 2017				31 December 2016			
	Greater China *HK$M*	**Non-Greater China** *HK$M*	**Unallocated** *HK$M*	**Total** *HK$M*	Greater China *HK$M* (restated)	Non-Greater China *HK$M* (restated)	Unallocated *HK$M* (restated)	Total *HK$M* (restated)
Revenue								
External sales	4,813.6	14,260.6	–	19,074.2	3,211.4	–	–	3,211.4
Inter-segment sales	–	(583.2)	–	(583.2)	–	–	–	–
Total segment revenue	4,813.6	13,677.4	–	18,491.0	3,211.4	–	–	3,211.4
Segment profit/(loss)	295.9	457.8	169.8	923.5	(243.5)	–	(166.0)	(409.5)
Finance income				38.8				47.9
Finance costs				(416.1)				(82.0)
Profit/(loss) before income tax				546.2				(443.6)
Income tax expense				(110.6)				0.4
Profit/(loss) for the year				435.6				(443.2)
Depreciation and amortisation expenses	(77.7)	(281.2)	(40.2)	(399.1)	(60.7)	–	–	(60.7)
Dividend income	–	–	6.1	6.1	–	–	8.5	8.5
Fair value loss on financial assets at fair value through profit or loss	–	–	(17.2)	(17.2)	–	–	(102.0)	(102.0)
Gain on bargain purchase on acquisition of subsidiaries	–	–	96.8	96.8	–	–	88.9	88.9
Unallocated exchange loss	–	–	–	–	–	–	(70.6)	(70.6)
Gain/(loss) on disposal of property, plant and equipment, investment properties and leasehold land and land use rights	–	–	270.5	270.5	–	–	(38.3)	(38.3)
Gain on disposal of assets classified as held for sale	–	–	38.5	38.5	–	–	–	–
Provision for impairment on property, plant and equipment and leasehold land and land use rights	–	–	(106.7)	(106.7)	–	–	–	–

Segment assets

Reconciliation of segment assets to total assets as at 31 December 2017 and 31 December 2016 are provided as follows:

	As at					
	31 December 2017			31 December 2016		
	Greater China	**Non-Greater China**	**Total**	Greater China	Non-Greater China	Total
	HK$M	***HK$M***	***HK$M***	*HK$M*	*HK$M*	*HK$M*
				(restated)	(restated)	(restated)
Segment assets	**3,036.5**	**7,541.8**	**10,578.3**	2,704.8	6,899.0	9,603.8
Deferred income tax assets			**168.1**			177.4
Fixed return investment			**339.0**			316.8
Tax recoverable			**25.8**			23.1
Derivative financial instruments			**6.1**			7.9
Cash and cash equivalents			**976.4**			1,656.7
Total assets			**12,093.7**			11,785.7

Geographical information

Non-current assets, other than financial instruments and deferred tax assets (there are no employee benefit assets and rights arise contracts), and analysed by geographic regions as follows:

	As at 31 December 2017	As at 31 December 2016
	HK$M	*HK$M*
		(restated)
Asia *(Note)*	**1,127.3**	1,284.8
Europe	**4,068.0**	3,106.4
America	**586.7**	562.7
Total	**5,782.0**	4,953.9

The analysis of revenue by geographic regions is as follows:

	For the year ended 31 December	
	2017	2016
	HK$M	*HK$M*
Asia *(Note)*	**4,813.6**	3,211.4
Europe	**11,626.4**	–
America	**2,051.0**	–
Total	**18,491.0**	3,211.4

Note: Asia represents Hong Kong and the PRC

Analysis of revenue by category

	For the year ended 31 December	
	2017	2016
	HK$M	*HK$M*
Metal recycling		
– Ferrous metal	**9,616.0**	490.3
– Non-ferrous metal	**7,792.3**	2,076.7
Forging and foundry	**259.8**	216.4
Others	**822.9**	428.0
Total	**18,491.0**	3,211.4

Information about major customers

No single customer contributed 10% or more to the Group's revenue during the year ended 31 December 2017 and 2016.

4 OTHER GAINS/(LOSSES), NET

	2017	2016
	HK$M	*HK$M*
(Losses)/gains on fair value change of:		
– derivative financial instruments	**(15.5)**	3.3
– financial assets at fair value through profit or loss	**(1.7)**	(105.3)
– embedded derivative components of convertible bond	**–**	9.6
Foreign exchange gain/(loss), net	**1.3**	(298.2)
Provision for impairment of trade and other receivables, net of reversal	**(49.3)**	6.6
Provision for impairment of property, plant and equipment	**(14.3)**	–
Provision for impairment of leasehold land and land use rights	**(92.4)**	–
Gain/(loss) on disposal of property, plant and equipment	**16.0**	(0.9)
Gain on disposal of investment properties	**254.5**	–
Gain on disposal of assets classified as held for sale	**38.5**	–
Loss on disposal of leasehold land and land use rights	**–**	(37.4)
Gain on bargain purchase on acquisition of subsidiaries	**96.8**	88.9
Others	**3.2**	(1.7)
	237.1	(335.1)

5 EXPENSES BY NATURE

	2017	2016
	HK$M	*HK$M*
Changes in inventories of finished goods	**(107.9)**	(243.8)
Raw materials and consumables used	**14,784.7**	3,121.8
Provision for/(utilisation of provision for) inventories, net	**5.4**	(76.0)
Employee benefit expense	**1,135.3**	185.5
Depreciation and amortisation expenses	**399.1**	60.7
Legal and professional expenses	**133.6**	106.6
Other expenses	**1,677.1**	146.6
Total cost of sales, distribution and selling expenses and administrative expenses	**18,027.3**	3,301.4

6 FINANCE COSTS, NET

	2017	2016
	HK$M	*HK$M*
Interest income from bank deposits	**14.7**	5.9
Interest income from loan to the Scholz Group (pre-acquisition)	**–**	25.2
Interest income from related parties	**1.9**	–
Interest income from fixed return investment	**22.2**	16.8
Finance income	**38.8**	47.9
Interest expense on loan from the immediate holding company	**(0.2)**	(3.7)
Interest expense on loan from an intermediate holding company	**(1.4)**	(1.0)
Interest expense on loan from related parties	**(1.5)**	–
Interest expense on bank loans, overdrafts and bills payable	**(168.5)**	(36.8)
Interest expense on note payable	**(218.3)**	(6.9)
Interest on finance lease	**(10.5)**	–
Effective interest expenses on other borrowings	**(13.7)**	(22.7)
Effective interest expenses on convertible bond	**(2.0)**	(10.9)
Finance costs	**(416.1)**	(82.0)
Finance costs, net	**(377.3)**	(34.1)

7 INCOME TAX (EXPENSE)/CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

Under the law of the PRC on Enterprise Income Tax (the "EIT") and the relevant EIT Implementation Regulations, the PRC EIT has been provided at the rate of 25% (2016: 25%) on the estimated assessable profit for the year.

Germany and USA income tax have been provided at rate of approximately 30% and 39% respectively, on the estimated assessable profit in current year.

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.

	2017	2016
	HK$M	*HK$M*
Current income tax:		
Germany	**(85.5)**	–
PRC EIT	**(6.5)**	–
Hong Kong profits tax	**(3.1)**	(0.1)
USA	**(12.9)**	–
Other jurisdictions	**1.7**	(0.1)
	(106.3)	(0.2)
Under provision in prior years:		
Germany	**(20.2)**	–
PRC EIT	**–**	(0.1)
Hong Kong profits tax	**–**	(0.1)
	(20.2)	(0.2)
Deferred income tax credit	**15.9**	0.8
Income tax (expense)/credit	**(110.6)**	0.4

8 DIVIDENDS

No dividend was paid or proposed during 2017 and 2016, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the year ended 31 December 2017 and 2016.

9 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	2017	2016
	HK$M	*HK$M*
Profit/(loss)		
Profit/(loss) for the year attributable to shareholders of the Company	**426.8**	(439.9)
Number of shares		
Weighted average number of ordinary shares in issues	**1,611,426,900**	1,612,911,939
Basic earnings/(loss) per share (expressed in HK$)	**0.26**	(0.27)

(b) Diluted

The Company has no potentially dilutive shares outstanding during the year ended 31 December 2017.

Diluted loss per share for last year equals basic loss per share as the exercise of the outstanding share options and convertible bonds would be anti-dilutive.

10 TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$M	*HK$M*
		(restated)
Trade receivables	**1,434.5**	1,457.3
Less: Provision for impairment	**(127.8)**	(17.6)
Trade receivables, net	**1,306.7**	1,439.7
Bills receivables	**0.6**	1.2
Other receivables	**308.1**	64.4
Deposits and prepayments	**191.8**	67.7
Deposits paid for purchase of raw materials	**55.1**	51.7
VAT recoverable	**130.1**	126.4
	1,992.4	1,751.1

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 31 December 2017 and 2016, the aging analysis of the trade receivables based on invoice date were as follows:

	2017	2016
	HK$M	*HK$M*
0 – 90 days	**1,335.7**	1,286.8
91 – 180 days	**37.8**	33.7
Over 180 days	**61.0**	136.8
	1,434.5	1,457.3

11 TRADE AND OTHER PAYABLES

	2017	2016
	HK$M	*HK$M*
		(restated)
Trade payables	**1,192.8**	919.9
Other taxes payable	**180.3**	37.0
Accrued salaries and employee benefits	**132.0**	113.7
Provision for claims and contingencies	**19.6**	45.6
Accrued professional expenses	**47.7**	68.8
Asset retirement obligations	**85.4**	85.0
Other payables and accruals	**539.4**	509.9
	2,197.2	1,779.9
Less: non-current portion		
Asset retirement obligations	**(85.4)**	(85.0)
Other payables	**(19.8)**	(207.8)
	2,092.0	1,487.1

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

	2017	2016
	HK$M	*HK$M*
0 – 90 days	**1,133.5**	825.6
91 – 180 days	**17.5**	23.1
Over 180 days	**41.8**	71.2
	1,192.8	919.9

The carrying amounts of the trade and other payables approximate their fair values.

12. BUSINESS COMBINATION

The purchase price allocation of the acquisition of Scholz Group in 2016 was completed in December 2017. The Group retrospectively adjusted the provisional amounts recognised at the acquisition date to reflect new information obtained about the facts and circumstances that existed as of the acquisition date. This resulted in an adjustment to certain assets and liabilities due to the completion of the valuation of the fair values as at the date of acquisition, along with a corresponding decline in goodwill in the consolidated balance sheet amounted to HK$157.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The Group recognised a record-high revenue in the year ended 2017, which was mainly attributable to the financial performance of Scholz Group being fully accounted for in this year together with ferrous and non-ferrous metal prices recover gradually after it bottomed out in the fourth quarter of 2016. The Group's revenue was approximately HK$18,491.0 million in 2017, representing a significant increase of approximately 4.8 times compared to approximately HK$3,211.4 million in 2016.

	2017		2016		Increase/ (decrease)
		As a percentage of revenue		As a percentage of revenue	
	HK$M		*HK$M*		*HK$M*
Greater China	**4,813.6**	**26.0%**	3,211.4	100%	1,602.2
Non Greater China	**13,677.4**	**74.0%**	–	0%	N/A
Total	**18,491.0**	**100.0%**	3,211.4	100%	15,279.6

Gross Profit/Margin

Gross profit for the financial year ended 2017 was HK$2,329.0 million, an increase of HK$2,110.4 million or approximately 9.7 times compared to the HK$218.6 million recorded in the previous financial year. Gross profit margin for the year also increased from 6.8% to 12.6%. The increase in gross profit and gross profit margin was mainly attributable to:

- newly acquired Scholz Group contributed additional gross profit, with a higher gross profit margin
- synergistic effects between the European, US and Greater China operations
- Greater China region enhanced the production efficiency through skills transferring from European and US
- favorable price trends of ferrous and non-ferrous metals in this year

Profit before interest and tax (EBIT)/Margin

EBIT for the year ended 2017 was HK$923.5 million, a significant increase of HK$1,333.0 million or 325.5% compared with the previous financial year. EBIT margin also increased from negative 12.8% to positive 5.0%. The increase in both EBIT and EBIT margin was mainly due to:

- the stable improvement in global economic environment with less commodity price volatility helped the metal recycling industry to recover gradually
- Improvement of operational performance in all regions
- Last year's legal and professional expenses mainly for acquisitions of the Scholz Group and re-engineering of existing operations decreased significantly during the financial year 2017

Total operating expenses were HK$1,865.3 million, an increase of 504.4% over the last financial year. Total operating expenses as a percentage of the Group's revenue increased from 9.6% to 10.1%.

Distribution and selling expenses increased from HK$15.1 million to HK$562.3 million, an increase of 3,623.8% compared with the last financial year. It was mainly attributable to a different business model in Europe and America where local transport services were provided to customers. As a percentage of the Group's revenue, distribution and selling expenses also increased from 0.5% to 3.0%.

Administrative expenses increased from HK$293.5 million to HK$1,303.0 million over the same period last year. The increase was mainly due to the consolidation of the Scholz Group and the higher employee related costs compared with the last financial year. As a percentage of Group revenue, however, administrative expenses decreased from 9.1% to 7.1%.

	2017		2016		Increase/ (decrease)
	HK$M	**As a percentage of revenue**	*HK$M*	As a percentage of revenue	*HK$M*
Distribution and selling expenses	**562.3**	**3.0%**	15.1	0.5%	547.2
Administrative expenses	**1,303.0**	**7.1%**	293.5	9.1%	1,009.5
Total	**1,865.3**	**10.1%**	308.6	9.6%	1,556.7

Profit Attributable to Shareholders and Earnings/(Loss) Per Share

Profit attributable to shareholders of the Company for the year ended 31 December 2017 was HK$426.8 million, increased substantially by HK$866.7 million or 197.0% as compared to the last financial year. Net profit margin also rose up from negative 13.7% to positive 2.3%.

Taxation charges increased from tax credit HK$0.4 million in the last financial year to HK$110.6 million in the financial year 2017. The effective tax rate increased from negative 0.1% to positive 20.2%.

Basic earnings per share for the year ended 31 December 2017 were HK$0.26 as compared to basic loss per share of HK$0.27 in the previous financial year.

Liquidity and Financial Resources

Shareholders' funds as at 31 December 2017 were HK$5,073.1 million, an increase of 23.2% from HK$4,117.2 million in the last financial year. Shareholders' funds per share increased by 23.5% from HK$2.55 to HK$3.15.

The Group's financial resources remain stable and steady. As at 31 December 2017, the Group had cash and various bank balances and pledged bank deposits amounted of HK$1,071.4 million, a decrease of 48.5% as compared to HK$2,079.4 million as of 31 December 2016. It was mainly due to redemption of all outstanding convertible bonds matured in March 2017 and the needs in the working capital for expansion of business operation.

As a result, the current ratio decreased from 1.31 (as restated), as at 31 December 2016 to 1.12 as at 31 December 2017. Total external borrowings were approximately HK$4,155.2 million (31 December 2016: HK$5,017.9 million (as restated)). Such borrowings were mainly utilised for the purchase of mixed recycle metal and working capital, and denominated in Euro, U.S. Dollar and Renminbi. Approximately HK$2,412.7 million (31 December 2016: approximately HK$2,243.3 million) of borrowings are at fixed interest rates.

The Group is actively seeking to refinance existing borrowings to a lower financing cost with long-term loans.

Working Capital Change

Inventories as of 31 December 2017 were HK$2,338.5 million, increased from HK$1,773.5 million (as restated) as of 31 December 2016. The turnover days dropped from 132 days to 46 days. The higher stock value was largely due to ferrous and non-ferrous metal prices went up from 2016 to 2017 financial year end. The improvement in turnover days was mainly due to the effect from Europe and US operations having a shorter inventory cycle.

Provision for inventories of 31 December 2017 were HK$5.4 million, as compared to utilisation of inventory provisions of HK$76.0 million as of 31 December 2016.

Trade and other receivables as of 31 December 2017 were HK$1,992.4 million, increased from HK$1,751.1 million (as restated) as of 31 December 2016. Trade debtor turnover days also increased from 4 days to 27 days. The higher receivable balances as at 31 December 2017 was mainly due to expansion of business operation and increased in revenue in the fourth quarter of current financial year compared with the corresponding period in the previous financial year. The overdue balances greater than 90 days accounted for 2.7% of the gross trade debtors as of 31 December 2017. The Group adopts a tight management on credit exposure.

Trade and other payable as of 31 December 2017 were HK$2,092.0 million, as compared to HK$1,487.1 million (as restated) as of 31 December 2016. Trade creditor turnover days increased from 19 days to 24 days.

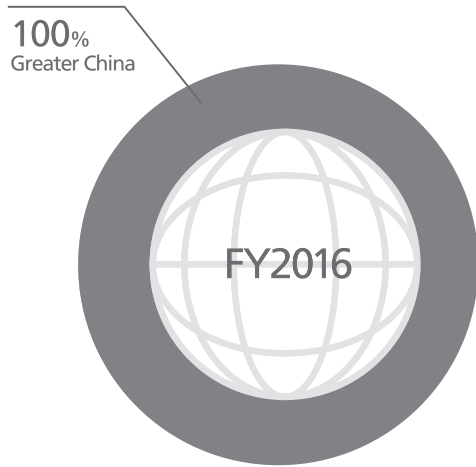
Treasury Policies

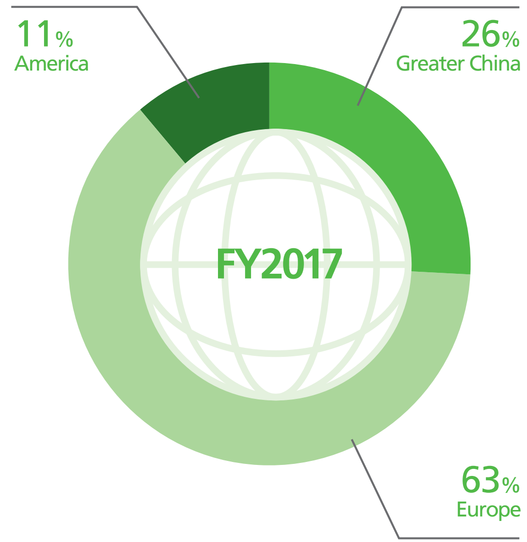
The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations. The Group principally uses forward foreign exchange contracts as appropriate to hedge the foreign exchange risks in the ordinary course of business. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Capital Expenditure

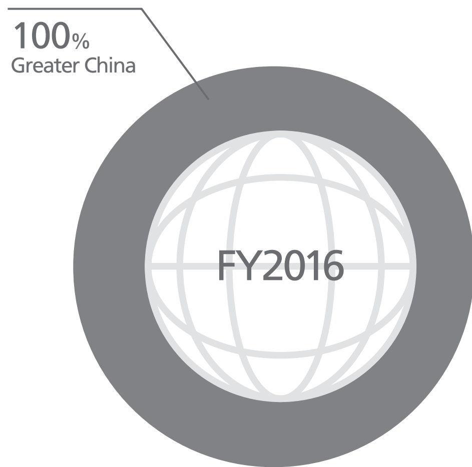
For the year ended 31 December 2017, the Group invested HK$429.3 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment for the improvement of production efficiency (31 December 2016: HK$127.2 million). All of these capital expenditures were financed from internal resources.

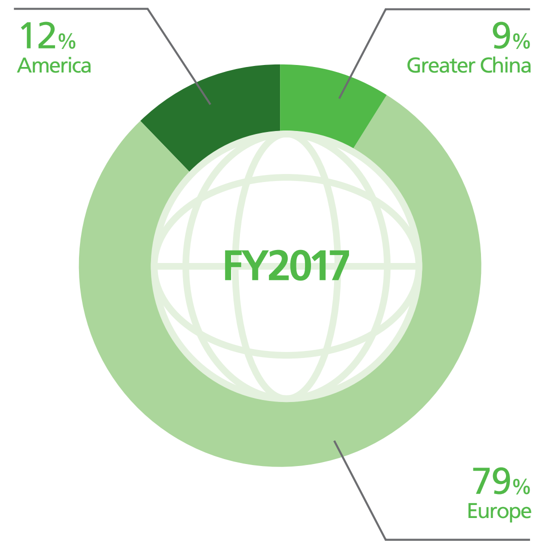
Revenue by Regions



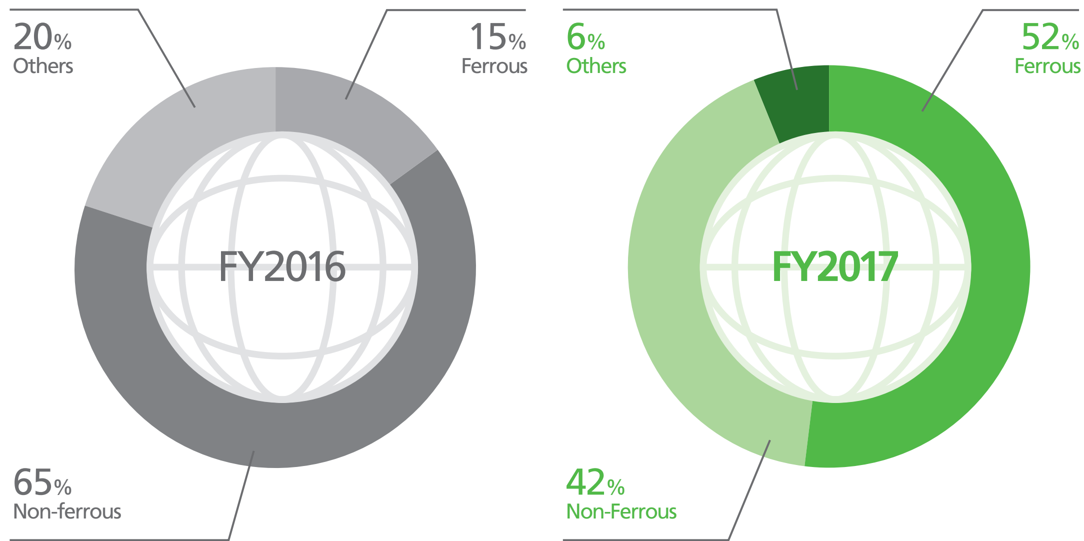


Sales Quantity by Regions

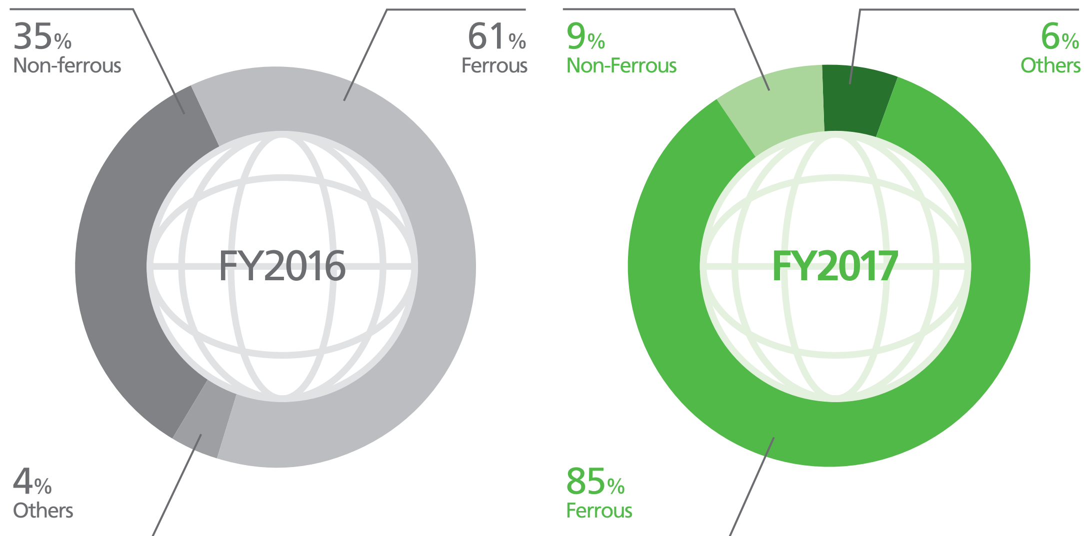




Revenue by Products



Sales Quantity by Products



The Group's Performance

We successfully achieved an important milestone by acquiring the entire share capital of Scholz Holding in December 2016. The Scholz Group is one of the world's largest mixed metal recyclers with advanced ELV 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 materials. We act as a pioneer to consolidate the fragmented recycling industry while integrating our business operations worldwide.

The Group sold in aggregate over 5.1 million tonnes of recycled products in 2017. This represents a remarkable increase of more than 10 times when compared to 0.5 million tonnes being sold in 2016. During 2017, the Group continued its usual practices of consistently buying mixed metal scraps 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.

Operation Performance

The Group has extended the metal recycling business from its original operation base, Greater China, to Europe and America, becoming a truly global player ranking among top few in the world. Management has then reorganised the Group's business segment for the purpose of reporting and analysis, with specific commentaries made on its major operation base.

Europe and America

Our European and American operations provide all steps in recycling mixed metal scraps and is equipped with the one-stop shop service for collecting, gathering, sorting and processing. We are among the processing and technology leaders in ferrous and non-ferrous metal recycling worldwide. We own many advanced processing technologies in scrap metal shredding and post-shredding.

Our scrap metal shredding services, including cleaning, sorting, shearing, shredding, and pressing, constitute a "One-Stop-Shop" process for all customers and cater to any metal supply needs. In post-shredding technologies, we are able to achieve approximately 97% recovery rate for ELV, ranking as a world leader (95% recycling rate is the existing recovery target under the European Union directive).

Our supplier base is well diversified. The largest supplier of ferrous and non-ferrous materials only represents 3% and 4% respectively of our total purchase quantities, and our top 5 suppliers of ferrous and non-ferrous products in aggregate only covered 9% of our total purchase. Our key suppliers comprise top tier automotive manufacturers in Germany, the largest railway company in Germany, the largest automobile component manufacturer in North America and the world's second largest automotive component manufacturer.

Our customer base is also very diversified, with no single customer occupying a material share of our sales. The largest customer of ferrous and non-ferrous products only weights 5% and 7% respectively of total sales quantities, and top 5 customers of ferrous and non-ferrous products in aggregate only covered 18% and 26% of total sales respectively. Our key customers are the leaders in the metal industry including: the world's largest steelmaker, European top rail manufacturer, a key manufacturer of flat-rolled steel and stainless steel in Europe, largest steelmaker in Europe, and second and third largest steelmakers in the USA.

Other than metal recycling, we also provide excellent customer services through value-added services such as total waste management services for some industrial customers, non-recycling services such as collection, sorting and bailing of paper and plastics, logistics service and so on.

Globally, we have approximately 500 employees specifically committed to trading, sale and purchase of metal scraps. We will continue to strive for top line sales/volume growth through more organised key account management and expansion of new customers/suppliers in Asia and South America.

In 2017, we sold around 4.7 million tonnes of recycled ferrous and non-ferrous products through its business activities in Europe, North and Central America (whereas for 2016, around 4.4 million tonnes). We have a global network of about 250 collecting and processing yards with a major focus in Germany, Poland, Austria, Slovenia, Czech Republic, Denmark and Romania, as well as America including Mexico.

In 2017, our European and American operations recorded a revenue of HK$13,677.4 million, or approximately 74.0% of the total revenue of the Group in 2017. Both their processing tonnage and average selling price of their metal scrap products increased as a result of the gradual recovery of commodity pricing, the strong demand from electric arc furnaces, blast furnace and steelmakers in various regions for steel scrap from Europe and USA, and the increased purchase of steel scrap in USA by metal traders.

Europe Region

In 2017, the European market showed a recovery from 2016 with a stable steel scrap demand and improving prices where the price level bounced back to that in the first quarter 2015. Demand from electric arc furnaces, blast furnaces and steel mills, especially in Europe and Turkey, supported the improvement with higher demands for steel scrap from USA and Europe.

As a result in 2017, sales tonnage and revenue in Europe increased by approximately 2.5% to 4.1 million tonnes and 33.5% to HK$11,626.4 million respectively as compared to the previous year. The operational restructuring with strict margin control brought higher cost efficiency. Together with the positive impact from market price improvement in the ferrous scrap, it resulted in an increase of gross profit by approximately 11.1% in 2017.

America Region

There are 9 and 14 processing yards in USA and Mexico respectively.

The American region had a remarkable turnaround in business in 2017 with the revenue of metal scrap increased by approximately 30.4% to HK$2,051.0 million despite the sales tonnage remained flat at 0.65 million tonnes. The gross profit also increased by 5.2% to HK$291.2 million in 2017.

Significant improvement in performance was mainly driven by:

- more favorable market conditions in 2017 compared to 2016
- positive effect of liquidity provided by the Group in December 2016
- improved yard management efficiency under the new unified operation structure
- successful revitalisation after consolidating control over the business

Greater China

In Greater China, including outsourced workers, we have a workforce of about 2,700 staff. Our major production facilities are situated in Yuen Long (Hong Kong), Taizhou (Zhejiang) and Yantai (Shandong).

Unlike Europe and America where the major products are ferrous products, the Greater China region, led by Taizhou, mainly focuses on non-ferrous metal. Like the ferrous metal price development, non-ferrous metal pricing, especially that of copper, has been rising in 2017. This, together with operational efficiency improvement and stringent cost control, resulted in significant turnaround of profitability from a loss of HK$243.5 million in 2016 to a profit of HK$295.9 million in 2017.

With increasing awareness of the importance of environmental protection and sustainability, the Chinese government is becoming more stringent in combating illegal and non-complying operations, as well as in scrap importation. More regulated framework will definitely be established. This development will provide more opportunities to large-scale and environmentally complying companies like the Group. We will also focus on establishing a domestic collection network for metal recycling.

Taizhou Production Site

According to the statistics from Ministry of Environmental Protection on approved import of mixed scrap metals and the actual import volume, the production site in Taizhou is the largest importer of copper based scrap metal in China and the largest global scrap motor buyer in 2017. After the purchase of scrap metal, mainly from around the world, we split, separate and disassemble mixed metal scrap, and produce various recycled metal products such as scrap copper, scrap steel, scrap aluminium and scrap pig iron; we also manufacture high-quality aluminium-alloy ingots from recycled metals which are widely used in the manufacturing of automobiles, electronics, and other industries.

Taizhou production site possesses a unique set of standardised operating procedures to handle various types of wastes. It has more than 2,000 skilled dismantling workers and owns customised dismantling equipment, metal processing and smelting equipment (producing aluminium ingots, copper granules), which can enable more than 90% recovery rate of raw material from recycling. Taizhou production site can adjust its production processes to adapt the versatile changes in market situation and to fulfil the particular needs of different customers. In 2017, Taizhou processed 359,000 tonnes of scrap motors.

Looking ahead, Taizhou will diversify its activity to include more downstream aluminium ingots production, continue to work on environmental policy compliance and to increase efficiency in processing and price management of material purchase.

Yuen Long Production Site

In Hong Kong, about HK$120 million had been invested in installing two automated processing lines in 2017. Yuen Long will be positioned as a centre of excellence in waste electrical and electronic equipment (WEEE) processing. With the automated lines up and running in 2018, capacity will be increased. We also offer value-added services for corporate confidential data destruction and corporate and household electronic waste recycling solutions.

In 2017, the Yuen Long operation obtained the License to Dispose of Chemical Waste and the Permit for Export of Waste Printed Circuit Boards from Hong Kong Environmental Protection Department. We are one of the few licensed recyclers in Hong Kong to dispose of and export chemical waste with the all-rounded capabilities to process printed circuit board in Hong Kong. Yuen Long site is one of the few operators in Hong Kong recycle material within a closed-loop system, compared to the conventional linear recycling chain concept of other local WEEE recyclers in Hong Kong. It is currently the largest privately owned and most diversified and comprehensive e-waste recycling centre in Hong Kong.

Yantai Production Sites

There are two production sites in Yantai, the metal recycling operation and the waste-lubricant oil recycling operation.

In 2017, the metal recycling operation mainly engaged in metal trading. It will be used as a base to support the China domestic collection network establishment.

The waste-lubricant oil recycling operation had a good development in 2017. The operation purchases or collects waste-lubricant oil from vehicle repair shops, producers of such waste lubricant oil (such as machining factories) and waste-lubricant oil collectors in the Shandong Province. After purification, distillation and addition of lubricant additives, the finished products (lubricant base oil) are sold to lubricant oil production plants mainly situated in Shandong and Liaoning provinces. It received the Permit for Operation of Dangerous Wastes in the second half of 2017, and is ramping up production in 2018. It is expected that the operation will further diversify our business portfolio and will contribute positively to the earnings of the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2017, the Group had pledged certain plants and buildings, land use rights, inventories, trade receivables and bank deposits with an aggregate carrying value of approximately HK$4,344.6 million (31 December 2016: HK$3,692.3 million (as restated)) to secure borrowings.

As at 31 December 2017, the Group had capital commitments in respect of acquisition of property, plant and equipment, and additions in construction in progress but which are not provided for in the consolidated financial statements and amounted to HK$175.3 million (31 December 2016: HK$129.9 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$42.5 million (31 December 2016: HK$27.5 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**"), followed by an amended writ on 5 December 2016, against the Company and Mr. Fang Ankong ("**Mr. Fang**") as defendants for a sum of HK$57.8 million 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 dated 24 June 2010 between, amongst others, Delco Asia and the Company. 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$57.8 million be held in escrow as security for any liability of the Company in respect of, inter alia, HCA 3040/2015. As such, the Board does not consider HCA 3040/2015 to be a claim of material importance.

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$1.0 million, allegedly advanced by Delco Asia to CTHK on or around 16 April 2009. Delco further claims interests, costs and further or other relief. The Company and CTHK filed their defence on 24 March 2017 and the Plaintiff filed its reply to the Company and CTHK's defence on 20 June 2017. 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.

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 7 March 2018, the Board adopted a commodity price risk hedging policy which the Board believes is more suitable for the current operating conditions of the Group. Details of the commodity price risk hedging 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 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 for sales of most of its recycled 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 31 December 2017, the Group had a workforce of 4,401 employees. In addition, we engaged approximately 2,003 separation and selection workers through local recognised contractors. We have not experienced any strikes, work stoppages or significant labor disputes which have affected our operations in the past. We have not experienced any significant difficulties in recruiting and retaining qualified staff. We continue to maintain good relationships with our employees.

The Group's total staff costs for the year was approximately HK$1,135.3 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 standard, 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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

AUDIT COMMITTEE

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 the review of the Group's audited consolidated results for the year ended 31 December 2017.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "**Remuneration Committee**") with specific written terms of reference. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all Directors and senior management of the Company, and the remuneration packages for all executive Directors and senior management of the Company. The Remuneration Committee currently comprises three independent non-executive Directors, namely Mr. Zhu Dajian (as chairman), Dr. Loke Yu and Ms. Qian Liping.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "**Nomination Committee**") with specific written terms of reference. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, identifying individuals suitable and qualified to become the Board members and making recommendations to the Board with due regard to Nomination Committee's board diversity policy. The Nomination Committee currently comprises four members namely Mr. Qin Yongming (as chairman), Dr. Loke Yu, Mr. Zhu Dajian and Ms. Qian Liping.

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 year ended 31 December 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 Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") with exceptions as explained below:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Qin Yongming currently holds the offices of chairman ("**Chairman**") and chief executive officer ("**CEO**") of the Company. The Board believes that vesting the roles of both Chairman and CEO in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. Accordingly, the Directors consider that the deviation from provision A.2.1 of the Code is appropriate in such circumstance.

The Company will, from time to time, review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and CEO, are necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. All directors have confirmed, following specific enquiries made by the Company, that they had complied with the required standard set out in the Model Code during the year ended 31 December 2017.

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

During the year ended 31 December 2017, the Company purchased a total of 14,586,000 ordinary shares of the Company on the Stock Exchange, all of which have been cancelled. Details of the purchases are set out as follows:

Month/Year	Number of shares purchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		HK$	*HK$*	*HK$*
April 2017	10,526,000	5.27	3.91	49,553,000
May 2017	4,050,000	4.80	3.34	15,975,000
June 2017	10,000	3.74	3.68	37,000
	14,586,000			65,565,000

Saved as disclosed above, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2017.

CHANGES OF INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, 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 Interim Report 2017 of the Company are set out below:

Experience including other directorships

(a) Mr. Tu Jianhua, an executive Director of the Company, was appointed as the President of Chongqing City Industry and Commerce Federation（重慶市工商聯）and the President of Chonqing City General Chamber Commerce（重慶市總商會）with effect from 7 July 2017.

Mr. Tu Jianhua was appointed as a member of the National Committee of the 13th Chinese People's Political Consultative Conference with effect from 24 January 2018.

(b) Mr. Qin Yongming, an executive Director of the Company, was appointed as CEO of the Company and the Chairman of the pricing committee of the Company with effect from 11 October 2017.

Mr. Qin Yongming was appointed as the president of USUM Investment Group Co., Ltd. with effect from 22 January 2018.

(c) Dr. Loke Yu alias Loke Hoi Lam, an independent non-executive Director of the Company, was appointed as an independent non-executive director of Zhenro Properties Group Limited (Stock Code: 6158) with effect from 15 December 2017.

Dr. Loke Yu resigned as the company secretary of Minth Group Limited (Stock Code: 425) with effect from 8 February 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float under the Listing Rules throughout the financial year ended 31 December 2017 and as at the date of this announcement.

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

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chihogroup.com). The annual report of the Company for the year ended 31 December 2017 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published 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 year.

By Order of the Board
Chiho Environment Group Limited
Qin Yongming
Chairman

Hong Kong, 28 March 2018

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

Executive Directors: Tu Jianhua, Qin Yongming, Wong Wun Lam

Independent Non-Executive Directors: Loke Yu, Zhu Dajian, Qian Liping