齐合环保
CHIHO

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 976)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of HK$20,912.8 million in 2018, representing a significant increase of HK$2,421.8 million or approximately 13.1% higher compared to HK$18,491.0 million in 2017.

- The Group recorded a gross profit of HK$2,304.7 million in 2018, representing a decrease of HK$24.3 million as compared to HK$2,329.0 million in 2017 on a like-for-like basis. The gross profit margin dropped from 12.6% in 2017 to 11.0% in 2018 on a like-for-like basis, mainly due to higher transportation costs in the European region due to shortage of railway and shipping transport capacity.

- The Group recorded a profit attributable to shareholders of the Company of HK$401.2 million in 2018, having decreased by HK$25.6 million as compared to the last financial year, mainly attributable to the decline in the gross profit margin.

- The Group's current ratio has improved from 1.12 in 2017 to 1.62 in 2018 as a result of efficient working capital management. The cash conversion cycle also shortened from 49 days in 2017 to 44 days in 2018.

- The Board does not recommend the payment of a final dividend in 2018 (2017: Nil).

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Chiho Environmental Group Limited (the "**Company**") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "**Group**", "**we**" and "**our**") for the year ended 31 December 2018 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") as follows (together with the comparative figures for the year ended 31 December 2017):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** *HK$M*	2017 *HK$M*
Revenue	*3*	**20,912.8**	18,491.0
Cost of sales	*5*	**(19,228.7)**	(16,162.0)
Gross profit		**1,684.1**	2,329.0
Other income		**99.2**	113.9
Other gains, net	*4*	**232.6**	237.1
Net reversal of impairment on financial assets	*4*	**36.4**	–
Distribution and selling expenses	*5*	**(49.0)**	(562.3)
Administrative expenses	*5*	**(1,283.3)**	(1,303.0)
		720.0	814.7
Finance income		**36.6**	38.8
Finance costs		**(412.7)**	(416.1)
Finance costs, net	*6*	**(376.1)**	(377.3)
Share of post-tax (loss)/profit of an associate		**(0.7)**	0.2
Share of post-tax profit of joint ventures		**126.2**	108.6
Profit before income tax		**469.4**	546.2
Income tax expense	*7*	**(70.4)**	(110.6)
Profit for the year		**399.0**	435.6
Profit attributable to:			
Shareholders of the Company		**401.2**	426.8
Non-controlling interests		**(2.2)**	8.8
		399.0	435.6
Earnings per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
Basic earnings per share	*9*	**0.25**	0.26
Diluted earnings per share	*9*	**0.25**	0.26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$M	*HK$M*
Profit for the year	**399.0**	435.6
Other comprehensive (loss)/income		
Items that may be reclassified to profit or loss:		
Currency translation differences	**(302.2)**	609.5
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	**1.6**	0.4
Income tax relating to these items	**0.4**	–
Other comprehensive (loss)/income for the year, net of tax	**(300.2)**	609.9
Total comprehensive income for the year	**98.8**	1,045.5
Total comprehensive income/(loss) for the year attributable to:		
Shareholders of the Company	**102.2**	1,033.3
Non-controlling interests	**(3.4)**	12.2
	98.8	1,045.5

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Notes	2018 HK$M	2017 HK$M
ASSETS			
Non-current assets			
Property, plant and equipment		**3,603.5**	3,559.3
Leasehold land and land use rights		**387.9**	412.9
Investment properties		**3.2**	3.5
Intangible assets		**1,183.9**	1,207.7
Investments accounted for using the equity method		**613.2**	591.2
Financial assets at fair value through profit or loss		**0.8**	–
Financial assets at fair value through other comprehensive income		**111.0**	–
Other non-current assets		**5.8**	128.8
Deferred income tax assets		**148.7**	168.1
		6,058.0	6,071.5
Current assets			
Inventories		**2,105.7**	2,338.5
Trade, bills and other receivables	*10*	**1,882.1**	1,992.4
Fixed return investment		**211.3**	339.0
Amounts due from related parties		**68.2**	205.6
Derivative financial instruments		**36.1**	6.1
Tax recoverable		**15.4**	25.8
Pledged bank deposits		**313.6**	95.0
Cash and cash equivalents		**697.1**	976.4
		5,329.5	5,978.8
Assets classified as held for sale		**–**	43.4
Total assets		**11,387.5**	12,093.7

	Notes	**2018**	2017
		HK$M	*HK$M*
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.1
Other reserves		**6,720.2**	7,018.9
Accumulated losses		**(1,561.0)**	(1,961.9)
		5,175.3	5,073.1
Non-controlling interests		**(29.4)**	(26.0)
Total equity		**5,145.9**	5,047.1
Non-current liabilities			
Borrowings		**2,429.1**	1,133.0
Retirement benefit obligations		**23.4**	26.7
Other payables		**110.7**	105.2
Deferred income tax liabilities		**380.4**	416.5
		2,943.6	1,681.4
Current liabilities			
Trade, bills and other payables	*11*	**1,732.2**	2,092.0
Current income tax liabilities		**120.5**	113.2
Borrowings		**1,358.5**	3,022.2
Amounts due to related parties		**66.3**	110.9
Derivative financial instruments		**20.5**	26.9
		3,298.0	5,365.2
Total liabilities		**6,241.6**	7,046.6
Total equity and liabilities		**11,387.5**	12,093.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Chiho Environmental 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 North 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 applicable disclosure requirements of 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 financial assets at fair value through other comprehensive income, 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.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards and interpretations adopted by the Group

The following new and amended standards and interpretations have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018:

Annual Improvements Project HKFRS 1 and HKAS 28 (Amendments)	Annual Improvements 2014-2016 Cycle
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HKAS 40 (Amendments)	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The following explains the impact of the adoption of HKFRS 9 and HKFRS 15 on the Group's financial statements.

The Group elected to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening consolidated balance sheet on 1 January 2018 as appropriate.

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.

Consolidated balance sheet (extract)

	2017 31 December *HK$M*	Effect of HKFRS 9 *HK$M*	Effect of HKFRS 15 *HK$M*	2018 1 January *HK$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

(i) HKFRS 9 "Financial Instruments"

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.

(1) 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 above.

Reclassification from available-for-sale to FVPL

Certain equity investment were reclassified from available-for-sale to financial assets at FVPL (HK$5.3 million as at 1 January 2018). These equity investments are classified as at fair value through profit or loss under HKFRS 9, unless they are eligible for and designated at fair value through other comprehensive income by the Group.

For the year ended 31 December 2018, net disposal gain of HK$20.0 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 held 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.

(2) Impairment of financial assets

The Group's trade, bills and other receivables, fixed return investments and balances with related parties are subject to HKFRS 9's new expected credit loss model.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. 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 impact from the adoption of the new impairment methodology is immaterial to the financial position of the Group as at 1 January 2018 and 31 December 2018.

(ii) HKFRS 15 “Revenue from Contracts with Customers”

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. The standard replaces HKAS 18 Revenue and HKAS 11 Construction contracts and related interpretations. 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 does not have a significant impact on when the Group recognises revenue from sales of goods.

Outbound freight expenses have been reclassified in the consolidated statement of profit or loss due to the more detailed requirements under HKFRS 15 whereby freight expenses directly associated with fulfilling performance obligations are classified in cost of sales. During the year ended 31 December 2018, cost of outbound freight of HK$620.6 million were reclassified from “distribution and selling expenses” to “cost of sales”, as follows:

	Before adoption of HKFRS 15	**Effect of HKFRS 15**	**31 December 2018 As reported**
	HK$'M	*HK$'M*	*HK$'M*
Cost of sales	(18,608.1)	(620.6)	(19,228.7)
Gross profit	2,304.7	(620.6)	1,684.1
Distribution and selling expenses	(669.6)	620.6	(49.0)

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 11 to reflect the terminology of HKFRS 15.

(b) *The following new and amended standards, new interpretations and framework have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group*

The following new and amended standards, new interpretations and framework are not effective for financial year beginning on 1 January 2018, and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
Annual Improvements Project (Amendments)	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8	Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined by HKICPA

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

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

Based on management's initial assessment, the initial adoption of HKFRS 16 in the future will result in an increase in the right-of-use assets and the lease liabilities, which is expected to result in an increase in both assets and liabilities in the consolidated balance sheet. The adoption will also front-load the expense recognition in the consolidated statement of profit or loss over the period of the leases, as a result of the combination of the interest expenses arising from the lease liabilities and the amortisation of the right-of-use assets as compared to the rental expenses under existing standard.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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. The Group derives revenue from transfer of goods and services at a point in time.

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

After the acquisition of Scholz Holding GmbH ("Scholz Holding" and together with its subsidiaries "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 onwards, to better evaluate the Group's performance in each economic 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.

In the current year, the Group's CODM assesses the performance of the operating segments based on the measure of segment profit. 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 2017 and as at 31 December 2017 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 information regarding the Group's reportable segments for the year ended 31 December 2018 and 2017 respectively.

	For the year ended									
	31 December 2018					31 December 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	**3,751.4**	**15,166.5**	**2,386.7**	**–**	**21,304.6**	4,813.6	12,061.6	2,199.0	–	19,074.2
Inter-segment sales	**–**	**(283.4)**	**(108.4)**	**–**	**(391.8)**	–	(435.2)	(148.0)	–	(583.2)
External sales	**3,751.4**	**14,883.1**	**2,278.3**	**–**	**20,912.8**	4,813.6	11,626.4	2,051.0	–	18,491.0
Segment profit	**275.2**	**443.5**	**8.4**	**118.4**	**845.5**	295.9	460.3	(2.5)	169.8	923.5
Finance income					**36.6**					38.8
Finance costs					**(412.7)**					(416.1)
Profit before income tax					**469.4**					546.2
Income tax expense					**(70.4)**					(110.6)
Profit for the year					**399.0**					435.6
Depreciation and amortisation expenses	**(65.3)**	**(237.4)**	**(52.2)**	**(26.4)**	**(381.3)**	(77.7)	(216.5)	(64.7)	(40.2)	(399.1)
Fair value gain/(loss) on financial assets at fair value through profit or loss	**–**	**–**	**–**	**31.5**	**31.5**	–	–	–	(17.2)	(17.2)
Gain on disposals of financial assets at fair value through profit or loss	**–**	**–**	**–**	**20.0**	**20.0**	–	–	–	–	–
Gain on bargain purchase on acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	–	–	–	96.8	96.8
Gain on disposal of property, plant and equipment and investment properties	**–**	**–**	**–**	**29.6**	**29.6**	–	–	–	270.5	270.5
Gain on disposal of assets classified as held for sale	**–**	**–**	**–**	**109.5**	**109.5**	–	–	–	38.5	38.5
Provision for impairment of property, plant and equipment and leasehold land and land use rights	**–**	**–**	**–**	**(1.2)**	**(1.2)**	–	–	–	(106.7)	(106.7)

Segment assets

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

	As at							
	31 December 2018				31 December 2017 (restated)			
	Asia	**Europe**	**North America**	**Total**	Asia	Europe	North America	Total
	HK$M	***HK$M***	***HK$M***	***HK$M***	*HK$M*	*HK$M*	*HK$M*	*HK$M*
Segment assets	2,712.6	6,563.5	1,002.8	10,278.9	3,036.5	6,593.5	948.3	10,578.3
Deferred income tax assets				148.7				168.1
Fixed return investment				211.3				339.0
Tax recoverable				15.4				25.8
Derivative financial instruments				36.1				6.1
Cash and cash equivalents				697.1				976.4
Total assets				11,387.5				12,093.7

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 2018	As at 31 December 2017
	HK$M	*HK$M*
Asia	**1,037.1**	1,127.3
Europe	**4,077.9**	4,068.0
North America	**680.6**	586.7
Total	**5,795.6**	5,782.0

Analysis of revenue by category

	For the year ended 31 December 2018 HK$M	31 December 2017 HK$M
Metal recycling		
– Ferrous metal	**11,533.8**	9,616.0
– Non-ferrous metal	**8,482.6**	7,792.3
Forging and foundry	**153.6**	259.8
Others	**742.8**	822.9
Total	**20,912.8**	18,491.0

Information about major customers

No single customer contributed 10% or more to the Group's revenue during the year ended 31 December 2018 and 2017.

4 OTHER GAINS, NET

	2018 *HK$M*	2017 *HK$M*
Gains/(losses) on fair value change of:		
– derivatives financial instruments	**31.5**	(15.5)
– financial assets at fair value through profit or loss	**–**	(1.7)
Foreign exchange (loss)/gain, net	**(1.4)**	1.3
Provision for impairment of trade, bills and other receivables, net *(Note)*	**–**	(49.3)
Net reversal of impairment on financial assets *(Note)*	**36.4**	–
Provision for impairment of property, plant and equipment	**(1.2)**	(14.3)
Provision for impairment of leasehold land and land use rights	**–**	(92.4)
Gain on disposal of property, plant and equipment	**29.6**	16.0
Gain on disposal of investment properties	**–**	254.5
Gain on disposal of assets classified as held for sale	**109.5**	38.5
Gain on bargain purchase on acquisition of subsidiaries	**–**	96.8
Gain on disposal of financial assets at fair value through profit or loss	**20.0**	–
Compensation income	**45.3**	–
Others	**(0.7)**	3.2
	269.0	237.1

Note: With effect from 1 January 2018, the presentation of net reversal of impairment on financial assets is shown separately on the consolidated statement of profit or loss.

5 EXPENSES BY NATURE

	2018	2017
	HK$M	*HK$M*
Changes in inventories of work-in-progress and finished goods	**(234.8)**	(107.9)
Raw materials and consumables used	**16,782.3**	14,784.7
Provision for inventories, net	**18.5**	5.4
Employee benefit expense	**1,272.8**	1,135.3
Depreciation and amortisation expenses	**381.3**	399.1
Legal and professional expenses *(Note (i))*	**66.8**	133.6
Auditors' remuneration		
– Audit services	**31.6**	22.6
– Non-audit services	**2.7**	1.0
Other expenses	**2,239.8**	1,653.5
Total cost of sales, distribution and selling expenses and administrative expenses	**20,561.0**	18,027.3

Note:

(i) For the year ended 31 December 2017, legal and professional expenses included non-audit service fees to auditors of HK$19.3 million.

6 FINANCE COSTS, NET

	2018	2017
	HK$M	*HK$M*
Interest income from bank deposits	**10.5**	14.7
Interest income from related parties	**3.8**	1.9
Interest income from fixed return investment	**22.3**	22.2
Finance income	**36.6**	38.8
Interest expense on loan from the immediate holding company	**–**	(0.2)
Interest expense on loan from an intermediate holding company	**–**	(1.4)
Interest expense on loan from related parties	**(0.6)**	(1.5)
Interest expense on bank loans, overdrafts and bills payable	**(114.8)**	(168.5)
Interest expense on note payable	**(130.0)**	(218.3)
Interest expense on early redemption of note payable	**(36.6)**	–
Interest expense on early repayment of other borrowings	**(14.2)**	–
Interest on finance lease liabilities	**(13.5)**	(10.5)
Effective interest expense on other borrowings	**(103.0)**	(13.7)
Effective interest expense on convertible bond	**–**	(2.0)
Finance costs	**(412.7)**	(416.1)
Finance costs, net	**(376.1)**	(377.3)

7 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 year.

Under the law of the PRC on Enterprise Income Tax (the "EIT") and the relevant EIT Implementation Regulations, the tax rate of PRC EIT has been provided at the rate of 25% (2017: 25%) on the estimated assessable profit for the year.

Germany and USA income taxes have been provided at the rate of approximately 30% (2017:30%) and 26% (2017: 39%) respectively, on the estimated assessable profit for the 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. Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

	2018	2017
	HK$M	*HK$M*
Current income tax (expense)/credit:		
Germany	**(104.1)**	(85.5)
PRC EIT	**(0.5)**	(6.5)
Hong Kong profits tax	**(2.7)**	(3.1)
USA	**(2.2)**	(12.9)
Other jurisdictions	**1.0**	1.7
	(108.5)	(106.3)
Over/(under) provision in prior years:		
Germany	**17.1**	(20.2)
Hong Kong profits tax	**4.3**	–
Other jurisdictions	**6.2**	–
	27.6	(20.2)
Deferred income tax credit	**10.5**	15.9
Income tax expense	**(70.4)**	(110.6)

8 DIVIDENDS

No dividend was paid or proposed during 2018 and 2017, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the year ended 31 December 2018 and 2017.

9 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 year.

	2018	2017
	HK$M	*HK$M*
Profit		
Profit for the year attributable to shareholders of the Company	**401.2**	426.8
Number of shares		
Weighted average number of ordinary shares in issues (thousands)	**1,605,153**	1,611,427
Basic earnings per share (expressed in HK$)	**0.25**	0.26

(b) Diluted

The Group has no potentially dilutive shares outstanding during the year ended 31 December 2018 and 2017.

10 TRADE, BILLS AND OTHER RECEIVABLES

	2018	2017
	HK$M	*HK$M*
Trade receivables	**1,426.4**	1,434.5
Less: Provision for impairment	**(62.8)**	(127.8)
Trade receivables, net	**1,363.6**	1,306.7
Bills receivables	**3.9**	0.6
Deposits and prepayments	**189.9**	191.8
Deposits paid for purchase of raw materials	**40.5**	55.1
VAT recoverable	**160.6**	130.1
Other receivables *(Note)*	**123.6**	308.1
	1,882.1	1,992.4

Note: As at 31 December 2018, the balance includes a receivable of HK$65.5 million (2017: HK$265.8 million) from the Taizhou Bay Committee, 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 31 December 2018 and 2017, the aging analysis of the trade receivables based on invoice date were as follows:

	2018	2017
	HK$M	*HK$M*
0 – 90 days	**1,323.5**	1,335.7
91 – 180 days	**45.7**	37.8
Over 180 days	**57.2**	61.0
	1,426.4	1,434.5

11 TRADE, BILLS AND OTHER PAYABLES

	2018	2017
	HK$M	*HK$M*
Trade payables	**1,042.9**	1,192.8
Contract liabilities	**25.4**	–
Other taxes payable	**70.9**	180.3
Accrued salaries and employee benefits	**159.3**	132.0
Provision for claims and contingencies	**20.5**	19.6
Accrued professional expenses	**28.9**	47.7
Asset retirement obligations	**84.8**	85.4
Other payables and accruals *(Note)*	**410.2**	539.4
	1,842.9	2,197.2
Less: non-current portion		
Asset retirement obligation	**(84.8)**	(85.4)
Other payables	**(25.9)**	(19.8)
	1,732.2	2,092.0

Note: The balance includes the contingent consideration payable with respect to the acquisition of Scholz Group and its debt restructuring programme in 2016.

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

	2018	2017
	HK$M	*HK$M*
0 – 90 days	**1,007.9**	1,133.5
91 – 180 days	**14.9**	17.5
Over 180 days	**20.1**	41.8
	1,042.9	1,192.8

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

CHAIRMAN'S STATEMENT

In 2018, the situation of international politics and the world economy was unstable. The intensified geopolitical differences and the revival of global trade protectionism and the conceptions of anti-globalisation in turn constituting a multilateral trade conflict centered by the China-US trade dispute. Although the overall China's economy was stable, on the one hand, it faced the pressure from economic transformation and upgrading. On the other hand, it was required to properly handle and prevent the potential systemic risks brought by unreasonable debt and economic structures. At the same time, the Chinese government was firmly committed to promote two arduous programmes, namely "to address overcapacity" and "the battle to defend the blue sky", and introduced new recycling import policy. The abovementioned changes have brought challenges and pressure to the global recycling industry.

In a year with twists and turns, we marched forward despite all the pressure and difficulties. Fortunately, the tendency of the recycling industry and economy will not be changed by short-term events. Countries worldwide still scrupulously abided by their undertakings to climate change and the theme on promoting sustainable development. In China, the government has formulated national development strategy to give prominence to the concept of protecting green hills and clear waters, strengthening circular economy, and green development. In 2018, the recycling industry has gained attention locally and globally, and the position of the recycling industry has elevated.

The Group has considered the rising regional trade protectionism when formulating our strategies, makes best use of the situation, adjusts our business layout and strategic planning in a timely manner to adapt to the new situation. The Group is mainly engaged in metal recycling and processing of ferrous and non-ferrous metal such as steel, copper and aluminum. The metals produced by the Company is mainly sold in local markets, which means that recycled steel produced in Europe is sold in Europe and that produced in America is mainly sold in America. The high tariff imposed by Europe and America on the lower priced steel from China to protect local steel industries has indirectly helped local recycled steel industries, and from which the Group has benefited. However, the rising trade protectionism will harm economic growth in general. The uncertainty brought by trade disputes has a ripple effect across the economy which in turn softened the demand from customers.

Although the US government has withdrawn from the Paris climate agreement unilaterally, governments in the Eurozone are consistent with each other to defend this agreement. The European Commission is working on legislation to require members of the European Union to meet the emission reduction target under the Paris climate agreement. The carbon tax issue in Europe has been raised for several times since 2017, imposing considerable pressure on steel factories. Many of our customers are steel companies in Europe and America. It is expected that steel mills in Europe will accelerate the process of converting their production (using blast furnaces) to short process (using electric arc furnaces). Electric arc furnace short process steelmaking uses recycled steel as its main raw materials. On the other hand, blast furnace steelmaking requires iron ore, coking coal and steel scrap as raw materials. We believe that this will increase the demand for recycled steel in Europe. In China, being the world's largest steel producer, it is vigorously promoting energy conservation and emission reduction to defend the blue sky, as such the production capacity of blast furnace enterprises has been limited to some extent. Domestic large steel mills also vigorously improving steel capacity by converting to electric arc furnace steelmaking. Therefore, we expect a significant increase in the demand for steel scrap.

The main product of our business in China is recycled copper. Copper price is the barometer of the economy, and China is the largest consumer of copper in the world. The slowdown of Chinese economy was triggered by various external factors. To stimulate economic growth, the Chinese government increased its investment in infrastructure construction, which is beneficial to copper demand. However, softer consumer demand and the sluggish construction industry do not bode well for the copper demand. Facing high market uncertainty, we will try our best to maintain a high turnover to avoid risks. Nevertheless, the Group will continue to expand the high value copper recycling business, as China is highly dependent on imported copper and regardless of power grids, cartridge cases, circuit boards or for new energy vehicles, there all exist tremendous demand for copper. The Group will supply the PRC market with high-grade recycled copper processed in the processing yards in Europe and North America and yards to be set up in Southeast Asia. With the rising usage of copper in China, there will be growth in copper scrap. In addition, the domestic recycling industry is constantly integrating and consolidating, there will be more copper scraps recycled through proper and legitimate channels. We will take advantage of this opportunity to expand our market share of local scrap copper recycling by leveraging our industry and market experience accumulated over the years.

2018 marked an important year for the recycled metal industry in China. The import of the Category 7 solid wastes, including scrap motors and cables, has been completely banned at the end of 2018. The new policy has brought great uncertainty to traditional enterprises which rely on imported materials. The Group's operation in China has been inevitably affected in the short term. In 2018, revenue from the Group's European and North American operations accounted for 82.4% of the total revenue of the Group, while that of our operation in China accounted for approximately 17.6%, down by 7.6% as compared with 25.2% in 2017. However, with the introduction of the new policies, the retirement and collection of scraps from the upstream, as well as the demand for copper in the downstream domestic market will remain unchanged. The Group has an extensive network of collection and processing yards across Europe and North America. We started mechanical processing and sorting of scrap motors in the yards in the US and Europe, while our set up in Southeast Asia is intensively under preparation and will be put into operation in 2019 successively. At the same time, the Group will take advantage of the opportunity rising from the consolidation of the local recycling industry to expand our domestic scrap metal business in the PRC. With our strengths and resources, the Group is able to sort out a new model of the global supply chain for non-ferrous scrap with higher economic efficiency, and further consolidate and enhance our strengths in this regard through the transformation.

Upon approval by the Ministry of Environmental Protection of the PRC, the Group has officially begun the recycling of waste lubricants in Yantai, Shandong Province, China since the beginning of 2018. Recycled lubricants are hazardous wastes, the recycling of which requires enterprises to meet relevant requirements and possess relevant qualifications. We have received the Permit for Operation of Hazardous Wastes (《危險廢物經營許可證》) for our production site in Yantai in the second half of 2017. This business has been developing steadily with expanding scales, making our production site in Yantai the largest site for lubricants recycling with advanced technologies in eastern and central China. The Group believes that waste oil recycling industry has a promising prospect in China and will gradually expand the business to other provinces through our qualifications obtained and operational experience accumulated.

As for our recycled metal procurement and trading business in Hong Kong, we have increased our sales of high-quality brass and red copper to third parties, and served as the front end for our yards in Europe and North America in exporting to China. Our trading department in Hong Kong will act as a trading hub and an important channel connecting our production sites in South and South East Asia with the PRC sales network going forward.

In 2018, the Group has put lots of efforts on strengthening leadership. I believe that under the leadership of the Group's international executive management team with rich industrial and professional experience, the Group will upgrade and transform, achieve stable growth, and provide returns to shareholders.

2018 Annual Results

The operating revenue for the year ended 31 December 2018 amounted to HK$20,912.8 million (2017: HK$18,491.0 million), which increased by approximately 13.1% when compared to 2017.

The annual profit attributable to shareholders of the Company for the year ended 31 December 2018 was HK$401.2 million (2017: HK$426.8 million), which decreased by approximately 6.0% when compared to 2017. The basic and diluted earnings per share for 2018 are HK$0.25, (2017: basic and diluted earnings per share HK$0.26).

Regional Performance

Europe and North America

In 2018, Europe and North America recorded a revenue of HK$17,553.2 million, representing an increase of 23.1% when compared to last year (2017: segment revenue HK$14,260.6 million); and a segment profit of HK$451.9 million, representing a decrease of 1.3% when compared to last year (2017: segment profit HK$457.8 million). In the second half of the year, the performance of this segment suffered from increased transportation costs and delays in delivery due to one-off impact brought about by the shortage of land transport capacity resulting from the bumper agricultural product harvest in Austria and the Czech Republic, as well as the shortage of shipping capacity caused by the drought in Germany which led to declining water levels.

Asia

In 2018, the revenue of the Asia region decreased by 22.1% to HK$3,751.4 million when compared to last year (2017: segment revenue HK$4,813.6 million), and a segment profit of HK$275.2 million was recorded, representing a decrease of 7.0% when compared to last year (2017: segment profit HK$295.9 million). The decline in results of the Asia region was mainly attributable to the gradually contracted import business in the second half of the year.

Prospects

In 2019, after a year of strong growth in the global economy, we expect to see a softer economic growth. In China, the government will adopt various measures to stabilise the macro economy. On the other hand, the difference of Sino-US trade negotiations in principle should have been resolved, thus the trade war has a chance to come to an end.

The Group will continue to implement stringent risk management and hedging policies on our business in this year, enhance the development strategy of organic growth together with prudent mergers and acquisitions, and expand its business scale gradually. On the whole, the Group enjoyed an increasingly sound financial position, maintained business growth, constantly improved its cash flow and lowering its debt ratios to reduce finance costs. The note issued by the Group in 2016 with a principal amount of US$200.0 million has also been redeemed upon maturity through refinancing and own funds, and a new round of financing was completed at a lower cost than before even when the Federal Reserve raised interest rates. The management remains cautiously optimistic about the long-term 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.

Market outlooks of 2019 are divergent: some would think it will be bumpier; while others would think it will be a head start for a decade of accelerated growth. As an entrepreneur in the recycling industry, in good times and in bad times, we stay pessimistically optimistic and work earnestly. Sustainable development in the circular economy sets the tone for future growth across the globe without boundaries. Given this trend of development, our mission is turning waste into resources and supplying the resources from presence to absence in efficient and green ways. Looking ahead, we stride with tenacity to live up to our expectations.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The Group recognised a record-high revenue in the year ended 2018. The revenue was approximately HK$20,912.8 million in 2018, representing an increase of approximately 13.1% compared to approximately HK$18,491.0 million in the year 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 continuous recovery of the ferrous and non-ferrous prices after they bottomed out in the fourth quarter of 2016 and reached a four-year new high during the first half of 2018.

	2018		2017		Increase/ (Decrease)
		As a percentage of total segment revenue		As a percentage of total segment revenue	
	HK$M		*HK$M*		*HK$M*
Asia	**3,751.4**	**17.6%**	4,813.6	25.2%	(1,062.2)
Europe	**15,166.5**	**71.2%**	12,061.6	63.2%	3,104.9
North America	**2,386.7**	**11.2%**	2,199.0	11.6%	187.7
Total segment revenue	**21,304.6**	**100%**	19,074.2	100%	2,230.4
Inter-segment sales	**(391.8)**		(583.2)		191.4
Revenue	**20,912.8**		18,491.0		2,421.8

Gross Profit/Margin

Gross profit for the financial year ended 2018 was HK$1,684.1 million, a decrease of HK$644.9 million or 27.7% compared to HK$2,329.0 million recorded in the previous financial year. Gross profit margin for the year decreased from 12.6% to 8.1%.

The gross profit and gross profit margin showed a significant fluctuation from last financial year, which is a result of the adoption of the new HKFRS 15 in 2018 whereby the outbound freight costs have been reclassified from selling and distribution expenses to cost of sales. Should such reclassification have not been made, the gross profit for 2018 would be HK$2,304.7 million and the gross profit margin would be 11.0% on a like-for-like basis.

The decrease in gross profit on a like-for-like basis was mainly attributable to higher transportation costs in the Europe region due to shortage of railway and shipping transport capacity.

Profit before interest and tax (EBIT)/Margin

EBIT for the year ended 2018 was HK$845.5 million, a decrease of HK$78.0 million or 8.4% compared with the previous financial year. EBIT margin also decreased from 5.0% to 4.0%.

Total operating expenses were HK$1,332.3 million, a decrease of 28.6% over the previous financial year, primarily due to the reclassification of outbound freight cost from distribution and selling expenses to cost of sales. The like-for-like total operating expenses would be HK$1,952.9 million, an increase of 4.7% over the previous financial year. Total operating expenses as a percentage of revenue on a like-for-like basis decreased from 10.1% to 9.3%.

Distribution and selling expenses decreased from HK$562.3 million to HK$49.0 million (like-for-like: HK$669.6 million), a decrease of 91.3% compared with the last financial year (like-for-like: increase of 19.1%). As a percentage of revenue, distribution and selling expenses decreased from 3.0% to 0.2% (like-for-like: slightly increased to 3.2% of revenue).

Administrative expenses decreased from HK$1,303.0 million to HK$1,283.3 million over the last financial year. The decrease was mainly from decrease in legal and professional fees but offset by increase in salaries and benefits. As a percentage of revenue, administrative expenses decreased from 7.1% to 6.2%.

	2018		2017		Increase/ (Decrease)
	HK$M	**As a percentage of revenue**	*HK$M*	As a percentage of revenue	*HK$M*
Distribution and selling expenses	**49.0**	**0.2%**	562.3	3.0%	(513.3)
Administrative expenses	**1,283.3**	**6.2%**	1,303.0	7.1%	(19.7)
Total	**1,332.3**	**6.4%**	1,865.3	10.1%	(533.0)

Profit Attributable to Shareholders and Earnings Per Share

Profit attributable to shareholders of the Company for the year ended 31 December 2018 was HK$401.2 million, having decreased by HK$25.6 million or 6.0% as compared to the last financial year. Net profit margin also declined from 2.3% to 1.9%, mainly attributable to the decline in the gross profit margin.

Taxation charges reduced from HK$110.6 million in the last financial year to HK$70.4 million in the financial year of 2018. The effective tax rate decreased from 20.2% to 15.0%. The lower taxation charges and effective tax rate are resulted from tax optimisation strategies implemented and settlement of tax disputes in the current financial year.

Basic earnings per share for year ended 31 December 2018 were HK$0.25 as compared to HK$0.26 in the previous financial year, representing a decrease of 3.8%.

Analysis of Cash Flow from Operations

The Group's cash generated from operations before changes in working capital for the year ended 31 December 2018 was HK$847.0 million, a decrease of 11.3% as compared to HK$954.9 million in the previous financial year. It was mainly attributable to the decrease in operating profits.

Liquidity and Financial Resources

Shareholders' funds as at 31 December 2018 were HK$5,175.3 million, an increase of 2.0% from HK$5,073.1 million as at 31 December 2017. Shareholders' funds per share increased by 2.2% from HK$3.15 to HK$3.22.

The Group's financial resources remain stable and steady. As at 31 December 2018, the Group had cash, various bank balances and pledged bank deposits amounting to HK$1,010.7 million, a decrease of 5.7% or HK$60.7 million as compared to HK$1,071.4 million as at 31 December 2017. It was mainly for repayment of external borrowings and the needs in the working capital for expansion of business operation.

Nevertheless, the current ratio increased from 1.12 as at 31 December 2017 to 1.62 as at 31 December 2018. Total external borrowings were approximately HK$3,787.6 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$1,757.9 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 31 December 2018 was 33.3% (31 December 2017: 34.4%) which is calculated based on the total borrowings divided by our total assets.

The Group has successfully obtained a syndicated term loan facility of up to US$300.0 million during 2018 for a term of two years with a lower financing cost for the refinancing of existing borrowings and working capital needs.

Working Capital Change

Inventories as at 31 December 2018 were HK$2,105.7 million, having decreased from HK$2,338.5 million as at 31 December 2017. The inventory turnover days for the financial year dropped to 42 days from 46 days as compared with last financial year. The improvement in turnover days was mainly due to continuous improvement in inventory and procurement management.

Provision for inventories as at 31 December 2018 were HK$38.8 million, as compared to the provisions of HK$21.2 million as at 31 December 2017.

	2018	2017
All figures are in HK$M unless stated otherwise		
Inventories	**2,105.7**	2,338.5
Average inventories as a percentage of revenue	**10.6%**	11.1%
Turnover days	**42 days**	46 days

Net trade and bills receivables as at 31 December 2018 were HK$1,367.5 million, increased from HK$1,307.3 million as at 31 December 2017. Debtor turnover days for the financial year dropped from 27 days to 23 days when compared with the last financial year. The higher receivable balance as at 31 December 2018 was mainly due to increase in revenue in the current financial year when compared with the last financial year. The Group adopts a tight management on credit exposure.

	2018	2017
All figures are in HK$M unless stated otherwise		
Trade and bills receivables, net	**1,367.5**	1,307.3
Average receivables as a percentage of revenue	**6.4%**	7.5%
Turnover days	**23 days**	27 days

Trade and bills payable as at 31 December 2018 were HK$1,042.9 million, as compared to HK$1,192.8 million as at 31 December 2017. Creditor turnover days for the year ended 31 December 2018 was 21 days, it dropped from 24 days as compared with the corresponding financial last year.

	2018	**2017**
All figures are in HK$M unless stated otherwise		
Trade and bills payables	**1,042.9**	1,192.8
Turnover days	**21 days**	24 days

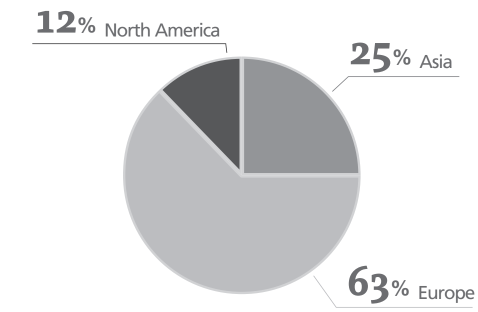
Treasury Policies

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/futures contracts as appropriate to hedge the foreign exchange risks/commodity price risks in the ordinary course of business. It is the Group's policy not to enter into derivative transactions for speculative purposes.

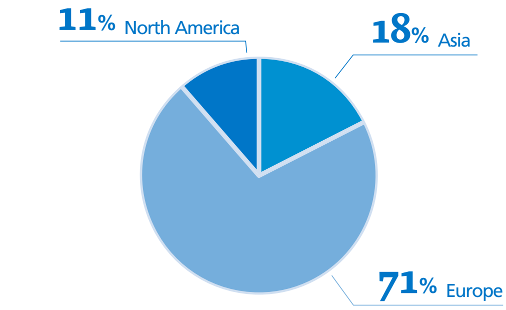
Capital Expenditure

For the year ended 31 December 2018, the Group invested HK$602.1 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment for the improvement of production efficiency (31 December 2017: HK$429.3 million). All of these capital expenditures were financed from internal resources.

Revenue by Regions

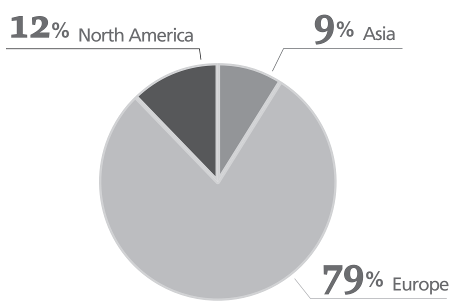


FY2017



FY2018

Sales Quantity by Regions



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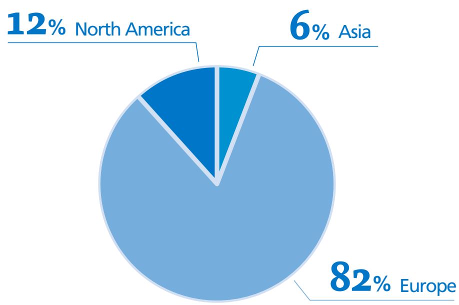
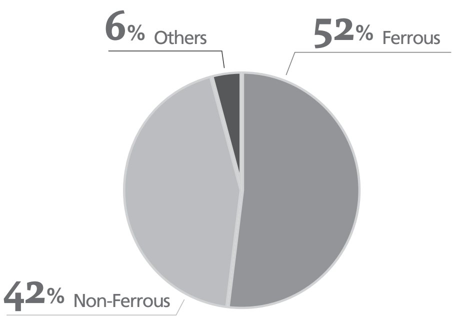
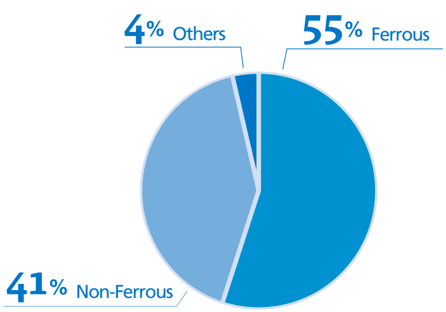


FY2018

Revenue by Products

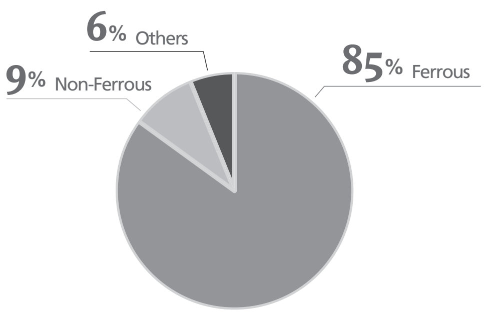


FY2017

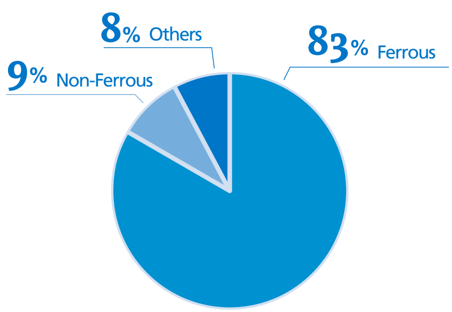


FY2018

Sales Quantity by Products



FY2017



FY2018

The Group's performance

After the completion of the acquisition of one of the world's largest mixed metal recyclers with advanced end-of-life vehicles ("ELV") processing technologies in Europe and North America in two 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 5.3 million tonnes of recycled products in 2018. This represents a 3.3% increase when compared to 5.1 million tonnes being sold in 2017. During 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 segments 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 2018, total segment sales tonnage and revenue in Europe increased by approximately 8.2% from 4.1 million tonnes to 4.4 million tonnes and 25.7% from HK$12,061.6 million to HK$15,166.5 million, respectively, as compared to the previous financial year.

Gross profit for the year ended 31 December 2018 was HK$1,647.9 million, a slight increase of HK$11.3 million or 0.7% compared with the last financial year, but gross profit margin for the year decreased from 13.6% to 10.9%, excluding the effect from the adoption of HKFRS 15. The segment profit decreased by 3.6% from HK$460.3 million to HK$443.5 million.

The drop in Europe's performance is attributable to the higher transportation costs from the shortage of railway and shipping transport capacity, and the difficult market environment and price development in the latter half of 2018.

North America

The North America segment has advanced 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 has extensive post-shredding technologies in place for recovery optimisation.

For the year ended 31 December 2018, the North America total segment sales revenue increased by approximately 8.5% from HK$2,199.0 million to HK$2,386.7 million while the total segment sales tonnage remained flat at approximately 0.6 million tonnes (2017: 0.6 million).

The gross profit and gross profit margin decreased by 1.0% from HK$291.2 million to HK$288.4 million and from 13.2% to 12.1% in 2018, respectively, before the reclassification of outbound freight costs to cost of sales under the new HKFRS 15. While the overall macroeconomic conditions in the US were supportive for our business, such as the tax reform and strong demand for steel products in the automotive and construction sectors, the sentiment has been falling as a result of the rising trade protectionism.

Segment profit has turned around from a loss of HK$2.5 million to a profit of HK$8.4 million as compared to the last financial year due to tight cost control measures taken.

Asia

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

In the year of 2018, total segment sales tonnage in Asia segment decreased by approximately 31.4% from 0.46 million tonnes to 0.31 million tonnes and revenue decreased by 22.1% from HK$4,813.6 million to HK$3,751.4 million as compared to the last financial year.

Gross profit for the year ended 31 December 2018 was HK$391.2 million, representing a decrease of HK$62.0 million or 13.7% compared with the last financial year, while gross profit margin for the year was 10.4%, increase from 9.4% in previous year, excluding the impact from the adoption of the new HKFRS 15. The segment profit for Asia decreased by 7.0% from HK$295.9 million to HK$275.2 million.

The decline in results of the Asia segment was mainly attributable to the gradually contracted import business in 2018.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 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$4,542.4 million (31 December 2017: HK$4,344.6 million) to secure borrowings.

As at 31 December 2018, the Group had capital commitments in respect of acquisition of property, plant and equipment, additions in construction in progress and set-up of a joint venture which are contracted for but not provided for in the consolidated financial statements and amounted to HK$116.6 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$27.4 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 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 minimising the adverse effects of these risks on its financial performance.

On 7 March 2018, the Group adopted a commodity price risk hedging policy the Board believes is suitable for the current operating conditions. The commodity price risk hedging policy is posted on the Company's website, www.chihogroup.com.

As part of its foreign currency hedging strategy, the Board closely monitors the Group's foreign currency borrowings in view of the volatile exchange rate of Euro, Renminbi and other relevant currencies to U.S. Dollar and considers various measures to minimise foreign currency risk.

Regarding credit risk, the Group continues following the best practices of cash collection for sales of most recycled products in order to minimise the carrying amounts of the financial assets in the Group's financial statements. In addition, the Group continues monitoring closely its trade debtors to minimise potential impairment losses.

Regarding liquidity risk, the Group continues maintaining a balance between the continuity of funding and flexibility through the use of bank borrowings.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had a workforce of 3,338 employees. In addition, we engaged approximately 805 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$1,272.8 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 2018 (2017: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on 31 May 2019 and a notice convening the AGM will be published and dispatched in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from 28 May 2019 to 31 May 2019, both days inclusive. In order to qualify to attend and vote at the AGM, unregistered holders of shares of the Company are required to lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 27 May 2019.

AUDIT COMMITTEE

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 the review of the Group's audited consolidated results for the year ended 31 December 2018.

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 2018, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report, contained in Appendix 14 to the Listing Rules 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 CG 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 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 or any of its subsidiaries during the year ended 31 December 2018.

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 2018 of the Company are set out below:

Experience including other directorships

(a) Dr. Loke Yu alias Loke Hoi Lam, an independent non-executive Director of the Company, was appointed as an independent non-executive director of TradeGo FinTech Limited (Stock Code: 8017) with effect from 29 August 2018.

Dr. Loke Yu resigned as an independent non-executive director of Shenzhou Space Park Group Limited (Stock Code: 692), SCUD Group Limited (Stock Code: 1399) and China Beidahuang Industry Group Holdings Limited (Stock Code: 39) with effect from 6 August 2018, 27 September 2018 and 1 November 2018 respectively.

(b) Mr. Zhu Hongchao, an independent non-executive Director of the Company, resigned as external director of Bright Food (Group) Co. Ltd with effect from 31 October 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 2018 and as at the date of this announcement.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures set out in the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements nor Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary 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 2018 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, 26 March 2019

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

Executive Directors:	Qin Yongming *(Chairman and Chief Executive Officer)* Tu Jianhua Wong Wun Lam *(Chief Financial Officer)*
Independent Non-executive Directors:	Loke Yu Qian Liping Zhu Hongchao