齐合环保
CHIHO

CHIHO ENVIRONMENTAL GROUP LIMITED

齊 合 環 保 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 976)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- The Group has recorded a decline in performance during the first half of 2019 as compared to the corresponding period in 2018, as the Group is experiencing a temporary set-back while the Group's dismantling business is being relocated from China to South/Southeast Asia due to the changes in the PRC Government's policy regarding the ban on impart of Category 7 scraps into China, as well as slow down of the automotive industry in Europe and US.

- The Group sold in aggregate over 2.51 million tonnes of recycled products with a revenue of HK$8,700.3 million during the interim period, representing a decrease of 8.9% and 21.4%, respectively.

- Total operating expenses dropped 20.5% to HK$553.8 million as stringent cost controls are in place in the course of transitioning our production bases.

- The Group recorded net finance costs of HK$94.2 million, a drop of 56.0%, as total borrowings have decreased from HK$3,787.6 million as at 31 December 2018 to HK$3,571.8 million as at 30 June 2019.

- Profit attributable to shareholders of the Company for the first half of 2019 was HK$2.0 million as compared to HK$331.6 million for the same period last year.

- The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 (2018: Nil).

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Chiho Environmental Group Limited (the "**Company**") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "**Group**", "**we**" and "**our**") for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018 as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2019	2018
	Notes	***HK$M***	*HK$M*
		(Unaudited)	(Unaudited)
Revenue	*3*	**8,700.3**	11,062.2
Cost of sales		**(8,184.7)**	(10,057.0)
Gross profit		**515.6**	1,005.2
Other income		**75.0**	48.3
Other (losses)/gains, net	*4*	**(1.2)**	141.5
Net reversal of impairment on financial assets		**20.9**	40.7
Distribution and selling expenses		**(25.1)**	(26.5)
Administrative expenses		**(528.7)**	(670.3)
		56.5	538.9
Finance income		**12.8**	16.8
Finance costs		**(107.0)**	(231.1)
Finance costs, net		**(94.2)**	(214.3)
Share of post-tax loss of an associate		**–**	(0.5)
Share of post-tax profits of joint ventures		**38.0**	62.4
Profit before income tax		**0.3**	386.5
Income tax credit/(expense)	*5*	**0.8**	(55.3)
Profit for the period	*6*	**1.1**	331.2
Profit/(loss) attributable to:			
Shareholders of the Company		**2.0**	331.6
Non-controlling interests		**(0.9)**	(0.4)
		1.1	331.2
Earnings per share attributable to shareholders of the Company for the period (expressed in HK$ per share)			
Basic earnings per share	*8*	**0.001**	0.21
Diluted earnings per share	*8*	**0.001**	0.21

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2019	2018
	HK$M	*HK$M*
	(Unaudited)	(Unaudited)
Profit for the period	**1.1**	331.2
Other comprehensive loss		
Item that may be reclassified to profit or loss:		
Currency translation differences	**(34.0)**	(123.8)
Item that will not be reclassified to profit or loss:		
Changes in the fair value of financial assets at fair value through other comprehensive income	**–**	(0.2)
Remeasurements of post-employment benefit obligations	**(0.9)**	–
Other comprehensive loss for the period	**(34.9)**	(124.0)
Total comprehensive (loss)/income for the period	**(33.8)**	207.2
Total comprehensive (loss)/income for the period attributable to:		
Shareholders of the Company	**(32.5)**	207.9
Non-controlling interests	**(1.3)**	(0.7)
	(33.8)	207.2

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2019 HK$M (Unaudited)	At 31 December 2018 HK$M (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**2,979.9**	3,603.5
Leasehold land and land use rights	*11*	**–**	387.9
Right-of-use assets	*11*	**1,065.8**	–
Investment properties		**11.3**	3.2
Intangible assets		**1,153.1**	1,183.9
Investments accounted for using the equity method		**632.4**	613.2
Financial assets at fair value through profit or loss		**0.8**	0.8
Financial assets at fair value through other comprehensive income		**110.0**	111.0
Other non-current assets		**8.8**	5.8
Deferred income tax assets		**179.2**	148.7
		6,141.3	6,058.0
Current assets			
Inventories		**1,653.6**	2,105.7
Trade, bills and other receivables	*9*	**2,004.0**	1,882.1
Fixed return investment		**218.0**	211.3
Amounts due from related parties		**81.3**	68.2
Derivative financial instruments		**23.7**	36.1
Tax recoverable		**14.7**	15.4
Pledged bank deposits		**292.5**	313.6
Cash and cash equivalents		**536.7**	697.1
		4,824.5	5,329.5
Assets classified as held for sale		**1.0**	–
Total assets		**10,966.8**	11,387.5

	Notes	At 30 June 2019 HK$M (Unaudited)	At 31 December 2018 HK$M (Audited)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.1
Other reserves		**6,685.7**	6,720.2
Accumulated losses		**(1,559.0)**	(1,561.0)
		5,142.8	5,175.3
Non-controlling interests		**(17.7)**	(29.4)
Total equity		**5,125.1**	5,145.9
Non-current liabilities			
Borrowings		**299.7**	2,429.1
Lease liabilities	*11*	**465.1**	–
Retirement benefit obligations		**22.3**	23.4
Other payables	*10*	**105.7**	110.7
Deferred income tax liabilities		**378.2**	380.4
		1,271.0	2,943.6
Current liabilities			
Trade, bills and other payables	*10*	**1,591.2**	1,732.2
Current income tax liabilities		**102.1**	120.5
Borrowings		**2,613.2**	1,358.5
Lease liabilities	*11*	**193.8**	–
Amounts due to related parties		**62.7**	66.3
Derivative financial instruments		**7.7**	20.5
		4,570.7	3,298.0
Total liabilities		**5,841.7**	6,241.6
Total equity and liabilities		**10,966.8**	11,387.5

NOTES:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

Certain comparative figures for the corresponding period in 2018 related to selling and distribution expenses have been reclassified to cost of sales to conform to the current period's presentation.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018, 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 2019.

(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 changed its accounting policies and make adjustments as a result of adopting HKFRS 16 Leases.

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.

3. SEGMENT INFORMATION

The Group's revenue mainly represents the amounts received or receivable for the sales of recycled scraps and wastes, net of sales related taxes, during the period. The Group derives revenue from transfer of these goods at a point in time.

In the current interim period, the Group's Chief Operating Decision Maker ("**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 table presents revenue and segment profit information regarding the Group's reportable segments for the six months ended 30 June 2019 and 2018 respectively:

	For the six months ended									
	30 June 2019					30 June 2018				
	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	**1,094.2**	**6,911.7**	**843.5**	**–**	**8,849.4**	1,920.4	7,916.1	1,346.5	–	11,183.0
Inter-segment sales	**–**	**(116.4)**	**(32.7)**	**–**	**(149.1)**	–	(81.7)	(39.1)	–	(120.8)
External sales	**1,094.2**	**6,795.3**	**810.8**	**–**	**8,700.3**	1,920.4	7,834.4	1,307.4	–	11,062.2
Segment (loss)/profit	**(71.5)**	**178.6**	**12.0**	**(24.6)**	**94.5**	187.8	283.9	19.5	109.6	600.8
Finance income					**12.8**					16.8
Finance costs					**(107.0)**					(231.1)
Profit before income tax					**0.3**					386.5
Income tax credit/(expense)					**0.8**					(55.3)
Profit for the period					**1.1**					331.2
Depreciation and amortisation expenses	**(32.3)**	**(153.2)**	**(20.3)**	**(10.6)**	**(216.4)**	(35.8)	(127.9)	(31.2)	(13.9)	(208.8)
Fair value (loss)/gain on derivative financial instruments	**–**	**–**	**–**	**(2.0)**	**(2.0)**	–	–	–	29.8	29.8
Gain on disposal of property, plant and equipment, investment properties and intangible assets	**–**	**–**	**–**	**0.2**	**0.2**	–	–	–	12.8	12.8
Gain on disposal of assets classified as held for sale	**–**	**–**	**–**	**–**	**–**	–	–	–	109.5	109.5
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 2019 and 31 December 2018 are provided as follows:

	30 June 2019				31 December 2018			
	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	**2,203.3**	**6,742.6**	**1,048.6**	**9,994.5**	2,712.6	6,563.5	1,002.8	10,278.9
Deferred income tax assets				**179.2**				148.7
Fixed return investment				**218.0**				211.3
Tax recoverable				**14.7**				15.4
Derivative financial instruments				**23.7**				36.1
Cash and cash equivalents				**536.7**				697.1
Total assets				**10,966.8**				11,387.5

4. OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2019	2018
	HK$M	*HK$M*
Fair value (loss)/gain on derivative financial instruments, net	**(2.0)**	29.8
Foreign exchange gain/(loss), net	**0.7**	(7.6)
Gain on disposal of assets classified as held for sale *(Note)*	**–**	109.5
Gain on disposal of property, plant and equipment, investment properties and intangible assets	**0.2**	12.8
Gain on disposal of financial assets at fair value through profit or loss	**–**	14.3
Others	**(0.1)**	(17.3)
	(1.2)	141.5

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 CREDIT/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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 tax rate of PRC EIT has been provided at the rate of 25% (2018: 25%) on the estimated assessable profit for the period.

Germany and USA income taxes have been provided at the rate of 30% (2018: 30%) and 26% (2018: 26%), 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	
	2019	2018
	HK$M	*HK$M*
Current income tax expense/(credit):		
Germany	**24.3**	79.3
PRC EIT	**0.2**	0.2
Hong Kong profits tax	**–**	(2.4)
USA	**–**	3.4
Other jurisdictions	**5.3**	5.7
	29.8	86.2
Deferred income tax credit	**(30.6)**	(30.9)
Income tax (credit)/expense	**(0.8)**	55.3

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	HK$M	*HK$M*
Profit for the period has been arrived after charging/(crediting):		
Changes in inventories of work-in-progress and finished goods	**219.0**	553.9
Raw materials and consumables used	**6,680.0**	8,931.8
Utilisation of provision for inventories, net	**(11.1)**	(4.0)
Employee benefit expenses	**586.0**	633.9
Depreciation and amortisation expenses	**216.4**	208.8
Legal and professional expenses	**19.9**	48.1

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 2019 and 2018.

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	
	2019	2018
	HK$M	*HK$M*
Profit		
Profit for the period attributable to shareholders of the Company	**2.0**	331.6
Number of shares		
Weighted average number of ordinary shares in issue *(thousands)*	**1,605,153**	1,605,153
Basic earnings per share (expressed in HK$)	**0.001**	0.21

(b) Diluted

The Group has no potentially dilutive shares outstanding during the interim periods ended 30 June 2019 and 2018.

9. TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2019 HK$M	At 31 December 2018 HK$M
Trade receivables	**1,555.0**	1,426.4
Less: loss allowance	**(47.0)**	(62.8)
Trade receivables, net	**1,508.0**	1,363.6
Bills receivables	**11.4**	3.9
Deposits and prepayments	**180.3**	189.9
Deposits paid for purchase of raw materials	**34.5**	40.5
VAT recoverable	**118.2**	160.6
Other receivables *(Note)*	**151.6**	123.6
	2,004.0	1,882.1

Note: As at 30 June 2019, the balance includes a receivable of HK$65.2 million (2018: HK$65.5 million) from a government authority in the PRC.

At 30 June 2019 and 31 December 2018, the aging analysis of the trade receivables based on invoice date were as follows:

	At 30 June 2019 HK$M	At 31 December 2018 HK$M
0 – 90 days	**1,400.8**	1,323.5
91 – 180 days	**96.3**	45.7
Over 180 days	**57.9**	57.2
	1,555.0	1,426.4

10. TRADE, BILLS AND OTHER PAYABLES

	At 30 June 2019 HK$M	At 31 December 2018 HK$M
Trade payables	**1,004.6**	1,042.9
Contract liabilities	**14.5**	25.4
Other tax payable	**76.4**	70.9
Accrued salaries and employee benefits	**123.3**	159.3
Provision for claims and contingencies	**18.9**	20.5
Accrued professional expenses	**13.6**	28.9
Asset retirement obligations	**83.5**	84.8
Other payables and accruals *(Note)*	**362.1**	410.2
	1,696.9	1,842.9
Less: non-current portion		
Asset retirement obligations	**(83.5)**	(84.8)
Other payables	**(22.2)**	(25.9)
	1,591.2	1,732.2

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:

	At 30 June 2019 HK$M	At 31 December 2018 HK$M
0 – 90 days	**942.3**	1,007.9
91 – 180 days	**35.4**	14.9
Over 180 days	**26.9**	20.1
	1,004.6	1,042.9

11. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 on the Group's condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 January 2019 (Note 11(c)), where they are different to those applied in prior periods.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using rate ranging from 0.2% to 5.7% as at 1 January 2019 (date of initial application).

For leases previously classified as 'finance leases', the Group recognised the carrying amounts of these leased assets and lease liabilities immediately before transition as the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 (date of initial application). The measurement principles of HKFRS 16 are only applied after that date.

The table below shows the reconciliation of operating lease commitments and finance lease liabilities disclosed as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019:

	At 1 January 2019
	HK$M
Operating lease commitments disclosed as at 31 December 2018	**181.4**
Discounted using the lessee's incremental borrowing rate at the date of initial application	**140.2**
Finance lease liabilities recognised as at 31 December 2018	**438.8**
Less: short-term leases and low-value leases recognised on a straight-line basis as expense	**(18.9)**
Add: adjustments as a result of a different treatment of extension and termination options	**12.7**
Lease liabilities as at 1 January 2019	**572.8**
Of which are:	
Current lease liabilities	**165.2**
Non-current lease liabilities	**407.6**
	572.8

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	At 30 June 2019	At 1 January 2019
	HK$M	*HK$M*
Land and land use rights	**381.7**	387.9
Property, plant and equipment	**683.7**	573.6
Intangible assets	**0.4**	0.4
	1,065.8	961.9

Condensed consolidated balance sheet (extract)

The following table summaries the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	31 December 2018	**Effect of HKFRS 16**	**1 January 2019**
	HK$M	*HK$M*	*HK$M*
Non-current assets			
Property, plant and equipment	3,603.5	(439.9)	3,163.6
Leasehold land and land use rights	387.9	(387.9)	–
Right-of-use assets	–	961.9	961.9
Current assets			
Trade, bills and other receivables	1,882.1	(0.1)	1,882.0
Non-current liabilities			
Borrowing	2,429.1	(302.3)	2,126.8
Lease liabilities	–	407.6	407.6
Current liabilities			
Borrowing	1,358.5	(136.5)	1,222.0
Lease liabilities	–	165.2	165.2

There was no material impact on the earnings per share and the segment profits for the six months ended 30 June 2019 as a result of the adoption of HKFRS 16 while the segment assets as at 30 June 2019 increased as follows:

	Increase in segment assets
	HK$M
Asia	**2.0**
Europe	**114.1**
North America	**9.1**
	125.2

(b) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- reliance on previous assessments on whether leases are onerous;

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 'Determining whether an Arrangement contains a Lease'.

(c) Accounting policies applied from 1 January 2019

The Group leases various land and land use right, intangible assets, property, plant and equipment. Rental contracts are typically made for fixed periods of 2 to 6 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly comprise IT-equipment and small items of office furniture.

(d) Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or not periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed when a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lease.

CHAIRMAN'S STATEMENT

The negative impacts from the China-US trade dispute started to show in the first half of 2019. China is the largest automotive market in the world. With the ongoing China-US trade dispute and the trading barriers becoming the new norm, the consumer sentiment is directly reflected in consumer spending behavior, in particular on major household expenditures such as automobiles. Economies across the globe are interrelated. Despite the fact that China is a major auto manufacturing country, many parts and components are exported from Europe, Japan and North America. In addition, China also imports automobiles from various countries. The slowdown in China's economy will weigh down the industrial sector in Europe and America as the automotive industry is crucial to the European economy. Downturn in the European industrial activities will result in decreasing demands for steel and other metals, and in turn will have an indirect impact on the local demand for steel scrap, hence dealing a blow to our metal recycling business.

As the changes under the Catalog for the Administration of the Import of Solid Wastes promulgated by the Chinese Government have been effective since 1 January 2019, the existing solid wastes dismantling business of hardware scrap such as imported scrap motors and cable scrap operated by the Group's Taizhou plant is gradually relocating to Southeast Asian countries and other countries in the "Belt and Road" initiative as set out in the Group's business strategy. The Taizhou plant also provided experienced staff and technological support in the relocation of the scrap motor dismantling business. The Taizhou plant is currently undergoing transformation to focus on domestic metal scrap recycling market, and expanding its existing recycled aluminum ingots business and copper rod production. Nevertheless, operations at the Taizhou plant is expected to experience a short-term setback.

In the first half of the year, the Group formed separate joint ventures in India and Malaysia with Century Metal Recycling Group ("**CMR**", India's largest producer of aluminum and zinc die-casting alloys) and with Heng Hup Group ("**Heng Hup Group**", a leading scrap ferrous metal trader in Malaysia) respectively to engage in scrap motors and other mixed scrap metal dismantling business. The formation of the joint ventures will not only bring mutual benefit to each party but also provide an excellent opportunity for the Group to further strengthen our presence in the Southeast and South Asian markets.

Review

China has historically been a major importer of metal scrap and has a complete downstream industrial chain consisting of smelting plants, steel plants and casting plants to recycle the metal scrap. However, due to the changes in the solid wastes policy in China, the import of such materials has significantly reduced, leading to an increase in import of iron ores by some steel plants and copper smelting plants, and redirecting the imported metal scrap to other countries such as Southeast Asia, India, Pakistan and other South Asian countries. Relocation of the industry has become the trend.

In the first half of 2019, the Group's overall revenue and profit decreased as compared to the same period of last year. Our European and North American business segments were hit by the China-US trade dispute and the solid wastes policy in China. During the reporting period, the total tonnage sold decreased by 7.5%, resulting in revenue decrease of 16.3%.

In our Asian business segment, due to the changes under the Catalog for the Administration of the Import of Solid Wastes, import of mixed metal scrap was banned in China. Our Asian businesses, representing mainly Greater China, are principally engaged in the dismantling of mixed metal scrap inventory on hand, deep processing of recycled metal scrap, dismantling and processing of electronic wastes and international metal trade. During the reporting period, the total tonnage sold decreased by 35.6%, resulting in revenue decrease of 43.0%. Our businesses in South and Southeast Asia are in the commencement stage and their contribution to the operating results for the first half of the year was limited.

Prospect

Europe has been the forerunner in the world in addressing the global warming issue. Given the carbon tax in Europe has been raised several times over the last few years, steel mills in Europe have been stepping up their efforts in business transformation by phasing out obsolete blast furnaces and replacing them with electric arc furnaces, and thus increasing the demands for steel scrap. The newly elected president of the European Commission also has emphasized her commitment to achieve the 2050 carbon-neutral target by implementing new policies, awarding incentives for environmentally-friendly projects and raising carbon tax. As for the demand for metal scrap in Europe, eliminating the impact of the trade war waged by the US against China and Europe, the use of metal scrap will further increase from the environmental protection requirements.

The Taizhou operation is currently focusing on the smelting and deep processing of copper and aluminum scrap as well as the domestic metal scrap recycling and dismantling business. The copper rod processing project has commenced production and sales. The aluminum ingots processing project has started operation, fully complying with the regulations including obtainment of the sewage permits and passing of the environmental inspections, while the domestic scrap steel business has also started operation.

Our development plan in Southeast Asia is on schedule. Production in Malaysia has commenced in the second quarter, and the leased plant facility in India will complete construction by the end of September and is scheduled to be in operation before the end of the year. Cost consideration is an important factor in our decision to relocate our business to Southeast and South Asia. Typically, scrap motor has a copper content of approximately 10%, with the rest mainly comprising scrap steel. By transporting the scrap motors to these countries along the waterway, the scrap steel produced can be sold locally and the scrap copper dismantled will be exported to China. The decrease in freight weight will reduce logistic costs to a certain extent. Furthermore, with the ageing population and rising labour cost in China, labour-intensive industries in China such as the dismantling industry have gradually lost their competitiveness. Relocating such industries aims for optimisation of labour cost.

On other fronts, the Group also plans to build scrap metal recycling collection points in China, with an aim to set up scrap metal recycling channels in the domestic market. Historically, steel production in China tends to use iron ores and coking coal, i.e. the so-called long process, and copper smelting operations also mainly rely on imported copper concentrate. In order to satisfy the increasingly stringent environmental requirements such as the bury of slag produced from the smelting process and the emission from the smelting process under the tightened environmental policies in China, steel mills will accelerate the phase-out of blast furnaces and install electric arc furnaces. In view of this, scrap metal recycling industry in China will be the largest blue ocean in the future.

Business transformation is always accompanied by a transition period and challenges. However, from the long-term perspective, with more clarification of the relevant national policies and improvement in the domestic market, such as the waste separation campaign that is currently undergoing in many cities in China and the change in the End-of-Life Vehicle ("**ELV**") Directives in China, our Taizhou operation is poised to benefit from its strengths in terms of business scale, compliance, management, operation, technology and know-how, together with the Group's experiences and network in the European and American markets.

The Group ranked one of the Top 500 Enterprises in China 2019 recently released by Fortune, demonstrating our strengths and outstanding business foundation.

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 professionalism, unremitting efforts and unity, and to our customers and partners for their priceless support and trust.

Qin Yongming

Chairman

Hong Kong, 28 August 2019

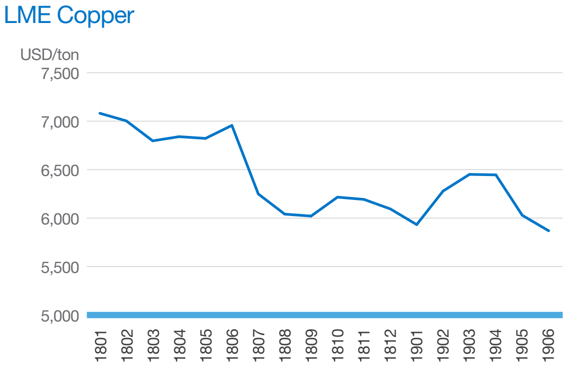
Financial Review

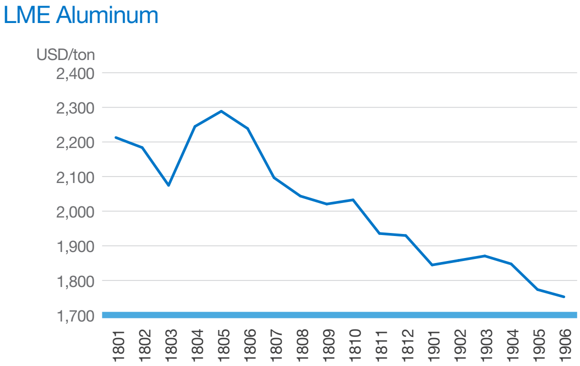
Revenue

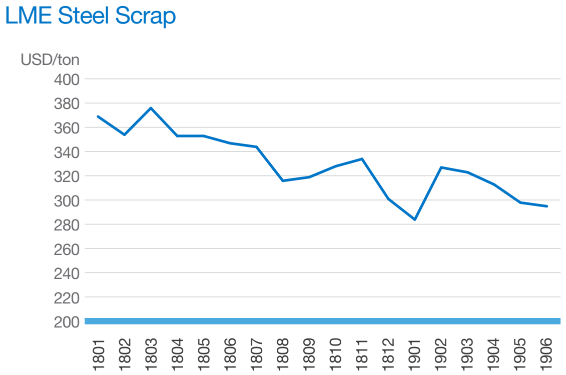
The volatility in the macro-economy has brought about an adverse impact to the Group for the first half of 2019. Revenue was HK$8,700.3 million in the first half of 2019, representing a decrease of approximately 21.4% compared to HK$11,062.2 million for the same period in 2018.

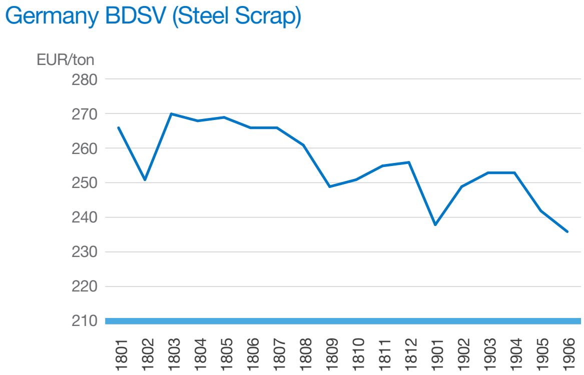
The drop in revenue was largely driven by the slowdown of the industrial activities in Europe and the changes in China's Catalog for Administration of the Import of Solid Wastes which led to a soft demand for scrap metals, coupled with the significant drop in scrap prices as compared to the first half of 2018.

	Six months ended 30 June				Increase/
	2019		2018		(Decrease)
	HK$M	**As a percentage of total segment revenue**	*HK$M*	As a percentage of total segment revenue	*HK$M*
Asia	**1,094.2**	**12.4%**	1,920.4	17.2%	(826.2)
Europe	**6,911.7**	**78.1%**	7,916.1	70.8%	(1,004.4)
North America	**843.5**	**9.5%**	1,346.5	12.0%	(503.0)
Total segment revenue	**8,849.4**	**100%**	11,183.0	100.0%	(2,333.6)
Inter-segment sales	**(149.1)**		(120.8)		28.3
Revenue	**8,700.3**		11,062.2		(2,361.9)









Gross Profit/Margin

Gross profit for the first half of 2019 was HK$515.6 million, fell by 48.7% and the gross profit margin was 5.9% (2018: 9.1%). The decrease in gross profit was mainly attributable to the lower tonnage processed in our China facilities as a result of the import restrictions on scrap motors in China and rising energy and transportation costs as compared to last year.

Profit before interest and tax (EBIT)/Margin

EBIT for the first half of 2019 was HK$94.5 million, down by 84.3%. EBIT margin was 1.1% for the period (2018: 5.4%).

Total operating expenses were HK$553.8 million, a decrease of 20.5%. Total operating expenses as a percentage of revenue remained comparable at 6.4% (2018: 6.3%).

Distribution and selling expenses have a slight drop of 5.3% to HK$25.1 million, or 0.3% of revenue (2018: 0.2%).

Administrative expenses also dropped 21.1% to HK$528.7 million as stringent cost controls are in place in the course of the Group transitioning our production bases. As a percentage of revenue, administrative expenses remained flat at 6.1% as compared to last year.

	Six months ended 30 June				Increase/
	2019		2018		(Decrease)
	HK$M	**As a percentage of revenue**	*HK$M*	As a percentage of revenue	*HK$M*
Distribution and selling expenses	**25.1**	**0.3%**	26.5	0.2%	(1.4)
Administrative expenses	**528.7**	**6.1%**	670.3	6.1%	(141.6)
Total	**553.8**	**6.4%**	696.8	6.3%	(143.0)

Profit Attributable to Shareholders and Earnings Per Share

Profit attributable to shareholders of the Company for the first half of 2019 was HK$2.0 million as compared to HK$331.6 million for the same period last year. Net profit margin was 0.02% as compared to 3.0% last year.

Taxation charges reduced from HK$55.3 million in the last interim reporting period to a credit of HK$0.8 million in the first half of 2019.

Basic earnings per share for the six months ended 30 June 2019 was HK$0.001 as compared to HK$0.21 in the previous financial period, a decrease of 99.5%.

Analysis of Cash Flow from Operations

The Group's cash generated from operations before changes in working capital for the first half of 2019 was HK$181.9 million, a decrease of 66.9% as a result of decrease in operating profits.

The operating cash inflow from changes in working capital for the first half of 2019 was HK$217.6 million, an increase of HK$126.7 million, caused by the decrease in the inventory balance as we have been closely monitoring our stock level while the dismantling business is under transition.

Liquidity and Financial Resources

Shareholders' funds as at 30 June 2019 were HK$5,142.8 million, a slight decline of 0.6% from 31 December 2018. Shareholders' funds per share dropped slightly from HK$3.22 to HK$3.20.

The Group's financial resources remained stable and steady. As at 30 June 2019, the Group had cash, various bank balances and pledged bank deposits amounting to HK$829.2 million, a decrease of HK$181.5 million as compared to HK$1,010.7 million as of 31 December 2018. As a result, the current ratio was lowered from 1.62 as at 31 December 2018 to 1.06 as at 30 June 2019.

Total external borrowings were approximately HK$3,571.8 million (31 December 2018: approximately HK$3,787.6 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$1,754.1 million (31 December 2018: approximately HK$1,757.9 million) of borrowings are at fixed interest rates.

The gearing ratio of the Group as at 30 June 2019 was 32.6% (31 December 2018: 33.3%) which is calculated based on the total borrowings divided by our total assets.

Working Capital Change

Inventories as at 30 June 2019 were HK$1,653.6 million, decreased from HK$2,105.7 million as at 31 December 2018. The inventory turnover days for first half of the financial year was 41 days, slightly 3 days longer than same period last year as sales were soft in the current period.

Provision for inventories as at 30 June 2019 were HK$27.3 million, as compared to the provision of HK$38.8 million as at 31 December 2018.

	At 30 June 2019	At 31 December 2018
Inventories *(HK$M)*	**1,653.6**	2,105.7
Average inventories as a percentage of revenue (annualised)	**9.5%**	10.6%

	Six months ended 30 June	
	2019	2018
Turnover days	**41**	38

Net trade and bills receivables as at 30 June 2019 were HK$1,519.4 million, increased from HK$1,367.5 million as at 31 December 2018. Debtor turnover days for the first half of the financial year increased from 25 days to 30 days when compared with the same period last year. The higher receivables balance as at 30 June 2019 was mainly due to timing of sales towards period end. The Group adopts a tight management on credit exposure.

	At 30 June 2019	At 31 December 2018
Trade and bills receivables, net *(HK$M)*	**1,519.4**	1,367.5
Average receivables as a percentage of revenue (annualised)	**8.7%**	6.4%

	Six months ended 30 June	
	2019	2018
Turnover days	**30**	25

Trade and bills payable as at 30 June 2019 were HK$1,004.6 million, having decreased from HK$1,042.9 million as at 31 December 2018. Creditor turnover days for the six months ended 30 June 2019 was 23 days, comparable with the 24 days in the corresponding financial period last year.

	At 30 June 2019	At 31 December 2018
Trade and bills payables *(HK$M)*	**1,004.6**	1,042.9

	Six months ended 30 June	
	2019	2018
Turnover days	**23**	24

Treasury Policies

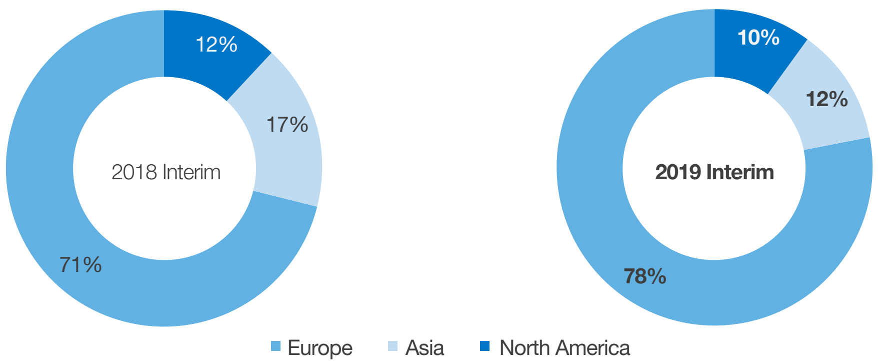
The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations. The Group principally uses forward foreign exchange contracts as appropriate to hedge the foreign exchange risks in the ordinary course of business.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

Capital Expenditure

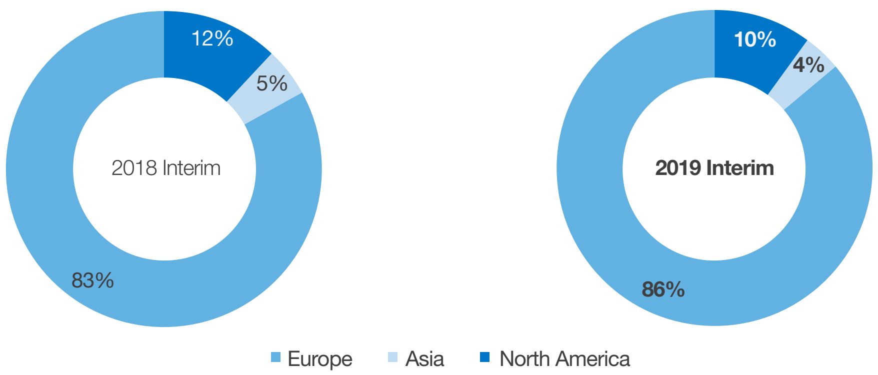
For the six months ended 30 June 2019, the Group invested HK$285.4 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment for improving production efficiency (six months ended 30 June 2018: HK$247.2 million). These capital expenditures were financed through internal resources and lease arrangements.

Business Review

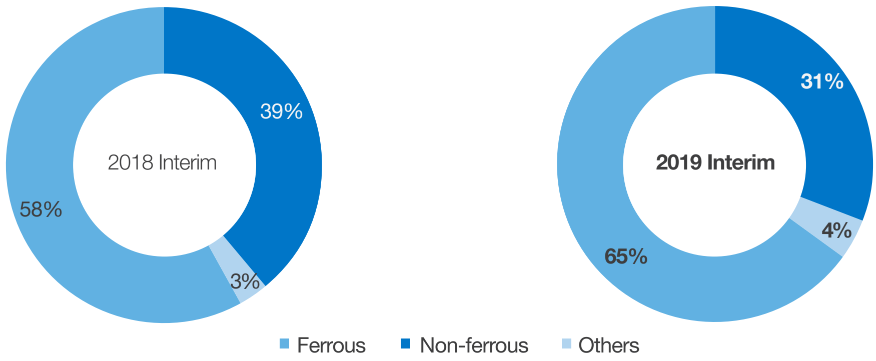
Revenue by Regions



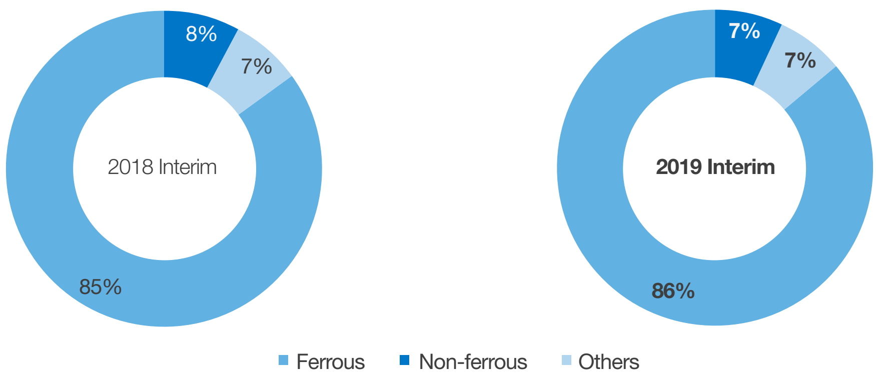
Sales Quantity by Regions



Revenue by Products



Sales Quantity by Products



The Group's performance

For the first half of 2019, the Group continued to operate in our long-established markets and also has been expanding into new markets in South/Southeast Asia. Through the geographic diversification, we are in a good position to mitigate the risks of overly relying on a single market.

The market conditions have been very challenging in the current period, hindering our sales. The Group sold in aggregate over 2.51 million tonnes of recycled products in the first half of 2019, representing a 8.9% decrease comparing to 2.75 million tonnes sold in the first half of 2018. During the first half of 2019, 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

Europe

Our Europe segment provides all steps in recycling mixed metal scraps and is equipped with 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 processing.

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).

For the first half of 2019, total segment sales tonnage in the European segment was 2.17 million tonnes, a drop of 4.6% as compared to the corresponding period in 2018 of 2.28 million tonnes. Segment revenue was HK$6,911.7 million, decreased by 12.7% at current exchange rate or 6.5% in local currencies. Demand has been strongly affected by a weak automobile and machine engineering industry in Europe, and from the import restrictions of certain scrap metals into China which came into effect this year.

Scrap prices in Europe have dropped by about 12% in the same time period and freight costs have increased due to scarce transportation capacity and increased tolls. The gross profit for the period, therefore, only reached HK$485.1 million, a decrease of 26.2% at current exchange rate or 21.0% in local currencies compared with the same period last year. Gross profit margin (after the adoption of HKFRS 15 in 2018 and HKFRS 16 in 2019) for the period decreased from 8.3% to 7.0% in the current period. The segment profit was HK$178.6 million, a decrease of 37.1% at current exchange rate or 32.6% in local currencies.

For Europe, rising carbon tax is pushing metallurgical industries to use more scraps metals instead of mineral ores. We also see that trend in China due to tightening environmental legal enforcement.

Alternative sales channels have been identified to reduce the impact brought about by China's new import restrictions. Moreover, additional sorting processes have been implemented in our European yards to fulfil China's requirements on importing of cleaned scrap. The Group has also been exploring non-metallic businesses such as recycled plastics and paper to diversify and mitigate the challenges brought about from the recycled metal recycling business.

North America

The North America segment possesses extensive recycling 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. The North America segment has also commenced its scrap motor mechanical shredding and dismantling as well as trading of recycled auto components.

For the six months ended 30 June 2019, the North American sales tonnage was 0.25 million tonnes, as compared to 0.34 million tonnes for the first half of 2018. Segment revenue was HK$843.5 million, a decline of 37.4% at current exchange rate or 32.9% in local currency.

Gross profit was HK$60.9 million, having fallen by 44.6% as compared to last year (having fallen by 40.6% in local currency). Gross profit margin has dropped from 8.2% in the first half of 2018 to 7.2% in the current period. The segment profit was HK$12.0 million, a decline of 38.5% at current exchange rate or 34.3% in local currency.

Prices in the North American scrap market were in a continuous downward trend since the start of the year and demand was soft as the export market was slow and there were outages and destocking at the local steel mills. We have been actively managing the inventory level with a high turnover rate to mitigate the price risks and maintain stable cash flow to counter the adverse effects in such a challenging market environment. The domestic economy is still strong and unemployment rate is at low levels, despite concerns about slowing economy. Our North America operation is adopting to the challenging macro environment.

Asia

Our major production facilities in Asia include Yuen Long (Hong Kong), Taizhou (Zhejiang) and Yantai (Shandong), and has expanded to Malaysia in the first half of 2019.

For the first six months of 2019, total segment sales tonnage and revenue in Asia segment decreased by approximately 35.6% from 0.15 million tonnes to 0.09 million tonnes and 43.0% from HK$1,920.4 million to HK$1,094.2 million, respectively, as compared to the first half of the previous year.

The Asian businesses experienced a gross loss for the period of HK$21.4 million and gross loss margin of 2.0%, as compared to a gross profit of HK$247.0 million and a gross profit margin of 12.9% last year. The Asia segment has turned from a profit of HK$187.8 million last year to a loss of HK$71.5 million for the period.

Due to the revisions under the Catalog for the Administration of the Import of Solid Wastes, import of mixed metal scrap was banned in China. In response to the revisions, we are relocating our scrap motor dismantling business from China to our new processing yards in South/Southeast Asia, and thus, our sales tonnage and overall gross profit have been temporary affected. The bearish scrap prices and the temporarily reduced volume have hampered our margin, with a gross loss for the period. As our new production facilities in South/Southeast Asia are coming into full operation, the performance of our Asia segment will gradually recover.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2019, the Group had pledged certain plants and buildings, land use rights, investment properties, inventories, trade receivables and bank deposits with an aggregate carrying value of approximately HK$4,342.5 million (31 December 2018: approximately HK$4,542.4 million) to secure its borrowings.

As at 30 June 2019, the Group had capital commitments in respect of acquisition of property, plant and equipment and additions in construction in progress which are contracted for but not provided for in the condensed consolidated financial information and amounted to HK$72.1 million (31 December 2018: HK$116.6 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$25.0 million (31 December 2018: HK$27.4 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 approximately 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. 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 at 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 to closely monitor 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 30 June 2019, the Group had a workforce of 3,609 employees. In addition, we engaged approximately 149 workers and office staff through local contractors. We have not experienced any strikes, work suspension 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 current interim period were approximately HK$586.0 million. The remuneration packages 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 market standards, individual performance and their respective contribution to the Group.

The emoluments of the directors of the Company (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 2018

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 section headed "Management Discussion and Analysis" in the annual report for the year ended 31 December 2018.

CHANGE 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 Annual Report 2018 of the Company are set out below:

Experience including other directorships

Mr. Zhu Hongchao（朱洪超）, an independent non-executive Director, has been appointed as an independent non-executive director at Haitong Securities Co., Ltd. (Stock Code: 6837) with effect from 18 June 2019.

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 2019, 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, save and except 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.

Pursuant to code provision A.5.5 (2) of the CG Code, where the Board proposes to elect or re-elect an independent non-executive Director (who will be holding their seventh (or more) directorship, the Board should explain why such individual would still be able to devote sufficient time to the board in the relevant shareholders' circular, Dr. Loke Yu is an independent non-executive director of more than seven public companies (including the Company) and was re-elected as an independent non-executive Director at the Company's annual general meeting on 31 May 2019. The Nomination Committee and the Board focus on the ability of a director to commit sufficient time to discharge his responsibilities as a board member rather than the number of directorships held, and as such they are of the view that Dr. Loke Yu is able to devote sufficient time and attention to the Company's affairs having regard to his previous attendance at all Board and other committee meetings held during the year.

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 2019.

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 2019.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019.

SIGNIFICANT EVENTS

The Company and any of its subsidiaries did not experience any significant events which have occurred since 30 June 2019.

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 2019.

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 2019 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and posted on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 28 August 2019

As at the date of this announcement, the Board 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