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CHIHO ENVIRONMENTAL GROUP LIMITED

齊合環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 976)

PROFIT WARNING

This announcement is made by Chiho Environmental Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) in accordance with the Inside Information Provisions (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and Rule 13.09(2)(a) of the Listing Rules.

The board of directors (the “**Board**”) of the Company wishes to inform the shareholders (the “**Shareholders**”) and potential investors of the Company that based on the preliminary review of the unaudited consolidated management accounts of the Group for the year ended 31 December 2020 and the information currently available to the Board, it is expected that the Group will record an increase in net loss for the year ended 31 December 2020 as compared to the year ended 31 December 2019.

The increase in net loss is mainly attributable to the following factors:

- i) As the Group strived to improve business efficiency, it has conducted a thorough portfolio review, leading to various optimisation initiatives. While these initiatives included cost savings and tapping synergies, it also involved restructuring and disposal of certain non-performing assets as the Group aims to free up resources to target growth opportunities. These restructuring and disposal initiatives included the disposal of our loss making operations in Northeast United States and Denmark and restructuring of certain Asia businesses, leading to one-off non-cash impairment and provisions.

- ii) The COVID-19 pandemic has caused significant impact to the up- and downstream industries in China, Asia, Europe and North America, so that the Group's core recycling businesses has also been inevitably affected. To reduce this impact, the management of the Company continued to implement strict cost control and working capital optimisation measures in the first half of 2020, which, together with the general industrial recovery, have benefited business results in the second half of 2020.

Overall, the Group's business performance in the second half of 2020 displayed an improvement over the same period in 2019. Thanks to the increasing demand for metal across the globe, an ongoing recovery in the automotive sector, increasing government spending on infrastructure programs to restart economies, combined with newly realised business opportunities, the Group's margins and tonnage volume of recycled metal have improved over the second half of 2020. The Group sees the strong momentum continuing into 2021.

Gross profit for the year ended 31 December 2020 is expected in the range of HK\$910 million to HK\$960 million, representing at least 3.6% growth compared to 2019. The gross profit margin is expected to improve from 5.7% in 2019 to at least 6.8% in 2020. Earnings before interest, taxes, depreciation and amortisation (EBITDA) excluding one-off impairment losses for 2020 is expected to be in the range of HK\$360 million to HK\$410 million.

Including the one-off non-cash impairments and provisions, it is expected that the Group will record a net loss in the range of HK\$840 million to HK\$890 million for the year ended 31 December 2020 as compared to a net loss of HK\$133.8 million for the year ended 31 December 2019.

Despite the above, the financial position of the Group remains healthy. The Company continues to take measures to control costs and expenses and is committed to the recovery of its business operations.

As the Company is still in the process of finalising the audited consolidated annual results of the Group for the year ended 31 December 2020, the information contained in this announcement is only based on the preliminary review and assessment made by the Board based on the unaudited consolidated management accounts of the Group and information currently available, which have neither been audited by the auditors nor reviewed by the audit committee of the Company. The above information may be subject to adjustments upon further review. Shareholders and potential investors are advised to read carefully the announcement of the annual results of the Group for the year ended 31 December 2020, which is expected to be published as soon as practicable.

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
Rafael Heinrich Suchan
Chief Executive Officer and Executive Director

Hong Kong, 18 February 2021

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

Executive Directors:

- Mr. Chen Chunguo (*Chairman*)
- Mr. Tu Jianhua
- Mr. Rafael Heinrich Suchan (*Chief Executive Officer*)
- Mr. Martin Simon (*Chief Financial Officer*)
- Mr. Ding Zhiyi
- Mr. Miao Yu

Independent Non-executive Directors:

- Dr. Loke Yu
- Ms. Yang Yali
- Mr. Wang Qiwei

In the case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.