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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- The Group has recorded a decline in performance in 2019 as compared to last year. Whilst the European segment continues to be the key profit driver and made positive contributions to the Group in 2019, the Group is experiencing a temporary set-back in the Asia operation as 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 import of Category 7 scraps into China.

- In 2019, the Group sold in aggregate over 4.8 million tonnes of recycled products with a revenue of HK$15,363.4 million, representing a decrease of 10.1% and 26.5%, respectively, from last year. In response to the decrease in tonnage, stringent cost controls are in place in the course of transitioning our production bases.

- The Group recorded net finance costs of HK$212.6 million, a drop of 43.5%, partly due to total borrowings decreasing from HK$3,787.6 million as at 31 December 2018 to HK$3,556.5 million as at 31 December 2019, and also due to the refinancing at lower rates in 2018 showing effects in 2019.

- While the Group recorded a loss attributable to shareholders of the Company of HK$128.7 million in 2019, the Group's operating cash flow remained strong with a net inflow of HK$528.8 million for the year ended 31 December 2019.

- The Board does not recommend the payment of a final dividend in 2019 (2018: Nil).

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Chiho Environmental Group Limited (the "**Company**") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the "**Group**", "**we**" and "**our**") for the year ended 31 December 2019 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") as follows (together with the comparative figures for the year ended 31 December 2018):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December 2019

	Notes	**2019** ***HK$M*** **(Unaudited)**	2018 *HK$M* (Audited)
Revenue	*3*	**15,363.4**	20,912.8
Cost of sales	*5*	**(14,485.5)**	(19,228.7)
Gross profit		**877.9**	1,684.1
Other income		**127.0**	99.2
Other gains, net	*4*	**43.1**	232.6
Net reversal of impairment on financial assets		**39.4**	36.4
Distribution and selling expenses	*5*	**(51.5)**	(49.0)
Administrative expenses	*5*	**(970.1)**	(1,283.3)
		65.8	720.0
Finance income		**23.6**	36.6
Finance costs		**(236.2)**	(412.7)
Finance costs, net	*6*	**(212.6)**	(376.1)
Share of post-tax loss of an associate		**(0.3)**	(0.7)
Share of post-tax profit of joint ventures		**47.6**	126.2
(Loss)/Profit before income tax		**(99.5)**	469.4
Income tax expense	*7*	**(34.3)**	(70.4)
(Loss)/Profit for the year		**(133.8)**	399.0
(Loss)/Profit attributable to:			
Shareholders of the Company		**(128.7)**	401.2
Non-controlling interests		**(5.1)**	(2.2)
		(133.8)	399.0
(Loss)/Earnings per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
Basic (loss)/earnings per share	*9*	**(0.08)**	0.25
Diluted (loss)/earnings per share	*9*	**(0.08)**	0.25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2019

	Notes	2019 HK$M (Unaudited)	2018 HK$M (Audited)
(Loss)/Profit for the year		**(133.8)**	399.0
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss:			
Currency translation differences on foreign operations		**(92.4)**	(302.2)
Items that will not be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		**(7.5)**	–
Remeasurements of post-employment benefit obligations		**(4.6)**	1.6
Share of other comprehensive loss of joint ventures		**(4.4)**	–
Income tax relating to these items		**1.9**	0.4
Other comprehensive loss for the year, net of tax		**(107.0)**	(300.2)
Total comprehensive (loss)/income for the year		**(240.8)**	98.8
Total comprehensive (loss)/income for the year attributable to:			
Shareholders of the Company		**(234.0)**	102.2
Non-controlling interests		**(6.8)**	(3.4)
		(240.8)	98.8

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	**2019**	2018
		HK$M	*HK$M*
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**2,982.9**	3,603.5
Leasehold land and land use rights		**–**	387.9
Right-of-use assets		**1,185.8**	–
Investment properties		**9.1**	3.2
Intangible assets		**1,115.0**	1,183.9
Investments accounted for using the equity method		**630.9**	613.2
Financial assets at fair value through profit or loss		**1.9**	0.8
Financial assets at fair value through other comprehensive income		**98.7**	111.0
Other non-current assets		**17.0**	5.8
Deferred income tax assets		**109.3**	148.7
		6,150.6	6,058.0
Current assets			
Inventories		**1,495.9**	2,105.7
Trade, bills and other receivables	*10*	**1,375.8**	1,882.1
Fixed return investment		**88.4**	211.3
Amounts due from related parties		**47.9**	68.2
Derivative financial instruments		**25.0**	36.1
Tax recoverable		**29.9**	15.4
Pledged bank deposits		**191.7**	313.6
Cash and cash equivalents		**784.8**	697.1
		4,039.4	5,329.5
Total assets		**10,190.0**	11,387.5

	Notes	**2019** **HK$M** **(Unaudited)**	2018 HK$M (Audited)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.1
Other reserves		**6,614.9**	6,720.2
Accumulated losses		**(1,689.7)**	(1,561.0)
		4,941.3	5,175.3
Non-controlling interests		**(10.3)**	(29.4)
Total equity		**4,931.0**	5,145.9
Non-current liabilities			
Borrowings		**226.4**	2,429.1
Lease liabilities		**569.4**	–
Retirement benefit obligations		**27.3**	23.4
Other payables		**96.6**	110.7
Deferred income tax liabilities		**342.8**	380.4
		1,262.5	2,943.6
Current liabilities			
Trade, bills and other payables	*11*	**1,066.9**	1,732.2
Current income tax liabilities		**101.2**	120.5
Borrowings		**2,569.0**	1,358.5
Lease liabilities		**191.7**	–
Amounts due to related parties		**37.5**	66.3
Derivative financial instruments		**30.2**	20.5
		3,996.5	3,298.0
Total liabilities		**5,259.0**	6,241.6
Total equity and liabilities		**10,190.0**	11,387.5

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 resources recycling, involving recycling of mixed metal, end-of-life vehicle (ELV), waste electrical and electronic equipment (WEEE), wasted oil and production of aluminum ingots from zorba 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

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 Going concern

The Group reported a net loss of HK$133.8 million for the year ended 31 December 2019. As at 31 December 2019, the Group had borrowings of HK$2,795.4 million, of which HK$2,569.0 million are current borrowings due within twelve months from 31 December 2019, while its bank and cash balances amounted to HK$784.8 million.

Included in current borrowings as at 31 December 2019 was a syndicated term loan (the "**Syndicated Term Loan**") with an outstanding principal amount of US$220.0 million scheduled to be fully repayable in June 2020.

Subsequent to year-end, the Group has reached an agreement with the lenders of the Syndicated Term Loan to extend the maturity date of the loan to March 2021. Meanwhile, the Group will also continue to actively look for other sources of financing including other debt or equity financing by the Company, to lower the overall financing expenses and enhance the capital structure.

The Directors have assessed the Group's cash flow projection covering a period of twelve months from 31 December 2019. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the consolidated balance sheet. Accordingly, the Directors are satisfied that it is appropriate to prepare the Group's consolidated financial statements on a going concern basis.

2.1.2 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 2019:

Annual Improvements Project (Amendments)	Annual Improvements 2015-2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

Except for HKFRS 16, the other new and amended standards and interpretation listed above did not have any significant impact on the amounts recognised in prior years and are not expected to significantly affect the current or future years.

The following explains the impact of the adoption of HKFRS 16 on the Group's financial statements.

The Group elected to adopt HKFRS 16 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the consolidated balance sheet as at 31 December 2018, but are recognised in the opening consolidated balance sheet on 1 January 2019 as appropriate.

The adoption of HKRFS 16 will result in almost all leases being recognised on the consolidated 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.

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 the lessee's incremental borrowing rate as at 1 January 2019 (date of initial application). The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.7%.

The right-of-use assets associated to leases which had previously been classified as operating leases 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.

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.

For leasehold land and land use rights which previously presented as a separate line on the consolidated balance sheet as at 31 December 2018 was reclassified to right-of-use assets as at 1 January 2019.

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 below.

Consolidated balance sheet (extract)

	2018 31 December *HK$M*	**Effect of HKFRS 16** *HK$M*	**2019 1 January** *HK$M*
Non-current assets			
Property, plant and equipment	3,603.5	(456.2)	3,147.3
Leasehold land and land use rights	387.9	(387.9)	–
Right-of-use assets	–	977.9	977.9
Non-current liabilities			
Borrowing	2,429.1	(302.3)	2,126.8
Lease liabilities	–	407.4	407.4
Current liabilities			
Borrowing	1,358.5	(136.5)	1,222.0
Lease liabilities	–	165.2	165.2

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	139.0
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	(18.6)
Add: adjustments as a result of a different treatment of extension and termination options	13.4
Lease liabilities as at 1 January 2019	572.6
Of which are:	
Current lease liabilities	165.2
Non-current lease liabilities	407.4
	572.6

There was no material impact on the operating profits for the year ended 31 December 2019 as a result of the adoption of HKFRS 16, while the segment assets as at 31 December 2019 had increased as follows:

	Increase in segment assets *HK$M*
Asia	**64.9**
Europe	**166.0**
North America	**10.7**
Total	**241.6**

(i) 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'.

(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 2019 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 2019, and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined by the IASB

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.

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 year. The Group derives revenue mainly from transfer of these goods at a point in time.

In the current year, the Group's chief operating decision maker ("**CODM**"), which has been identified as the Executive Committee that makes strategic decisions, 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/(loss) on disposals 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. Inter-segment sales are charged at prevailing market price.

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 following table presents revenue and segment profit information regarding the Group's reportable segments for the years ended 31 December 2019 and 2018, respectively:

	For the year ended									
	31 December 2019					31 December 2018				
	Asia *HK$M*	**Europe** *HK$M*	**North America** *HK$M*	**Unallocated** *HK$M*	**Total** *HK$M*	Asia *HK$M*	Europe *HK$M*	North America *HK$M*	Unallocated *HK$M*	Total *HK$M*
Revenue										
Total segment revenue	**2,015.4**	**12,166.8**	**1,410.9**	**–**	**15,593.1**	3,751.4	15,166.5	2,386.7	–	21,304.6
Inter-segment sales	**–**	**(194.8)**	**(34.9)**	**–**	**(229.7)**	–	(283.4)	(108.4)	–	(391.8)
External sales	**2,015.4**	**11,972.0**	**1,376.0**	**–**	**15,363.4**	3,751.4	14,883.1	2,278.3	–	20,912.8
Segment (loss)/profit	**(172.3)**	**379.7**	**(48.4)**	**(45.9)**	**113.1**	275.2	443.5	8.4	118.4	845.5
Finance income					**23.6**					36.6
Finance costs					**(236.2)**					(412.7)
(Loss)/Profit before income tax					**(99.5)**					469.4
Income tax expense					**(34.3)**					(70.4)
(Loss)/Profit for the year					**(133.8)**					399.0
Depreciation and amortisation expenses *(Note)*	**(65.8)**	**(291.1)**	**(44.3)**	**(21.3)**	**(422.5)**	(65.3)	(237.4)	(52.2)	(26.4)	(381.3)
Fair value (loss)/gain on derivative financial instruments	**–**	**–**	**–**	**(2.1)**	**(2.1)**	–	–	–	34.7	34.7
Gain on disposal of property, plant and equipment and right-of-use assets	**–**	**–**	**–**	**33.3**	**33.3**	–	–	–	29.6	29.6
Provision for impairment of property, plant and equipment	**–**	**–**	**–**	**(0.9)**	**(0.9)**	–	–	–	(1.2)	(1.2)
Loss on disposal and deregistration of subsidiaries	**–**	**–**	**–**	**(13.7)**	**(13.7)**	–	–	–	–	–
Gain on disposals of financial assets at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	–	–	–	20.0	20.0
Gain on disposal of assets classified as held for sale	**–**	**–**	**–**	**–**	**–**	–	–	–	109.5	109.5

Note: Depreciation and amortisation expenses for the year ended 31 December 2019 included the depreciation and armortisation of right-of-use assets as a result of the adoption of HKFRS 16.

Segment assets

Reconciliation of segment assets to total assets as at 31 December 2019 and 31 December 2018 are provided as follows:

	As at							
	31 December 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	2,037.9	6,206.0	908.7	9,152.6	2,712.6	6,563.5	1,002.8	10,278.9
Deferred income tax assets				109.3				148.7
Fixed return investment				88.4				211.3
Tax recoverable				29.9				15.4
Derivative financial instruments				25.0				36.1
Cash and cash equivalents				784.8				697.1
Total assets				10,190.0				11,387.5

Geographical information

Non-current assets, other than financial instruments and deferred income tax assets, and analysed by geographic regions as follows:

	As at 31 December 2019	As at 31 December 2018
	HK$M	*HK$M*
Asia	**1,033.7**	1,037.1
Europe	**4,178.5**	4,077.9
North America	**723.1**	680.6
Total	**5,935.3**	5,795.6

Analysis of revenue by category

	For the year ended	
	31 December 2019	31 December 2018
	HK$M	*HK$M*
Metal recycling		
– Ferrous metal	**10,063.9**	11,533.8
– Non-ferrous metal	**4,279.3**	8,482.6
Forging and foundry	**342.4**	153.6
Others	**677.8**	742.8
Total	**15,363.4**	20,912.8

Information about major customers

No single customer contributed 10% or more to the Group's revenue during the years ended 31 December 2019 and 2018.

4 OTHER GAINS, NET

	2019	2018
	HK$M	*HK$M*
(Loss)/Gain on fair value change of:		
– derivative financial instruments	**(2.1)**	34.7
– financial assets at fair value through profit or loss	**1.7**	(3.2)
Foreign exchange gains/(loss), net	**13.9**	(1.4)
Provision for impairment of property, plant and equipment	**(0.9)**	(1.2)
Gain on disposal of property, plant and equipment and right-of-use assets	**33.3**	29.6
Gain on disposal of assets classified as held for sale	**–**	109.5
Gain on disposal of financial assets at fair value through profit or loss	**–**	20.0
Compensation income	**–**	45.3
Loss on disposal and deregistration of subsidiaries *(Note)*	**(13.7)**	–
Others	**10.9**	(0.7)
	43.1	232.6

Note: The Group disposed 75% equity interests in three subsidiaries in the USA and formed a joint venture with an independent third party who is also engaged in scrap metal recycling for a consideration of US$4.5 million (approximately HK$34.9 million) and a loss on disposal of HK$9.5 million was recognised for the year ended 31 December 2019. The remaining amount of HK$4.2 million represented loss from deregistration of a subsidiary.

5 EXPENSES BY NATURE

	2019	2018
	HK$M	*HK$M*
Changes in inventories of work-in-progress and finished goods	**(141.9)**	(234.8)
Raw materials and consumables used	**12,266.9**	16,782.3
(Reversal of provision)/Provision for inventories, net	**(1.9)**	18.5
Employee benefit expenses	**1,155.1**	1,272.8
Depreciation and amortisation expenses of property, plant and equipment, intangible assets and investment properties	**263.2**	381.3
Depreciation and amortisation expenses of right-of-use assets	**159.3**	–
Legal and professional expenses	**43.8**	66.8
Auditors' remuneration		
– Audit services	**27.5**	31.6
– Non-audit services	**7.3**	2.7
Other expenses	**1,727.8**	2,239.8
Total cost of sales, distribution and selling expenses and administrative expenses	**15,507.1**	20,561.0

6 FINANCE COSTS, NET

	2019	2018
	HK$M	*HK$M*
Interest income from bank deposits	**9.5**	10.5
Interest income from fixed return investment	**12.6**	22.3
Interest income from related parties	**1.5**	3.8
Finance income	**23.6**	36.6
Interest expense on bank loans, overdrafts, bills payable and note payable	**(79.4)**	(244.8)
Effective interest expense on other borrowings	**(137.7)**	(103.0)
Interest expense on early redemption of note payable	**–**	(36.6)
Interest expense on early repayment of other borrowings	**–**	(14.2)
Interest expense on lease liabilities (2018: finance lease liabilities)	**(18.5)**	(13.5)
Interest expense on loans from related parties	**(0.6)**	(0.6)
Finance costs	**(236.2)**	(412.7)
Finance costs, net	**(212.6)**	(376.1)

7 INCOME TAX EXPENSE

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

Germany and USA income taxes have been provided at the rate of approximately 30% (2018: 30%) and 26% (2018: 26%) respectively, on the estimated assessable profit for the year.

Taxation on profits from other jurisdictions 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.

	2019	2018
	HK$M	*HK$M*
Current income tax (expense)/credit:		
Germany	**(23.8)**	(104.1)
PRC EIT	**(0.3)**	(0.5)
Hong Kong profits tax	**(1.3)**	(2.7)
USA	**–**	(2.2)
Other jurisdictions	**(5.0)**	1.0
	(30.4)	(108.5)
(Under)/Over provision in prior years:		
Germany	**(1.1)**	17.1
Hong Kong profits tax	**0.2**	4.3
USA	**2.1**	–
Other jurisdictions	**0.5**	6.2
	1.7	27.6
Deferred income tax (expense)/credit	**(5.6)**	10.5
Income tax expense	**(34.3)**	(70.4)

8 DIVIDENDS

No dividend was paid or proposed during 2019 and 2018, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the years ended 31 December 2019 and 2018.

9 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2019	2018
	HK$M	*HK$M*
(Loss)/Profit		
(Loss)/Profit for the year attributable to shareholders of the Company	**(128.7)**	401.2
Number of shares		
Weighted average number of ordinary shares in issues *(thousands)*	**1,605,153**	1,605,153
Basic (loss)/earnings per share *(expressed in HK$)*	**(0.08)**	0.25

(b) Diluted

The Group has no potentially dilutive shares outstanding during the years ended 31 December 2019 and 2018.

10 TRADE, BILLS AND OTHER RECEIVABLES

	2019	2018
	HK$M	*HK$M*
Trade receivables	**983.1**	1,426.4
Less: loss allowance	**(39.9)**	(62.8)
Trade receivables, net	**943.2**	1,363.6
Bills receivables	**14.1**	3.9
Deposits and prepayments	**134.6**	189.9
Deposits paid for purchase of raw materials	**39.3**	40.5
VAT recoverable	**116.4**	160.6
Other receivables	**128.2**	123.6
	1,375.8	1,882.1

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

	2019	2018
	HK$M	*HK$M*
0 – 90 days	**885.8**	1,323.5
91 – 180 days	**48.1**	45.7
Over 180 days	**49.2**	57.2
	983.1	1,426.4

11 TRADE, BILLS AND OTHER PAYABLES

	2019	2018
	HK$M	*HK$M*
Trade payables	**639.3**	1,042.9
Contract liabilities	**40.0**	25.4
Other taxes payable	**67.5**	70.9
Accrued salaries and employee benefits	**143.5**	159.3
Provision for claims and contingencies	**17.7**	20.5
Accrued professional expenses	**22.6**	28.9
Asset retirement obligations	**72.8**	84.8
Other payables and accruals	**160.1**	410.2
	1,163.5	1,842.9
Less: non-current portion		
Asset retirement obligations	**(72.8)**	(84.8)
Other payables	**(23.8)**	(25.9)
	1,066.9	1,732.2

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

	2019	2018
	HK$M	*HK$M*
0 – 90 days	**601.3**	1,007.9
91 – 180 days	**12.5**	14.9
Over 180 days	**25.5**	20.1
	639.3	1,042.9

12 SUBSEQUENT EVENTS

After the coronavirus disease ("**COVID-19**") outbreak in early 2020, a series of precautionary and control measures were firstly enforced in China, and later in Europe and the US as some measures in China began to uplift. The Group is closely monitoring the development of the COVID-19 outbreak and its disruption to business and economic activities.

As at the date of this announcement, the management of the Group has assessed the overall impact of the situation on the Group's operations and financial position and concluded that there are no material effects on the consolidated financial statements for the year ended 31 December 2019. As at the date of this announcement, management is unable to reliably estimate the financial impact of COVID-19 on the Group's financial results for the year ending 31 December 2020 as the pandemic has yet to run its full course hence the current situation is still fluid. The Directors shall continuously assess the impact of COVID-19 on its operations as well as the financial position for the year ending 31 December 2020.

CHAIRMAN'S STATEMENT

2019 Annual Results

2019 has been a difficult year. The US-China trade dispute lasted for more than a year, leaving apparent impact on the domestic and foreign economies. The extent of influence was not limited to the two countries involved, and the global economy began to show signs of slowing down due to the uncertainties brought by the trade war. The US economy was seemingly thriving, but the growth was only driven by consumption and service industry. The US industrial activities showed a momentary sign of recovery at first when the US adjusted the tariffs upward, and temporarily supported the iron and steel industries in the US, but other industries such as automobile manufacturing that use steel, iron and aluminium as raw materials had to face the predicament of rising costs and squeezing profits. The increased tariffs had not eased the downturn of the traditional industries in the US, but instead showed signs of further fall in demand.

The European economy with Germany as its key driver also showed signs of slowdown. The EU region grew by only 0.1% in the fourth quarter of 2019, while the German economy grew 0.6% for the whole year in 2019, but was primarily driven by the service industry. The German economy has been growing for the past decade, but the growth rate began to slowdown and the export growth is on the downturn. In view of the impact from the trade war on the supply chain, many enterprises postponed their investment plans, and hence orders for machineries were affected. The German automotive industry is also facing transformation. As environmental protection is gaining more attention in Europe, the key players in the automotive industry need to introduce more models of new energy vehicles and to eliminate or rebuild existing production lines. This will have short-term impact on production and demand of scrap metal. Thankfully, the overall unemployment rate in Europe is currently at its lowest level in the past decade, especially in Germany where its current unemployment rate is at historical low. This provided support for demand in the domestic markets to a certain extent. The gradual introduction of new vehicle models in 2020 is also expected to increase sales volume.

The slowdown in industrial activities also directly affected global demand for metals and has been indirectly reflected in the commodity prices. The sluggish industrial activities in Europe and in the US reduced the demand for metals, especially in the automotive industry. The monetary easing policies in Europe, however, provided certain support to the construction, infrastructure and real estate industries in Europe, thereby driving some demand.

In 2019, the Group's shredded motor line in the US commenced operation. This processing line collects and processes scrap motors in the East Coast and around the Great Lakes region in the US. In designing this processing line, the Group preserved its flexibility to the maximum extent, as not only can it shreds scrap motors, but it also processes scrap cables. The Group's FMA (fine-grained metal containing waste) processing line in Germany also has commenced commercial operation. This processing line mainly processes shredded wastes and waste circuit boards, and recycles the copper and precious metals therefrom. The FMA processing line further reduced the residual wastes which would have been landfilled or incinerated and enhanced the recovery rate of end-of-life vehicles ("**ELV**"). The processing technique in the FMA processing line was researched and developed internally over a two year time frame, upholding our leading position in the industry in terms of technological advancement.

2019 was also a year of business transformation. Due to the changes under the Catalog for the Administration of the Import of Solid Wastes promulgated by the Chinese Government, the existing scrap metal dismantling business, such as imported scrap motors and cable scrap, operated by the Group's plant in Taizhou is gradually relocated to Southeast Asian countries and other countries in the "Belt and Road" initiative as set out in the Group's business strategy.

The joint venture between the Group and Heng Hup Group ("**Heng Hup Group**", a leading scrap ferrous metal trader in Malaysia) commenced production in the first half of 2019, primarily engaging in the dismantling of scrap motors and other mixed scrap metal. The scrap steel and scrap aluminum produced are mostly sold to the local markets in Malaysia. Majority of the steel mills in Malaysia uses scrap steel for production, and thus, the demand for scrap steel is relatively stable. Copper scrap from the Malaysian joint venture is mainly exported to China. The Malaysian joint venture is currently increasing its production.

Another joint venture formed by the Group and Century Metal Recycling Group ("**CMR**", India's largest producer of aluminum and zinc die-casting alloys) also commenced production in November 2019. This joint venture is mainly engaged in the dismantling of scrap motors and other mixed scrap metal. The Indian market is enormous and the recycled metals currently produced is sold locally. As the ratio between electric furnaces and blast furnaces in India is higher than that in China, their dependence on iron ore is relatively lower than that of China, therefore, the Group has greater bargaining power as a scrap steel supplier. The Indian joint venture is currently ramping up its production.

A cooperation agreement was signed in November 2019 among the Group, Hidaka Yookoo Enterprises Co. Limited (the largest scrap steel and iron recycler in Thailand) and Suzuki Shokai Co. Limited (a leading resource recycling company in Japan and our long-term business partner) to establish a joint venture to set up a metal recycling business in Thailand in 2020, focusing on the dismantling of scrap motors. The project is currently under preparation.

2019 was the toughest year for the Taizhou plant since its establishment. Due to changes in the PRC national policies, the Taizhou plant transferred its primary business abroad and dismissed most of its long-time employees. Apart from Greater China, the Group also streamlined the organisational structure in Europe and North America as a response to the market changes and to optimise the cost structure. On behalf of the Group, I would like to thank everyone for their dedication and contributions over the years.

The remaining staff at Taizhou plant, other than those in the production of copper rod and recycled aluminum ingots, will mainly support the development of the Southeast Asia operations and the domestic scrap metal collection in China. The Shuyang Division under the Taizhou plant will mainly engage in the dismantling of local scrap motors in China.

Against this broad backdrop, both the revenue and profit of the Group experienced a year-on-year decrease with broader declines in Asia and North America. The revenue of the Group for the year ended 31 December 2019 amounted to HK$15,363.4 million (2018: HK$20,912.8 million), representing a year-on-year decrease of approximately 26.5%.

The loss attributable to shareholders of the Company for the year ended 31 December 2019 was HK$128.7 million (2018: profit HK$401.2 million), representing a year-on-year decrease of approximately 132.1%. The basic and diluted loss per share in 2019 were HK$0.08 (2018: basic and diluted earnings per share HK$0.25).

Regional performance

In 2019, as the shrinking of the German automotive industry affected its peripheral industries, the revenue recorded by the Group from Europe decreased by 19.8% year-on-year to HK$12,166.8 million (2018: HK$15,166.5 million), and a segment profit of HK$379.7 million (2018: HK$443.5 million), representing a year-on-year decrease of 14.4%.

The US-China trade war has a greater impact on the US industrial activities. Increase in prices and sales volume at the onset of the US-China trade war could not be sustained, and even began to have counter-effects at the later stage. The main reason was that the root cause of de-industrialisation in the US was not only from the competition of China-manufactured products, but also from US's domestic issues. In the US market where the Group operates, while it remains profitable in the fast-growing Southwestern region, the Northeast region is becoming increasingly competitive due to reduced industrial activities in the traditional industrial towns. In 2019, the Group's revenue from North America decreased 40.9% to HK$1,410.9 million as compared to last year (2018: HK$2,386.7 million), and a segment loss of HK$48.4 million (2018: segment profit HK$8.4 million).

As the Group's Southeast Asia business was still at its start-up stage in 2019, its contribution to revenue and earnings were relatively limited. Currently, the business in Asia mainly represented those in Greater China, including Hong Kong. In 2019, the revenue from the Asia region decreased by 46.3% to HK$2,015.4 million when compared to last year (2018: HK$3,751.4 million), and segment loss was HK$172.3 million (2018: segment profit HK$275.2 million). The decline was mainly caused by the revisions of the Catalog for the Administration of the Import of Solid Wastes by the China Government, while the new businesses in China could not form a scale to replace those interrupted business in the short term.

Prospects

In December 2019, the European Commission passed the European Green Deal with a goal of achieving carbon emission neutral by 2050. In addition to expanding the scope of carbon tax, there is also a need to review the fossil energy tax, to support low-carbon iron and steel production and development of new energy battery technology, and to formulate a series of action plans for a circular economy. Among them, resources recycling are not only because of environmental protection, but also for the protection of resources necessary for the sustainable development of European industries.

As China barred the import of unprocessed waste plastic, the Group also invested in a new plastic recycling line which will commence operation in early 2020 to process waste plastic in Europe and produce highly added value LDPE and HDPE pellets. Those pellets are high value industrial raw materials and can be exported around the world. It would help mitigate the plastic issue in Europe and enhance the Group's plastic recycling business.

In the fourth quarter of 2019, the market saw signs of the US-China trade war ending and industrial activities began to rebound, with various metals prices also having increased towards year-end. The economic impact from the outbreak of the COVID-19 before the Chinese New Year in 2020 would be difficult to assess. Production resumption usually peaks after the Chinese New Year. As the inventory levels are generally low before the holidays, the restocking after the resumption of work will normally drive prices up. This year, the resumption of business activities was delayed in China, and the impact to demands cannot be determined for the time being.

One of the important tasks in 2020 is to increase the output in the South and Southeast Asia processing yards. New energy vehicles will be the future direction in the automotive industry. The Group estimated that the number of electric engines and motors will increase in the future, and the demand for copper will also step up. Not only do South and Southeast Asia have a young population and abundant labour resources, they are also at a stage of rapid industrial development, capable of replacing China as the future dismantling bases and sales markets for recycled metals.

2019 was a critical year for the automotive industry in Europe. Most German automobile companies agreed that the automobile industry would head to the direction of electric vehicles going forward. Once the strategy has been determined, the German automobile companies would accelerate their investments in electric vehicles, including auxiliary power battery and power system. Comparing to traditional petrol or diesel vehicles, electric vehicles require more copper and are equipped with more automotive electronics components. The Group's R&D team will also focus more in this area, to improve the processing of materials generated from the future automotive industry such as scrap, motors and batteries, thereby maximising resources recycling.

In mid-2019, the new Measures for the Management of End-of-Life Vehicle Recycling (《報廢機動車回收管理辦法》) promulgated in China lowered an important barrier to this blue ocean market. Leveraging on our existing scrap metal business layout and experiences in China, the Group will explore opportunities to develop the ELV business in China with our own resources or by way of joint venture, and transfer from Europe and the US the Group's leading technology on ELV processing into China.

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 macro market environment throughout 2019 has been volatile due to the prolonged US-China trade war which has brought adverse impact to the Group. The Group sold in aggregate over 4.8 million tonnes of recycled products in 2019, a 10.1% decrease when compared to 5.3 million tonnes being sold in 2018. Revenue for the year was HK$15,363.4 million, a decrease of approximately 26.5% compared to HK$20,912.8 million last year.

The decrease in revenue was largely driven by the slowdown of the industrial activities globally and led to a soft demand for metal scraps. Scrap prices have been in a downward trend since the start of 2019 with the prices bottomed out in October 2019.

Our China operation has been particularly impacted by the changes in China's Catalog for Administration of the Import of Solid Wastes which banned the import of scrap motors into China, effective at the beginning of 2019. Sales have been temporarily affected as the Group is in transition to shift the production bases from China to South/Southeast Asia.

	2019		2018		Increase/ (Decrease)
	HK$M	**As a percentage of total segment revenue**	*HK$M*	As a percentage of total segment revenue	*HK$M*
Europe	**12,166.8**	**78.0%**	15,166.5	71.2%	(2,999.7)
North America	**1,410.9**	**9.1%**	2,386.7	11.2%	(975.8)
Asia	**2,015.4**	**12.9%**	3,751.4	17.6%	(1,736.0)
Total segment revenue	**15,593.1**	**100%**	21,304.6	100%	(5,711.5)
Inter-segment sales	**(229.7)**		(391.8)		162.1
Revenue	**15,363.4**		20,912.8		(5,549.4)

Gross profit/Margin

Gross profit for year was HK$877.9 million, a decrease of HK$806.2 million or 47.9% compared to HK$1,684.1 million recorded in the previous financial year. The decrease in gross profit was mainly attributable to the rising energy and transportation cost but declining scrap prices, putting pressure on our margins. Gross profit declined also due to the lower tonnage processed in our China facilities as a result of the import restrictions on scrap motors in China.

Gross profit margin for the year decreased from 8.1% to 5.7%. The decline in gross profit margin is largely attributed to the weak performance from the China operations, while the gross profit margin in Europe stays largely stable.

Profit before interest and tax (EBIT)/Margin

EBIT for the year was a profit of HK$113.1 million, as compared to a profit of HK$845.5 million last year. EBIT margin was 0.7% for the year (2018: 4.0%).

Total operating expenses were HK$1,021.6 million, a decrease of 23.3% over the previous financial year. The decrease is in part due to lower tonnages, but also due to cost control measures put in place during the year. Total operating expenses as a percentage of revenue increased slightly from 6.4% to 6.6%.

Distribution and selling expenses increased from HK$49.0 million to HK$51.5 million, an increase of 5.1% compared with the last financial year. The increase is mainly due to a reclassification of freight and packaging expenses from administrative expenses and the addition of some new sales agents during the year. As a percentage of revenue, distribution and selling expenses was 0.3% (2018: 0.2%).

Administrative expenses decreased from HK$1,283.3 million to HK$970.1 million over the last financial year, partly due to stringent cost controls are in place in the course of the Group transitioning our production bases to South/Southeast Asia. As a percentage of revenue, administrative expenses remained flat at around 6.3% as compared to last year (2018: 6.2%).

	2019		2018		Increase/ (Decrease)
		As a percentage of revenue		As a percentage of revenue	
	HK$M		*HK$M*		*HK$M*
Distribution and selling expenses	**51.5**	**0.3%**	49.0	0.2%	2.5
Administrative expenses	**970.1**	**6.3%**	1,283.3	6.2%	(313.2)
Total	**1,021.6**	**6.6%**	1,332.3	6.4%	(310.7)

Loss/Profit Attributable to Shareholders and loss/earnings per share

Loss attributable to shareholders of the Company for the year ended 31 December 2019 was HK$128.7 million, as compared to a profit of HK$401.2 million in the last financial year.

Taxation charges reduced from HK$70.4 million in the last financial year to HK$34.3 million in the current year as the profitability in some regions have lessen this year.

Basic loss per share for the year ended 31 December 2019 was HK$0.08 as compared to earnings per share of HK$0.25 in the previous financial year.

Analysis of Cash Flow from Operations

The Group's net cash generated from operating activities for the year ended 31 December 2019 was HK$528.8 million, an increase of 66.7% as compared to HK$317.3 million in the previous financial year, as the Group carefully managed its working capital in response to the uncertainties in the market conditions.

Liquidity and Financial Resources

Shareholders' funds as at 31 December 2019 were HK$4,941.3 million, a decrease of 4.5% from HK$5,175.3 million as at 31 December 2018. Shareholders' funds per share decreased by 4.3% from HK$3.22 to HK$3.08.

The Group's financial resources remain stable and steady. As at 31 December 2019, the Group had cash, various bank balances and pledged bank deposits amounting to HK$976.5 million, a decrease of 3.4% or HK$34.2 million as compared to HK$1,010.7 million as at 31 December 2018. It was mainly for repayment of external borrowings and working capital needs for expansion of business operations.

The current ratio has decreased from 1.62 as at 31 December 2018 to 1.01 as at 31 December 2019 as certain borrowings have been reclassified as current liabilities as they will be maturing within the next twelve months. Subsequent to year-end, the Group has reached an agreement with the lender to extend the repayment date of these maturing loans to March 2021. With the extension of the repayment, the current ratio would have been 1.76 as at 31 December 2019.

Total external borrowings, including lease liabilities, were approximately HK$3,556.5 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$2,102.8 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 31 December 2019 was 34.9% (31 December 2018: 33.3%) which is calculated based on the total borrowings divided by our total assets.

Working Capital Change

Inventories as at 31 December 2019 were HK$1,495.9 million, having decreased from HK$2,105.7 million as at 31 December 2018. The inventory turnover days for the financial year was 45 days, increased slightly by 3 days than the last financial year as sales were soft during the year.

Provision for inventories as at 31 December 2019 were HK$35.9 million, as compared to the provisions of HK$38.8 million as at 31 December 2018.

The Group is committed 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.

	2019	2018
All figures are in HK$M unless stated otherwise		
Inventories	**1,495.9**	2,105.7
Average inventories as a percentage of revenue	**11.7%**	10.6%
Turnover days	**45 days**	42 days

Net trade and bills receivables as at 31 December 2019 were HK$957.3 million, decreased from HK$1,367.5 million as at 31 December 2018. Debtor turnover days for the financial year increased from 23 days to 28 days when compared with the last financial year. The lower receivable balance as at 31 December 2019 was partly due to reduced sales as well as timing of sales towards the year end. The Group adopts a tight management on credit exposure.

	2019	2018
All figures are in HK$M unless stated otherwise		
Trade and bills receivables, net	**957.3**	1,367.5
Average receivables as a percentage of revenue	**7.6%**	6.4%
Turnover days	**28 days**	23 days

Trade and bills payable as at 31 December 2019 were HK$639.3 million, as compared to HK$1,042.9 million as at 31 December 2018. Creditor turnover days for the year ended 31 December 2019 remained flat at 21 days as compared with the last financial year.

	2019	2018
All figures are in HK$M unless stated otherwise		
Trade and bills payables	**639.3**	1,042.9
Turnover days	**21 days**	21 days

Treasury Policies

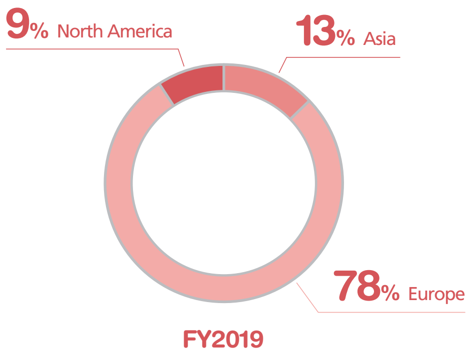
The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations. The Group principally uses forward foreign exchange/futures contracts as appropriate to hedge the foreign exchange risks/commodity price risks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

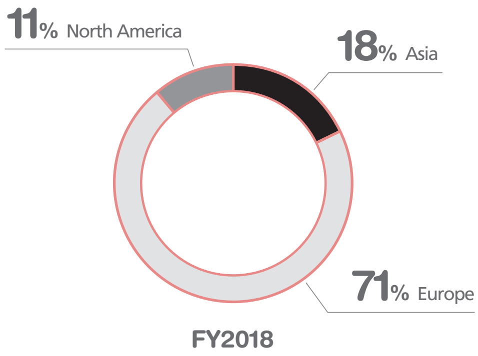
Capital Expenditure

For the year ended 31 December 2019, the Group invested HK$733.2 million (31 December 2018: HK$602.1 million) in the purchase of tangible assets including land, buildings, plant, machinery and equipment for the improvement of production efficiency, of which HK$337.5 million were financed from internal resources and HK$395.7 million were financed through lease arrangement.

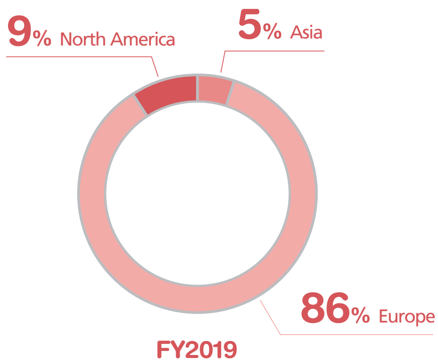
Business review

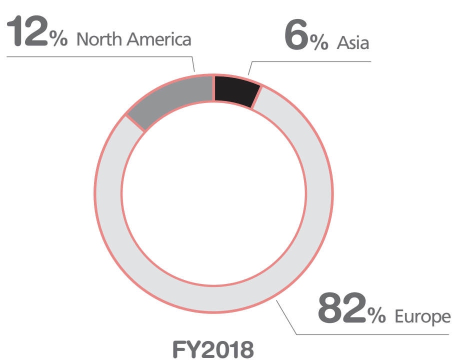
Revenue by Regions



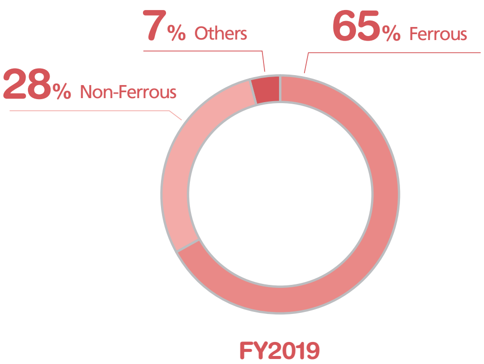


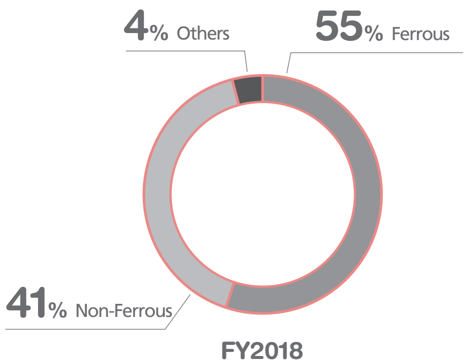
Sales Quantity by Regions



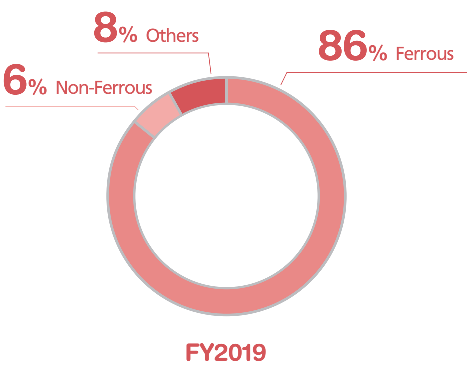


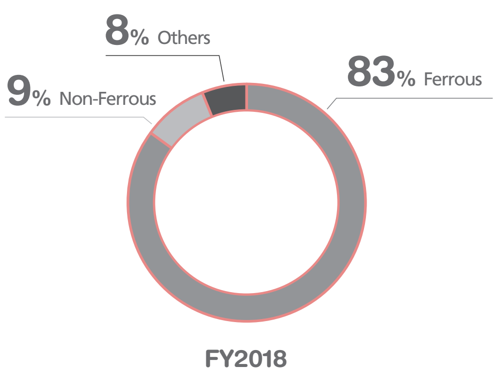
Revenue by Products





Sales Quantity by Products





Operation Performance

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.

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).

In 2019, the sales tonnage for the Europe segment was 4.09 million tonnes, a drop of 6.8% as compared to 4.38 million tonnes in the previous financial year. Segment revenue was HK$12,166.8 million, decreased by 19.8% at current exchange rate or by 15.4% in local currencies. Demand has been strongly affected by a weak automobile and machine engineering industry in Europe due to a softening demand in China as a result of the US-China trade war, and less exports to China due to the import restrictions of certain scrap metals which came into effect this year.

Scrap prices in Europe have dropped on average by 9% in 2019. The lack of investments in the aging European infrastructure limited the transportation capacity, and with the increasing tolls, freight costs are on the rise. Gross profit for the year, therefore, was only HK$876.5 million, a decrease of 23.6% at current exchange rate or 19.2% in local currencies as compared with the last financial year. Gross profit margin for the year dropped slightly from 7.6% to 7.2%.

Segment profit for the year was HK$379.7 million, a decrease of 14.4% at current exchange rate or 7.4% in local currencies. Effective cost management in coping with the challenging market conditions had partially outweighed the drop in gross profit.

Besides efficient margin control, several business improvement initiatives have been initiated to react to the market downturn. 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 some of our European yards to fulfil China's requirements on importing of cleaned scrap. The Group has also been expanding our non-metallic businesses such as recycled plastics and paper to diversify and mitigate the challenges brought about from the metal recycling business. An all new plastic recycling line will come online in 2020 to help contribute relieving Europe's plastic problem.

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 reused auto components.

The segment sales tonnage for the North America segment was 0.45 million tonnes as compared to 0.61 million tonnes last year. Segment sales revenue was HK$1,410.9 million as compared to HK$2,386.7 million, a drop of 40.9% at current exchange rate or 37.6% in local currencies. Demand from local steel mills has fallen due to mill outages and destocking at the mills. The main driver behind the weak steel scrap demand in US is the generally weakening macroeconomic factors in the US, especially on the industrial sector, which had been badly affected by the US-China trade war. The uptick in steel prices in US after the tariff war started was short lived and prices soon dropped faster than it was before the pre-tariffs war. The trade war resulted in declining activities and lowering demand. Automotive production trended down across most countries over the second half of 2019, resulting in more stagnant steel demand towards the end of the year.

In 2019, falling domestic steel scrap prices have put significant pressure on margins, with a steep price decline in October 2019 to year lows. As China imposed retaliatory tariffs on certain scraps from US, the materials need to be diverted to other markets which further eroded the margins in US. Hence, segment gross profit was HK$103.2 million, decreased by 50.4% at current exchange rate, or 47.7% in local currencies. Gross profit margin dropped from 8.7% last year to 7.3% this year.

The lowered sale volume, together with a narrowed margin, turned the segment profit from a profit of HK$8.4 million to a loss of HK$48.4 million as compared to the last financial year.

Asia

Our major production facilities in Asia include Yuen Long (Hong Kong), Taizhou (Zhejiang) and Yantai (Shandong), and has expanded to Malaysia and India in the current year.

The sales tonnage in the Asia segment was 0.23 million tonnes (2018: 0.31 million tonnes) as the scrap motor dismantling business has been temporarily interrupted while the Group relocates the production to our new processing yards in South/Southeast Asia. Segment revenue has decreased by 46.3% from HK$3,751.4 million last year to HK$2,015.4 million.

The bearish scrap prices and the temporarily reduced sales volume have hampered our margin, resulted in a gross loss for the Asia segment. The gross loss for the year was HK$83.0 million, with a gross loss margin of 4.1%, as compared to a gross profit of HK$352.2 million and a gross profit margin of 9.4% last year.

As a result, the Asia segment has experienced a loss of HK$172.3 million during this transformation period, as compared to a profit of HK$275.3 million last year. As our new production facilities in South/Southeast Asia ramp up operation, the performance of our Asia segment will gradually recover.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2019, 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$3,807.4 million (31 December 2018: HK$4,308.3 million) to secure borrowings.

As at 31 December 2019, the Group had capital commitments in respect of acquisition of property, plant and equipment, additions in construction in progress and investments in joint ventures which are contracted for but not provided for in the consolidated financial statements and amounted to HK$128.9 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.

As at 31 December 2019, the Group does not have any contingent liabilities (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 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 Company gave notice of the intention to contest the proceedings on 4 January 2016 and filed its defence on 23 September 2016. An amended writ of summons was filed by Delco on 5 December 2016, adding Mr. Fang as a defendant to the proceedings. The Company filed its amended defence on 13 December 2016 and the Plaintiff filed its amended reply to the Company's defence on 21 December 2016. 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 which 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 to follow 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 2019, the Group had a workforce of 3,115 employees. In addition, we engaged approximately 350 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$1,155.1 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 of Directors did not recommend the payment of final dividend for the year ended 31 December 2019 (2018: nil).

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises all three independent non-executive Directors, namely Dr. Loke Yu (as chairman), Ms. Qian Liping and Mr. Ko Frankie Andrew. 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 unaudited consolidated results for the year ended 31 December 2019.

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 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, 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. During the year ended 31 December 2019, Mr. Qin Yongming ("**Mr. Qin**") held the offices of chairman of the Board ("**Chairman**") and chief executive officer ("**CEO**") of the Company. The Board believed 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 considered that the deviation from provision A.2.1 of the CG Code was appropriate in such circumstance.

With effect from 1 March 2020, Mr. Rafael Heinrich Suchan was appointed as CEO in replacement of Mr. Qin. Accordingly, as at the date of this announcement, the Company is in compliance with the requirement under provision A.2.1 as set out in the CG Code.

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. All Directors have confirmed, following specific enquiries made by the Company of all such Directors, that they had complied with the required standard set out in the Model Code during the year ended 31 December 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 or any of its subsidiaries during the year ended 31 December 2019.

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 2019 of the Company are set out below:

Experience including other directorships

Dr. Loke Yu alias Loke Hoi Lam, an independent non-executive Director of the Company, resigned as an independent non-executive Director of Lamter Holdings Limited (Stock Code: 1041) with effect from 23 March 2020.

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 2019 and as at the date of this announcement.

REVIEW OF UNAUDITED ANNUAL RESULTS

Certain auditing procedures on the annual results for the year ended 31 December 2019 has not been completed due to travel restrictions, quarantine policies and lockdowns imposed by governments to combat the coronavirus outbreak across the globe. The unaudited annual results for the year ended 31 December 2019 presented herein have not been agreed with the Company's auditor, PricewaterhouseCoopers. An announcement relating to the audited results for the year ended 31 December 2019 will be made when the auditing process is completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The unaudited annual results for the year ended 31 December 2019 contained herein have been reviewed by the Audit Committee.

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

This unaudited 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 2019 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.

The Company will make further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed with the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting of the company (the "**AGM**") will be held, and (iii) the arrangement to ascertain shareholders' eligibility to attend and vote at the AGM (including the period during which the register of members of the Company will be closed). In addition, the Company will make further announcement as and when necessary if there is other material development in relation to the completion of the auditing process.

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.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the Group's auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 30 March 2020

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

Executive Directors:	Qin Yongming *(Chairman)* Tu Jianhua Rafael Heinrich Suchan *(Chief Executive Officer)*
Independent Non-executive Directors:	Loke Yu Qian Liping Ko Frankie Andrew