Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2018

HIGHLIGHTS

- The Group recorded a substantial increase in revenue, gross profit and net profit in the first half of 2018, which was mainly attributable to the continuous volume growth in Europe and gross margin improvement in China.

- The Group sold in aggregate over 2.75 million tonnes of recycled products during the interim period, representing an increase of approximately 13.6% when compared to 2.42 million tonnes in the same period of 2017.

- The Group recorded a revenue of HK$11,062.2 million for the first half of 2018, representing an increase of HK$2,260.7 million or approximately 25.7% compared to HK$8,801.5 million in the same period of 2017.

- The Group recorded a net profit of HK$331.2 million for the first half of 2018, representing an increase of HK$117.2 million or approximately 54.8% compared to HK$214.0 million in the same period of 2017.

- The Group made a visible improvement in its working capital management and continuously shortened its cash conversion cycle to 39 days from 61 days in same period of 2017, mainly due to efficient inventory and procurement management, and resulting in a positive cash flow of HK$640.0 million generated from operations.

- The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (2017: Nil).

CHAIRMAN’S STATEMENT

Nature conservation and sustainable development have become a common hot topic for humanity regardless territorial boundaries. The forntier environmental concept of “Circular Economy” has gradually become a development strategy that must be practiced from the countries to the enterprises. Chiho Environmental Group Limited (the “Company”) and its subsidiaries (the “Group”, “Chiho”, “we” or “our”) is an advocate and enthusiastic promotor of circular economy and focuses on resources recycling. Since 2017, through the successful integration with Scholz Holding GmbH and its subsidiaries (“Scholz Group”), a leading mixed metal recycling giant, the Group has achieved a leap-forward development in territory and supply chain: expanded from Taizhou (Zhejiang Province) in the People’s Republic of China (“PRC” or “China”) and Yuen Long in Hong Kong, to cover major countries and cities in Europe and North America; diversified from imported scrap motor dismantling and electronic waste processing entity, to other waste resources processing in such as mixed ferrous scrap end-of-life vehicles, waste lubricant and so on. Chiho is not only a resources related enterprise, but it can also be a solution provider for comprehensive waste management services. The Group continues to make changes and innovation, targeting to become a total waste management solution provider ultimately. By leveraging on the Scholz Group’s century-old experiences in ferrous scrap and end-of-life vehicles processing the Group will continue to deepen our knowledge in various markets, grasp the opportunities arising from increasingly tightened industry and government regulations in Asia, and make meaningful contributions to global resources recycling industry as part of our strategy. Moreover, as a responsible corporate citizen, the Group will cooperate with industry peers and associations in China by making reference to the mature operation mode in Western countries, in order to contribute to the legislative and structural development of China’s resources recycling industry. Indeed, a constantly improving China resources recycling industry will benefit humanity, while bringing business opportunities to recycling companies.

The Group has developed a set of targeted strategies in core business, key products, markets, territories, positioning, and synergy, in order to cater to its future development:

(1) Expansion of business scope: Expands from existing metal dismantling to smelting in China.

(2) Expansion of product offerings: On top of non-ferrous scrap, electronic waste, ferrous products, including end-of-life vehicles recycling; we expand to waste lubricant, waste electrical appliances and computers. We also pay close attention to the opportunity for entering into the high-margin niche markets.

(3) Opening of new markets: Focuses on development of China's domestic scrap recycling market. As China's resources recycling market and environmental standard is following the development pattern of the western economies, China extremely needs the active involvements from a company like Chiho who possesses the experience, capability and advanced technology. The Group as a market leader in the importation of mixed metal scrap in China will get actively involved in government initiatives in scrap materials/products classification and catalogue creation.

(4) Geographical expansion: Relocate the scrap motor dismantling activities to South and South East Asia, and to expand Hong Kong to include motor dismantling, scrap cable chopping, metal cleaning and so on, so as to make good use of the benefits of its proximity to China and the rule of law advantage of one country, two systems.

(5) Clear market positioning: Chiho strives to ultimately become a total waste management solution provider, in particular to large industrial enterprises who are in need of a partner to provide them with one-stop total solution.

(6) Exploiting synergies: Chiho not only focuses on creating synergies between its Western and Asian operations in global sourcing, vertical integration and technology transfer, but also requires various business units within China to fully cooperate and share resources, so as to serve a wider range of customers even better.

REVIEW

In the first half of 2018, the Group's revenue and profit increased significantly compared to the same period of last year. Our European and North American business segments continued to grow steadily following their consolidation into the Group's financial statement in 2017. During the period under review, the total tonnage handled increased by 18.2%, resulting in revenue increase of 40.2%. Under the leadership of the Group's new management team, the business and financial optimisation measures implemented for our European and North American subsidiaries have been effective. Our business in Europe and North America continued to recover, gaining back market share and customers.

In our Asian business segment, the largest revenue contributor was the scrap motor dismantling business. Despite a reduction in the processing volume of scrap motors due to the reduction of import quota, there was an increase in gross profit by 15.6% which represented a gross profit margin increase of 3.5% as compared to the same period of last year. The main reason is that, in addition to the ongoing optimisation measures within the Group, the scrap motor market has become favorable to buyers as China limits the import of scrap motors, enabling our experienced global purchasing team to procure scrap motors at lower costs.

Overall we had a good business result in the first half of 2018.

PROSPECT

China will stop imports of scrap motors from the first day of 2019, which will have a short-term impact on the Group's business in Taizhou, China. This is a necessary step for China's resource recycling industry to adopt the European and American development models. Only large scale participants with standardised operation will last. At the same time, the policy change provides an opportunity for our transformation. As there is no drop in demand in China market, Chiho will continue its efforts to secure upstream scrap copper resources and maintain its ability to supply clean finished products to China's market through an optimised supply chain model. The Group has a plan to relocate scrap motors dismantling to other parts of Asia, including certain countries in South and Southeast Asia, while we have also started to shred certain types of scrap motors in our European and North American bases. The Group is confident that it will continue to capture the largest share of the global scrap motor dismantling market.

As part of the Group's business diversification, the Group has begun recycling of waste lubricant in Yantai, Shandong Province, China since the beginning of 2018. The business has developed steadily. Our processing base in Yantai is now the largest waste lubricant processing base in Eastern and Central China with advanced technology. The Group is increasing its investment in the waste lubricant processing business with the objective of gradually rolling it out across the country.

The business of processing electronic waste at our Yuen Long processing yard in Hong Kong remained stable in the period under review. In addition, the Group has become one of the three licensed operators in Hong Kong to handle waste electrical appliances and computers. It is in the process of building its collection channels and testing processing equipment. The increased regulation and environmental protection requirements in China will further underscore the importance of our Hong Kong base. The Yuen Long processing yard will commence the business of automated processing of scrap cables and shredded motors. The processed products will be considered clean recycled raw materials that are allowed to enter into China.

Another key development strategy of the Group is to develop China's domestic scrap recycling and processing business, including ferrous and mixed metal scrap from industrial and municipal sources, as well as end-of-life vehicles. This is the strength of the Group's European and North American business segments. Shanghai and Jiangsu Province are among the most economically and industrially developed provinces in China. The Group has set up a representative office in Shanghai, which will be responsible for carrying out market research, collaborating with government agencies, and developing customers and businesses, with an aim in promoting the Group's experience, operational capabilities and scrap management solutions among customers and government agencies.

As industry regulation and environmental protection requirements have been increasingly tightened in China, companies with standardised and scaled operation such as the Group are favored. The Group will make full use of this advantage, engage in discussions with the government agencies, and seek appropriate tax incentives for the healthy and sustainable development of the industry.

The Group is fully supportive of the Chinese government's new regulations on the control of import of Category 6 and 7 waste materials. The Group firmly believes that the control of foreign rubbish, especially those entered illegally, is the right move for China to improve its environmental friendliness.

Chiho believes that the new policy is favorable for large scale resource recycling enterprises in the long term. On the one hand, the new policy will address illegal smuggling activities and poor quality products that have existed in the market for a long time. Chiho believes that China is still the largest market for non-ferrous metals, and that China's infrastructure investment and grid facilities investment will continue to grow in the medium to long term, which will drive the demand for non-ferrous metals. The introduction of new regulations on imported materials will drive the establishment and improvement of the domestic recycling system for scrap metals, and advance the development towards a structured industry. This is a great opportunity for Chiho for the next decade or two.

China's new import policy is set to change the supply chain of non-ferrous metal scrap globally. Meanwhile, the Group has completed the integration with Scholz Group, and now owns a vast network of collection and processing yards in Europe and North America. Chiho will continue to secure the sources of non-ferrous metal scraps such as scrap motors in the upstream. The Group seeks to redefine a whole new supply chain model for the non-ferrous scrap by making use of its network in Europe and North America, as well as planned bases in Southeast Asia and South Asia. We believe that the output of equipment scrap and waste in the upstream will remain unchanged, so will the downstream demand. Chiho has the ability and made preparations to come up with a new model for the global supply chain of non-ferrous scrap with the greatest economic efficiency, and further consolidate and expand its advantages in this area through innovation and transformation.

The Group will continue its development strategy of organic growth and mergers and acquisitions in further expanding its business scope and scale. The Group's overall financial position has strengthened while its core business operations have performed well, resulting in continuous improvement in profitability and cash flow. The management is confident in the long-term development prospects of the Group. At the same time, we are well prepared to cope with short-term changes in the market in which we operate.

Last but not least, I would like to extend my heart-felt gratitude to the members of the Board of Directors and all our employees around the world for their unremitting efforts, professionalism and valuable contributions, and to our customers and partners for their priceless support and trust.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of the Company is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	***HK$M***	*HK$M*
		(Unaudited)	(Unaudited)
Revenue	*3*	**11,062.2**	8,801.5
Cost of sales		**(9,757.0)**	(7,757.0)
Gross profit		**1,305.2**	1,044.5
Other income		**48.3**	50.1
Other gains, net	*4*	**182.2**	51.5
Distribution and selling expenses		**(326.5)**	(275.9)
Administrative expenses		**(670.3)**	(489.8)
		538.9	380.4
Finance income		**16.8**	23.2
Finance costs		**(231.1)**	(185.5)
Finance costs, net		**(214.3)**	(162.3)
Share of post-tax loss of an associate		**(0.5)**	–
Share of post-tax profits of joint ventures		**62.4**	52.9
Profit before income tax		**386.5**	271.0
Income tax expense	*5*	**(55.3)**	(57.0)
Profit for the period	*6*	**331.2**	214.0
Profit/(loss) attributable to:			
Shareholders of the Company		**331.6**	197.9
Non-controlling interests		**(0.4)**	16.1
		331.2	214.0
Earnings per share attributable to shareholders of the Company for the period (expressed in HK$ per share)			
Basic earnings per share	*8*	**0.21**	0.12
Diluted earnings per share	*8*	**0.21**	0.12

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$M	*HK$M*
	(Unaudited)	(Unaudited)
Profit for the period	**331.2**	214.0
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(123.8)**	271.4
Item that will not be reclassified subsequently to profit or loss:		
Changes in the fair value of financial assets at fair value through other comprehensive income	**(0.2)**	–
Other comprehensive (loss)/income for the period	**(124.0)**	271.4
Total comprehensive income for the period	**207.2**	485.4
Total comprehensive income/(loss) for the period attributable to:		
Shareholders of the Company	**207.9**	466.6
Non-controlling interests	**(0.7)**	18.8
	207.2	485.4

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2018

	Notes	At 30 June 2018 HK$M (Unaudited)	At 31 December 2017 HK$M (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**3,506.9**	3,559.3
Leasehold land and land use rights		**405.0**	412.9
Investment properties		**3.4**	3.5
Intangible assets		**1,185.6**	1,207.7
Investments accounted for using the equity method		**614.9**	591.2
Financial assets at fair value through profit or loss		**2.0**	–
Financial assets at fair value through other comprehensive income		**113.3**	–
Other non-current assets		**6.9**	128.8
Deferred income tax assets		**188.4**	168.1
		6,026.4	6,071.5
Current assets			
Inventories		**1,790.0**	2,338.5
Trade, bills and other receivables	*9*	**2,333.6**	1,992.4
Fixed return investment		**350.6**	339.0
Amounts due from related parties		**96.6**	205.6
Derivative financial instruments		**46.3**	6.1
Tax recoverable		**12.2**	25.8
Pledged bank deposits		**383.4**	95.0
Cash and cash equivalents		**922.6**	976.4
		5,935.3	5,978.8
Assets classified as held for sale		**5.1**	43.4
Total assets		**11,966.8**	12,093.7

	Notes	At 30 June 2018 HK$M (Unaudited)	At 31 December 2017 HK$M (Audited)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.1
Other reserves		**6,895.2**	7,018.9
Accumulated losses		**(1,630.3)**	(1,961.9)
		5,281.0	5,073.1
Non-controlling interests		**(26.7)**	(26.0)
Total equity		**5,254.3**	5,047.1
Non-current liabilities			
Borrowings		**1,680.9**	1,133.0
Retirement benefit obligations		**34.6**	26.7
Other payables		**93.8**	105.2
Deferred income tax liabilities		**402.5**	416.5
		2,211.8	1,681.4
Current liabilities			
Trade, bills and other payables	*10*	**2,206.9**	2,092.0
Current income tax liabilities		**145.0**	113.2
Borrowings		**2,052.5**	3,022.2
Amounts due to related parties		**79.2**	110.9
Derivative financial instruments		**17.1**	26.9
		4,500.7	5,365.2
Total liabilities		**6,712.5**	7,046.6
Total equity and liabilities		**11,966.8**	12,093.7

NOTES:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 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 consolidated financial statements for the year ended 31 December 2017, 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 consolidated financial statements for the year ended 31 December 2017, as described in those annual consolidated 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 2018.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and

- HKFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 11. The other standards did not have any impact on the Group’s accounting policies and did not require retrospective adjustments.

(b) Impact of standards issued but not yet applied by the Group

HKFRS 16 Leases

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.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments (as lessee) of HK$174.4 million. However, 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.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. 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 period.

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

After the acquisition of Scholz Group, the management organised the Group and reviewed the Group's financial performance and allocated resources on a geographic basis, and hence, the operating and reportable segments were identified based on the location of the main operation of the legacy Group ("Greater China" region) and Scholz Group (Europe and North America, collectively known as "Non-Greater China" region).

From 2018 onward, to better evaluate the Group's performance in each economical environment, management further divides the Non-Greater China region into the Europe region and the North America region. Also, in view of the plans for future business expansions in other Asian countries, the Greater China region has been renamed as Asia region. As a result, the operating and reportable segment of the Group now includes Asia, Europe and North America regions. The comparative segment information for the interim period ended 30 June 2017 and as at 31 December 2017 has been restated to align with the presentation of the current period's segment information disclosure.

In the current interim period, 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/(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.

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 information regarding the Group's reportable segments for the six months ended 30 June 2018 and 2017 respectively.

	For the six months ended									
	30 June 2018					30 June 2017 (restated)				
	Asia	**Europe**	**North America**	**Unallocated**	**Total**	Asia	Europe	North America	Unallocated	Total
	HK$M	***HK$M***	***HK$M***	***HK$M***	***HK$M***	*HK$M*	*HK$M*	*HK$M*	*HK$M*	*HK$M*
Revenue										
Total segment revenue	**1,920.4**	**7,916.1**	**1,346.5**	**–**	**11,183.0**	2,281.0	5,729.4	1,150.3	–	9,160.7
Inter-segment sales	**–**	**(81.7)**	**(39.1)**	**–**	**(120.8)**	–	(300.2)	(59.0)	–	(359.2)
External sales	**1,920.4**	**7,834.4**	**1,307.4**	**–**	**11,062.2**	2,281.0	5,429.2	1,091.3	–	8,801.5
Segment profit	**187.8**	**283.9**	**19.5**	**109.6**	**600.8**	149.7	209.1	38.4	36.1	433.3
Finance income					**16.8**					23.2
Finance costs					**(231.1)**					(185.5)
Profit before income tax					**386.5**					271.0
Income tax expense					**(55.3)**					(57.0)
Profit for the period					**331.2**					214.0
Depreciation and amortisation expenses	**(35.8)**	**(127.9)**	**(31.2)**	**(13.9)**	**(208.8)**	(37.8)	(99.5)	(22.2)	(24.8)	(184.3)
Fair value gain on derivative financial instruments and financial assets at fair value through profit or loss	**–**	**–**	**–**	**29.8**	**29.8**	–	–	–	16.3	16.3
Gain on disposal of property, plant and equipment, investment properties and intangible assets	**–**	**–**	**–**	**12.8**	**12.8**	–	–	–	6.8	6.8
Gain on disposal of assets classified as held for sale	**–**	**–**	**–**	**109.5**	**109.5**	–	–	–	38.3	38.3
Gain on disposal of financial assets at fair value through profit or loss	**–**	**–**	**–**	**14.3**	**14.3**	–	–	–	–	–

Segment assets

Reconciliation of segment assets to total assets as at 30 June 2018 and 31 December 2017 are provided as follows:

	30 June 2018				31 December 2017 (restated)			
			North				North	
	Asia	Europe	America	Total	Asia	Europe	America	Total
	HK$M	*HK$M*	*HK$M*	*HK$M*	*HK$M*	*HK$M*	*HK$M*	*HK$M*
Segment assets	**2,656.5**	**6,748.3**	**1,041.9**	**10,446.7**	3,036.5	6,593.5	948.3	10,578.3
Deferred income tax assets				**188.4**				168.1
Fixed return investment				**350.6**				339.0
Tax recoverable				**12.2**				25.8
Derivative financial instruments				**46.3**				6.1
Cash and cash equivalents				**922.6**				976.4
Total assets				**11,966.8**				12,093.7

4. OTHER GAINS, NET

	Six months ended 30 June	
	2018	2017
	HK$M	*HK$M*
Gains/(losses) on fair value change of:		
– derivative financial instruments	**29.8**	17.7
– financial assets at fair value through profit or loss	**–**	(1.4)
Foreign exchange (loss)/gain, net	**(7.6)**	5.1
Reversal of provision/(provision) for impairment on trade and other receivables, net of reversal	**40.7**	(14.1)
Gain on disposal of assets classified as held for sale *(Note)*	**109.5**	38.3
Gain on disposal of property, plant and equipment, investment properties and intangible assets	**12.8**	6.8
Gain on disposal of financial assets at fair value through profit or loss	**14.3**	–
Others	**(17.3)**	(0.9)
	182.2	51.5

Note:

During the six months ended 30 June 2018, a land use right classified as held for sale located in Shandong Province, the PRC, with carrying amount of approximately RMB32.0 million (equivalent to HK$38.3 million) was surrendered to the local government and a discretionary compensation of RMB124.1 million (equivalent to HK$152.6 million) was received after the negotiations with the local government.

5. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the period.

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% (2017: 25%) on the estimated assessable profit for the period.

Germany and USA income taxes have been provided at rate of 30% (2017: 30%) and 21% (2017: 39%) respectively on the estimated assessable profit for the period.

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

	Six months ended 30 June	
	2018	2017
	HK$M	*HK$M*
Current income tax expense/(credit):		
Germany	**79.3**	54.9
PRC EIT	**0.2**	–
Hong Kong profits tax	**(2.4)**	0.1
USA	**3.4**	–
Other jurisdictions	**5.7**	3.2
	86.2	58.2
Deferred income tax credit	**(30.9)**	(1.2)
Income tax expense	**55.3**	57.0

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$M	*HK$M*
Profit for the period has been arrived after charging/(crediting):		
Changes in inventories of work-in-progress and finished goods	**553.9**	(490.9)
Raw materials and consumables used	**8,931.8**	7,409.8
(Utilisation of provision for)/provision for inventories, net	**(4.0)**	5.2
Employee benefit expenses	**633.9**	527.6
Depreciation and amortisation expenses	**208.8**	184.3
Legal and professional expenses	**48.1**	66.3

7. DIVIDENDS

No dividend was paid or proposed during current and previous interim periods, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the period ended 30 June 2018 and 2017.

8. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2018	2017
	HK$M	*HK$M*
Profit		
Profit for the period attributable to shareholders of the Company	**331.6**	197.9
Number of shares		
Weighted average number of ordinary shares in issue	**1,605,152,291**	1,617,805,507
Basic earnings per share (expressed in HK$)	**0.21**	0.12

(b) Diluted

The Group has no potentially dilutive shares outstanding during the interim period ended 30 June 2018 and 2017.

9. TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2018	At 31 December 2017
	HK$M	*HK$M*
Trade receivables	**1,827.0**	1,434.5
Less: Provision for impairment	**(80.2)**	(127.8)
Trade receivables, net	**1,746.8**	1,306.7
Bills receivables	**2.8**	0.6
Other receivables *(Note)*	**105.9**	308.1
Deposits and prepayments	**205.1**	191.8
Deposits paid for purchase of raw materials	**140.1**	55.1
VAT recoverable	**132.9**	130.1
	2,333.6	1,992.4

Note: As at 30 June 2018, the balance includes a receivable of HK$68.0 million (31 December 2017: HK$265.8 million) from a government authority in the PRC.

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 2018 and 31 December 2017, the aging analysis of the trade receivables based on invoice date were as follows:

	At 30 June 2018	At 31 December 2017
	HK$M	*HK$M*
0 – 90 days	**1,708.2**	1,335.7
91 – 180 days	**37.3**	37.8
Over 180 days	**81.5**	61.0
	1,827.0	1,434.5

10. TRADE, BILLS AND OTHER PAYABLES

	At 30 June 2018 HK$M	At 31 December 2017 HK$M
Trade payables	**1,335.9**	1,192.8
Bills payable	**25.7**	–
Contract liabilities	**25.6**	–
Other tax payable	**91.4**	180.3
Accrued salaries and employee benefits	**97.5**	132.0
Provision for claims and contingencies	**4.9**	19.6
Accrued professional expenses	**17.0**	47.7
Asset retirement obligations	**83.2**	85.4
Other payables and accruals	**619.5**	539.4
	2,300.7	2,197.2
Less: Non-current portion		
Asset retirement obligations	**(83.2)**	(85.4)
Other payables	**(10.6)**	(19.8)
	2,206.9	2,092.0

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

	At 30 June 2018 HK$M	At 31 December 2017 HK$M
0 – 90 days	**1,255.1**	1,133.5
91 – 180 days	**39.4**	17.5
Over 180 days	**41.4**	41.8
	1,335.9	1,192.8

11. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial information

As explained in notes 11(b)(i) and 11(c)(i) below, HKFRS 9 and HKFRS 15 were adopted by the Group without restating comparative information. As a result, the reclassifications and adjustments arising from the adoption of HKFRS 9 and HKFRS 15 are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening condensed consolidated balance sheet as at 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

Condensed consolidated balance sheet (extract)

	31 December 2017 *HK$M*	Effect of HKFRS 9 *HK$M*	Effect of HKFRS 15 *HK$M*	1 January 2018 *HK$M*
Non-current assets				
Other non-current assets				
– available-for-sale financial assets	121.4	(121.4)	–	–
Financial assets at fair value through profit or loss ("FVPL")	–	5.3	–	5.3
Financial assets at fair value through other comprehensive income ("FVOCI")	–	116.1	–	116.1
Current liabilities				
Trade, bills and other payables				
– other payables and accruals	539.4	–	(17.9)	521.5
Trade, bills and other payables – contract liabilities	–	–	17.9	17.9

(b) Adoption of HKFRS 9 Financial Instruments

(i) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 "Financial instruments" from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 11(b)(ii) below. In accordance with the transition provisions in HKFRS 9 (7.2.15), comparative figures have not been restated.

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are set out in note 11(a) and 11(b)(ii).

Reclassification from available-for-sale to FVPL

Certain equity investments were reclassified from available-for-sale to financial assets at FVPL (HK$5.3 million as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

For the period ended 30 June 2018, net disposal gain of HK$14.3 million relating to these investments were recognised in profit or loss.

Reclassification from available-for-sale to FVOCI

The Group elected to present in other comprehensive income changes in the fair value of certain equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, these investments were reclassified from available-for-sale financial assets to financial assets at FVOCI (HK$116.1 million as at 1 January 2018).

Other than that, there were no changes to the classification and measurement of financial instruments.

Impairment of financial assets

Financial asset at amortised cost include trade, bills and other receivables, fixed return investment and balances with related parties.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade, bills and other receivables.

The Group established ECL model based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of ECL is insignificant as at 1 January 2018.

The Group adopted expected credit risk model on other financial asset at amortised cost other than trade, bills and other receivables and concluded that the impact is insignificant as at 1 January 2018.

(ii) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains, net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the condensed consolidated statement of profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other gains, net" in the condensed consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the ECL associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade, bills and other receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(c) Adoption of HKFRS 15 Revenue from Contracts with Customers

(i) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

HKFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a Group's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The adoption of HKFRS 15 has resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial information. In accordance with the transition provisions in HKFRS 15, the Group elected to use a modified retrospective approach which allows the Group to recognise the accumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings in the 2018 financial year. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The standard replaces HKAS 18 Revenue and HKAS 11 Construction contracts and related interpretations. The new accounting policies are set out in note 11(c)(ii) below. The impacts of the adoption of HKFRS 15 are as follows:

Presentation of liabilities related to contracts with customers

Contract liabilities (HK$17.9 million as at 1 January 2018) which were previously included in other payables and accruals are now presented separately in note 10 to the condensed consolidated balance sheet to reflect the terminology of HKFRS 15.

Timing of revenue recognition

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

(ii) HKFRS 15 Revenue from Contracts with Customers – Accounting policies

The following describes the Group's updated revenue recognition policy to reflect the adoption of HKFRS 15.

Sale of goods

The Group sells a range of metal scrap including copper scrap, steel scrap, aluminium scrap, iron scrap and other metal scrap recycled from mixed metal scrap to buyers. Revenue from the sales of goods are recognised when control of the products has transferred.

MANAGEMENT DISCUSSION AND ANALYSIS

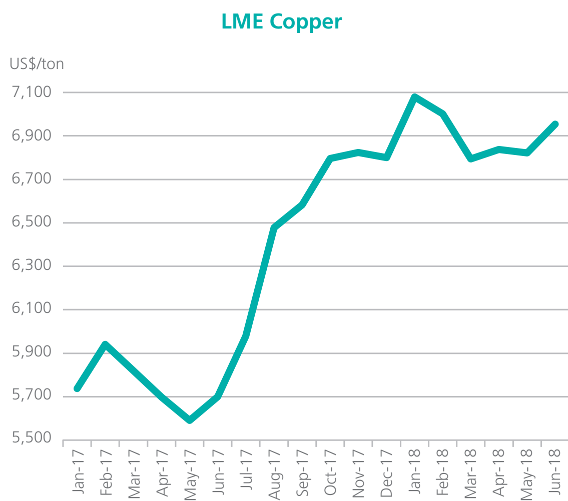
FINANCIAL REVIEW

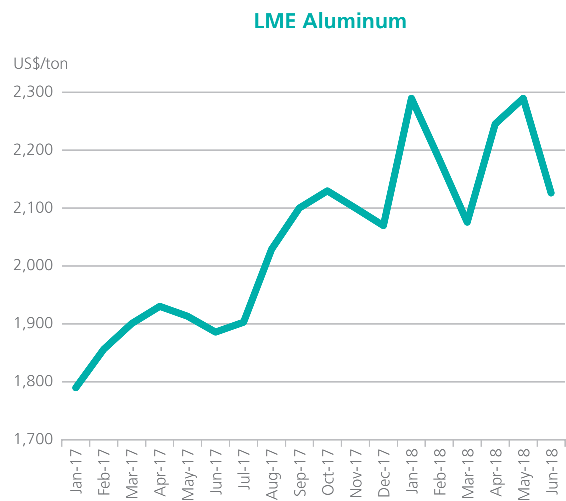
Revenue

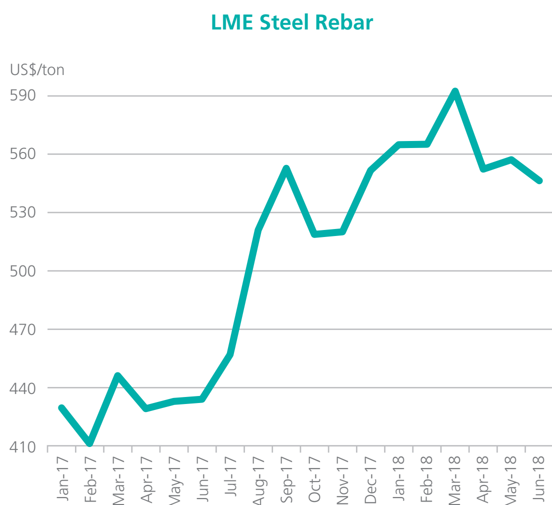
The Group recognised a record-high revenue in the first half of 2018. The revenue was approximately HK$11,062.2 million in the first half of 2018, representing an increase of approximately 25.7% compared to approximately HK$8,801.5 million in the same period of 2017.

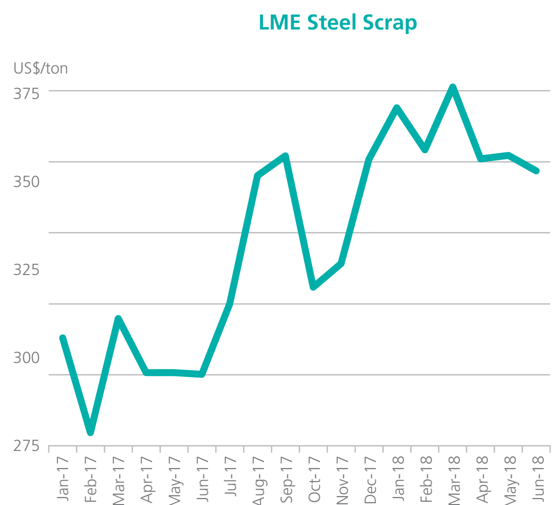
The increase in revenue was largely driven by the higher sales quantities in Europe and North America, which offset the decrease in the Asia region. It was also attributable to the ferrous and non-ferrous prices recover continuously after it bottomed out in the fourth quarter of 2016 and reached a four-year new high during the first half of 2018.

	Six months ended 30 June				**Increase/**
	2018		2017		**(Decrease)**
	HK$M	**As a percentage of total segment revenue**	*HK$M*	As a percentage of total segment revenue	*HK$M*
Asia	**1,920.4**	**17.2%**	2,281.0	24.9%	(360.6)
Europe	**7,916.1**	**70.8%**	5,729.4	62.5%	2,186.7
North America	**1,346.5**	**12.0%**	1,150.3	12.6%	196.2
Total segment revenue	**11,183.0**	**100.0%**	9,160.7	100.0%	2,022.3
Inter-segment sales	**(120.8)**		(359.2)		238.4
Revenue	**11,062.2**		8,801.5		2,260.7









Gross Profit/Margin

Gross profit for the first half of 2018 was HK$1,305.2 million, an increase of HK$260.7 million or 25.0% compared to HK$1,044.5 million recorded in the first half of last year. Gross profit margin for the period remained at approximately 11.8%. The increase in gross profit was mainly attributable to:

- synergistic effects between the European, North American and Asian operations
- increase in gross profit margin in Asia segment due to lower material cost and appropriate procurement
- volume growth in Europe and North America segments

Profit before interest and tax (EBIT)/Margin

EBIT for the first half of 2018 was HK$600.8 million, a significant increase of HK$167.5 million or 38.7% compared with the first half of 2017. EBIT margin also increased from 4.9% to 5.4%.

Total operating expenses were HK$996.8 million, an increase of 30.2% over the last interim reporting period. Total operating expenses as a percentage of revenue also increased from 8.7% to 9.0%.

Distribution and selling expenses increased from HK$275.9 million to HK$326.5 million, an increase of 18.3% compared with the last interim reporting period. It was mainly attributable to the increase in sales quantities in Europe and North America where local transport services were provided to customers. As a percentage of revenue, distribution and selling expenses decreased from 3.1% to 3.0%.

Administrative expenses increased from HK$489.8 million to HK$670.3 million over the first half of last year. The increase was mainly due to the inclusion of the Slovenia operation, Dinos d.d., which was newly acquired in November 2017, and the additional expenses incurred for the integration of operations between the segments. As a percentage of revenue, therefore, administrative expenses increased from 5.6% to 6.0%.

	Six months ended 30 June				**Increase/**
	2018		2017		**(Decrease)**
	HK$M	**As a percentage of revenue**	*HK$M*	As a percentage of revenue	*HK$M*
Distribution and selling expenses	**326.5**	**3.0%**	275.9	3.1%	50.6
Administrative expenses	**670.3**	**6.0%**	489.8	5.6%	180.5
Total	**996.8**	**9.0%**	765.7	8.7%	231.1

Profit Attributable to Shareholders and Earnings Per Share

Profit attributable to shareholders of the Company for the first half of 2018 was HK$331.6 million, increased substantially by HK$133.7 million or 67.6% as compared to the first half of 2017. Net profit margin also rose up from 2.2% to 3.0%.

Taxation charges reduced from HK$57.0 million in the last interim reporting period to HK$55.3 million in the first half of 2018. The effective tax rate decreased from 21.0% to 14.3%.

Basic earnings per share for the six months ended 30 June 2018 were HK$0.21 as compared to HK$0.12 in the previous financial period, it increased by 75.0% when compared to the first half of 2017.

Analysis of Cash Flow from Operations

The Group's cash generated from operations before changes in working capital for the first half of 2018 was HK$549.1 million, an increase of 2.6% as compared to HK$535.1 million in the first half of 2017. It was mainly attributable to the increase in operating profits.

Due to the efficient inventory and procurement management, the operating cash inflow after changes in working capital for the first half of 2018 was HK$640.0 million, an increase of HK$1,505.1 million, as compared to cash outflow of HK$865.1 million in the first half of 2017.

Liquidity and Financial Resources

Shareholders' funds as at 30 June 2018 were HK$5,281.0 million, an increase of 4.1% from HK$5,073.1 million as of 31 December 2017. Shareholders' funds per share increased by 4.4% from HK$3.15 to HK$3.29.

The Group's financial resources remain stable and steady. As at 30 June 2018, the Group had cash, various bank balances and pledged bank deposits amounting to HK$1,306.0 million, an increase of 21.9% or HK$234.6 million as compared to HK$1,071.4 million as of 31 December 2017.

As a result, the current ratio increased from 1.12 as at 31 December 2017 to 1.32 as at 30 June 2018. Total external borrowings were approximately HK$3,733.4 million (31 December 2017: approximately HK$4,155.2 million). 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$2,005.6 million (31 December 2017: approximately HK$2,412.7 million) of borrowings are at fixed interest rates.

The gearing ratio of the Group as at 30 June 2018 was 31.2% (31 December 2017: 34.4%) which is calculated based on the total borrowings divided by our total assets.

As disclosed in the Company's announcement on 5 July 2018, the Group has obtained a syndicated term loan facility of up to US$300.0 million for a term of two years with a lower financing cost for the refinancing of existing loans and working capital needs.

Working Capital Change

Inventories as of 30 June 2018 were HK$1,790.0 million, decreased from HK$2,338.5 million as of 31 December 2017. The inventory turnover days for first half of the financial year was 38 days, a drop from 52 days as compared with the same period last year. The improvement in turnover days was mainly due to continuous improvement in inventory and procurement management.

Provision for inventories as of 30 June 2018 were HK$16.9 million, as compared to the provisions of HK$21.2 million as of 31 December 2017.

	At 30 June 2018	At 31 December 2017
All figures are in HK$M unless stated otherwise		
Inventories	**1,790.0**	2,338.5
Average inventories as a percentage of revenue (annualised)	**9.3%**	11.1%

	Six months ended 30 June	
	2018	2017
Turnover days	**38**	52

Net trade and bills receivables as of 30 June 2018 were HK$1,749.6 million, increased from HK$1,307.3 million as of 31 December 2017. Debtor turnover days for the first half of the financial year dropped from 37 days to 25 days when compared with the same period last year. The higher receivable balance as at 30 June 2018 was mainly due to expansion of business operations in Europe and North America, and increase in revenue in the current financial period compared with the corresponding financial period last year. The Group adopts a tight management on credit exposure.

	At **30 June** **2018**	At 31 December 2017
All figures are in HK$M unless stated otherwise		
Trade and bills receivables, net	**1,749.6**	1,307.3
Average receivables as a percentage of revenue (annualised)	**6.9%**	7.5%

	Six months ended 30 June	
	2018	2017
Turnover days	**25**	37

Trade and bills payable as of 30 June 2018 were HK$1,361.6 million, as compared to HK$1,192.8 million as of 31 December 2017. Creditor turnover days for the six months ended 30 June 2018 was 24 days, it dropped from 28 days as compared with the corresponding financial period last year.

	At **30 June** **2018**	At 31 December 2017
All figures are in HK$M unless stated otherwise		
Trade and bills payables	**1,361.6**	1,192.8

	Six months ended 30 June	
	2018	2017
Turnover days	**24**	28

Treasury Policies

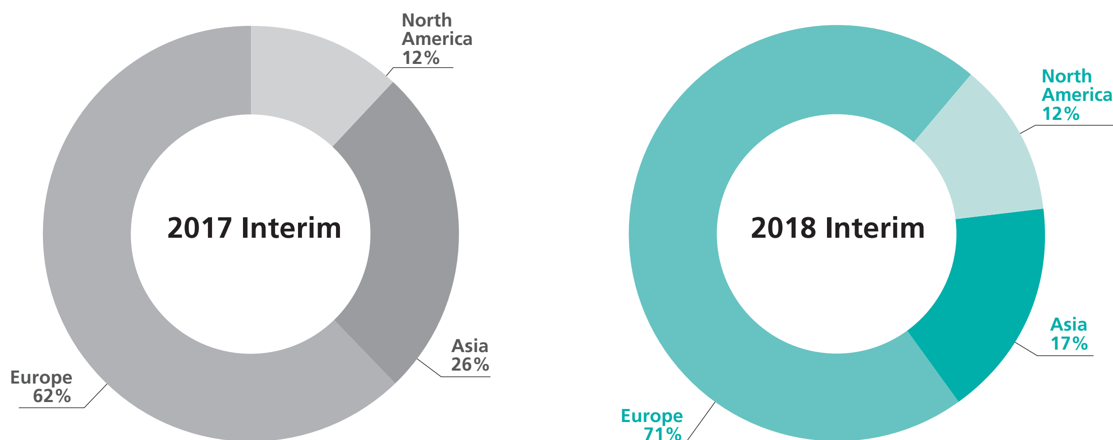
The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations. The Group principally uses forward foreign exchange contracts as appropriate to hedge the foreign exchange risks in the ordinary course of business.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

Capital Expenditure

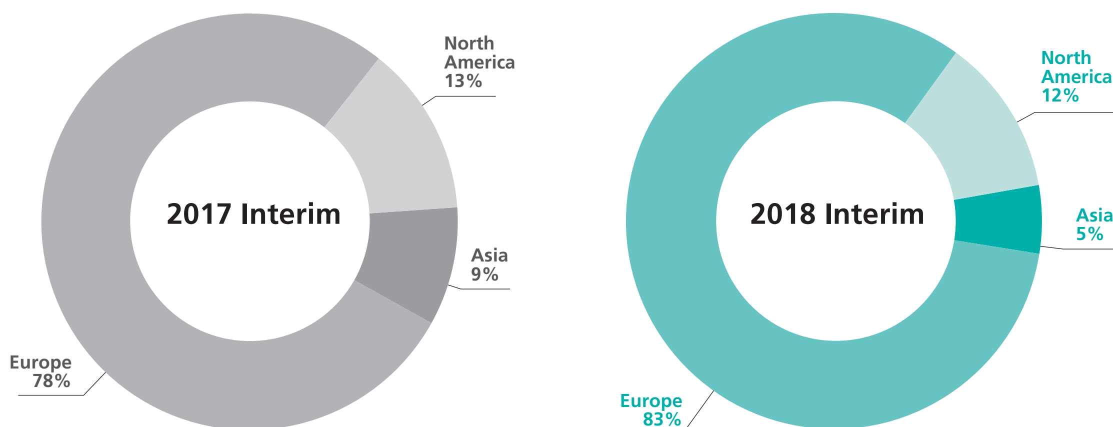
For the six months ended 30 June 2018, the Group invested HK$247.2 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment for the improvement of production efficiency (six months ended 30 June 2017: HK$99.6 million). All of these capital expenditures were financed from internal resources.

BUSINESS REVIEW

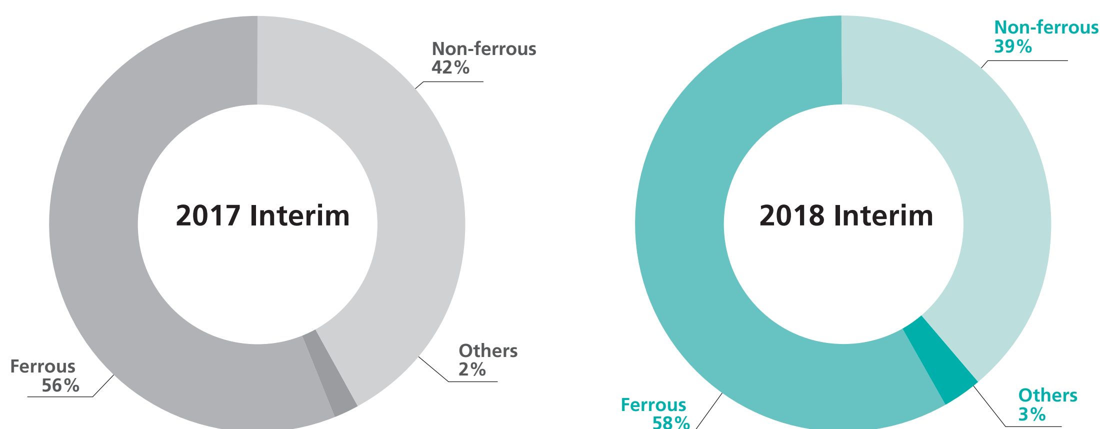
Revenue by Regions



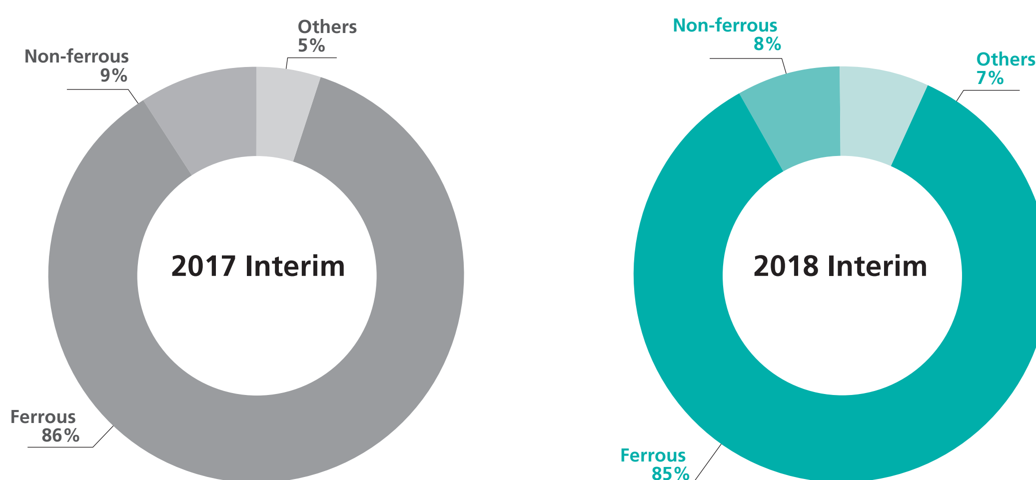
Sales Quantity by Regions



Revenue by Products



Sales Quantity by Products



The Group's performance

After the completion of the acquisition of the one of the world's largest mixed metal recyclers with advanced end-of-life vehicles ("ELV") processing technologies in Europe and North America in one and a half years ago, we are integrating our business operations in Asia, Europe and North America, and became one of the leading worldwide mixed metal recyclers with the capabilities to handle and recycle multiple types of materials. Through the geographic diversification, we are in a good position to mitigate the risks of relying on a single market.

The Group sold in aggregate over 2.75 million tonnes of recycled products in the first half of 2018. This represents a 13.6% increase when compared to 2.42 million tonnes being sold in the first half of 2017. During the first half of 2018, the Group continued its usual practices of 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 had extended the metal recycling business from its original operation base in Asia to Europe and North America, becoming a truly global operator, ranking among the 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 the continents where the operations situated.

Europe

Our Europe segment provides 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).

In the first half of 2018, total segment sales tonnage and revenue in Europe segment increased by approximately 19.5% from 1.90 million tonnes to 2.27 million tonnes and 38.2% from HK$5,729.4 million to HK$7,916.1 million, respectively, as compared to the first half of previous year.

Gross profit for the six months ended 30 June 2018 was HK$920.4 million, an increase of HK$219.2 million or 31.3% compared with the same period last year. Gross profit margin for the period decreased from 12.2% to 11.6%. The segment profit increased by 35.8% from HK$209.1 million to HK$283.9 million.

These achievements were contributed by launching a "Key Account Management" strategy in 2017 to enhance the services with the key customers and supplier; together with the improvement of financial situations, it regained some former suppliers and customers in the period.

North America

The North America segment has highly recycle process know-how in all relevant process steps from collection, sorting, processing to trading of materials. It operates state-of-the art shredder technology and have extensive post-shredding technologies in place for recovery optimisation.

For the six months ended 30 June 2018, the North America segment revenue increased by approximately 17.1% from HK$1,150.3 million to HK$1,346.5 million while the total segment sales tonnage remained flat at approximately 0.30 million tonnes.

The gross profit and gross profit margin decreased by 0.5% from HK$150.7 million to HK$149.9 million and from 13.1% to 11.1% in the first half of 2018 respectively. The segment profit decreased by 49.2% from HK$38.4 million to HK$19.5 million.

Asia

In Asia, our major production facilities are situated in Yuen Long (Hong Kong), Taizhou (Zhejiang) and Yantai (Shandong).

In the first half of 2018, total segment sales tonnage and revenue in Asia segment decreased by approximately 34.8% from 0.23 million tonnes to 0.15 million tonnes and 15.8% from HK$2,281.0 million to HK$1,920.4 million, respectively, as compared to the first half of previous year.

Gross profit for the six months ended 30 June 2018 was HK$247.7 million, an increase of HK$33.5 million or 15.6% compared with the same period last year. Gross profit margin for the period increased from 9.4% to 12.9%. The segment profit for Asia segment increased by 25.5% from HK$149.7 million to HK$187.8 million.

The decrease in revenue and sale quantities, while gross profit and gross profit margin improved were mainly caused by the reduction of import quotas for scrap motors in China. This, in turn, led to a reduction in material sourcing costs together with the contributions from continuous operational efficiency improvement.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2018, 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$4,851.0 million (31 December 2017: approximately HK$4,344.6 million) to secure borrowings.

As at 30 June 2018, 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 condensed consolidated financial information and amounted to HK$186.0 million (31 December 2017: HK$175.3 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$30.2 million (31 December 2017: HK$42.5 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 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. 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 entering foreign currency forward contracts.

The Group continues monitoring its floating interest rate exposure closely and will consider hedging significant interest rate exposure if necessary.

As for credit risk, the Group continues to follow the trade practices of cash on collection from the majority of sales of its metal recycling products in the Asia region in order to minimise the carrying amounts of the financial assets in the Group's financial statements. For the sales in Europe and North America, 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. 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.

In the second half of 2018, a Group-wide project on "Enterprise Risk Management" was initiated so as to expand risk management to cover more than financial risks focus. The project is on-going and has been running according to plan.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had a workforce of 3,228 employees. In addition, the Group engaged approximately 1,428 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$633.9 million. The remuneration package of the 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.

CHANGES SINCE 31 DECEMBER 2017

Save as disclosed in this announcement, there were no other significant changes in the Group's financial position or from the information disclosed under the Management Discussion and Analysis in the annual report for the year ended 31 December 2017.

CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

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

Experience including other directorships

(a) **Dr. Loke Yu Alias Loke Hoi Lam（陸海林）**, an independent non-executive Director of the Company, has resigned as an independent non-executive director at Shehzhou Space Park Group Limited (Stock Code: 692, formerly known as China Household Holdings Limited) with effect from 6 August 2018, and resigned as an independent non-executive director at Winfair Investment Company Limited (Stock Code: 287) with effect from 3 April 2018. Dr. Loke has been appointed as an independent non-executive director of TC Orient Lighting Holdings Limited (Stock Code: 515) with effect from 6 June 2018.

(b) **Mr. Zhu Hongchao（朱洪超）**, an independent non-executive Director of the Company, has resigned as an independent director at Shanghai First Pharmaceutical Co., Ltd (Stock Code: 600833(SHA)) with effect from 26 June 2018. Mr. Zhu has been appointed as an independent non-executive director at E-House (China) Enterprise Holdings Limited (Stock Code: 2048) with effect from 10 July 2018.

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 2018, the Company has complied with all the applicable code provisions of the Corporate Governance Code and Corporate Governance Report, contained in Appendix 14 to the Listing Rules with exceptions as explained below:

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.

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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions by Directors. All Directors have confirmed following specific enquiries made by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

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

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 2018.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018.

SIGNIFICANT EVENTS

The Company and any of its subsidiaries did not have any significant events which have occurred since 30 June 2018.

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), Ms. Qian Liping and Mr. Zhu Hongchao. 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 2018.

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 2018 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, 27 August 2018

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

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

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