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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- The outbreak of the novel coronavirus pandemic has caused significant impact to the up- and downstream industries in all the countries where the Group operates, as such, the Group's core recycling business has also been inevitably affected, particularly in the first half of 2020.
- The Group has implemented swift actions to ensure a safe working environment for the employees while keeping our business operations running. Necessary measures were implemented to reduce costs, preserve cash and ensure liquidity.
- Thanks to the strong rebound of industrial activities and the increasing demand for metals across the globe, the Group's tonnage volume of recycled metals has strongly improved in the second half of 2020, and also increased compared to the same period in 2019.
- The Group sold 4.3 million tonnes of recycled products in the coronavirus pandemic year 2020, a 9.7% decrease comparing to 2019. Revenue for the year was HK$13,368.1 million, a reduction of 13.0% compared to prior year.
- Despite of the drop in revenue and volume, the gross profit for the year was HK$946.5 million, displaying a strong increase of 7.8% compared to 2019. The gross profit margin improved to 7.1% (2019: 5.7%) due to a consequent margin management.
- The Group strives continuously to improve business efficiencies. Consequently, specific non-performing assets were being restructured or disposed of, leading to one-off non-cash impairments amounting to HK$519.2 million. Including the impairments, the Group reported a net loss attributable to shareholders of HK$848.1 million for the year ended 31 December 2020 (2019: HK$128.7 million).
- The Group's cash generated from operations for the year stood at HK$953.7 million (2019: HK$803.6 million).
- The Board does not recommend the payment of a final dividend in 2020 (2019: Nil).

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Chiho Environmental Group Limited (the "**Company**") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "**Group**", "**we**" and "**our**") for the year ended 31 December 2020 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") as follows (together with the comparative figures for the year ended 31 December 2019):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	**2020** *HK$M*	2019 *HK$M*
Revenue	*3*	**13,368.1**	15,363.4
Cost of sales	*5*	**(12,421.6)**	(14,485.5)
Gross profit		**946.5**	877.9
Other income		**139.7**	127.0
Other (losses)/gains, net	*4*	**(79.7)**	44.0
Impairments on non-financial assets	*4*	**(519.2)**	(0.9)
Net reversal of impairment on financial assets		**7.4**	39.4
Distribution and selling expenses	*5*	**(54.0)**	(51.5)
Administrative expenses	*5*	**(1,084.8)**	(970.1)
		(644.1)	65.8
Finance income		**11.0**	23.6
Finance costs		**(243.5)**	(236.2)
Finance costs, net	*6*	**(232.5)**	(212.6)
Share of post-tax loss of an associate		**(0.1)**	(0.3)
Share of post-tax profit of joint ventures		**66.9**	47.6
Loss before income tax		**(809.8)**	(99.5)
Income tax expense	*7*	**(54.4)**	(34.3)
Loss for the year		**(864.2)**	(133.8)
Loss attributable to:			
Shareholders of the Company		**(848.1)**	(128.7)
Non-controlling interests		**(16.1)**	(5.1)
		(864.2)	(133.8)
Loss per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
Basic loss per share	*9*	**(0.53)**	(0.08)
Diluted loss per share	*9*	**(0.53)**	(0.08)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	HK$M	*HK$M*
Loss for the year	**(864.2)**	(133.8)
Other comprehensive income/(loss)		
Item that may be reclassified to profit or loss:		
Currency translation differences on foreign operations	**389.5**	(92.4)
Items that will not be reclassified to profit or loss:		
Change in fair value of equity investments at fair value through other comprehensive income	**(1.1)**	(7.5)
Remeasurements of post-employment benefit obligations	**(1.2)**	(4.6)
Share of other comprehensive loss of joint ventures	**(1.3)**	(4.4)
Income tax relating to these items	**0.6**	1.9
Other comprehensive income/(loss) for the year, net of tax	**386.5**	(107.0)
Total comprehensive loss for the year	**(477.7)**	(240.8)
Total comprehensive loss for the year attributable to:		
Shareholders of the Company	**(463.7)**	(234.0)
Non-controlling interests	**(14.0)**	(6.8)
	(477.7)	(240.8)

CONSOLIDATED BALANCE SHEET

At 31 December 2020

	Notes	2020 HK$M	2019 HK$M
ASSETS			
Non-current assets			
Property, plant and equipment		**2,623.9**	2,982.9
Right-of-use assets		**844.5**	1,185.8
Investment properties		**20.7**	9.1
Intangible assets		**957.2**	1,115.0
Investments accounted for using the equity method		**696.4**	630.9
Financial assets at fair value through profit or loss		**0.9**	1.9
Financial assets at fair value through other comprehensive income		**104.6**	98.7
Other non-current assets	*10*	**4.2**	17.0
Deferred income tax assets		**110.4**	109.3
		5,362.8	6,150.6
Current assets			
Inventories		**1,169.3**	1,495.9
Trade, bills and other receivables	*10*	**1,709.0**	1,375.8
Fixed return investment		**–**	88.4
Amounts due from related parties		**129.3**	47.9
Derivative financial instruments		**14.3**	25.0
Tax recoverable		**23.0**	29.9
Pledged bank deposits		**122.7**	191.7
Cash and cash equivalents		**913.8**	784.8
		4,081.4	4,039.4
Assets held for sale		**428.7**	–
		4,510.1	4,039.4
Total assets		**9,872.9**	10,190.0

	Notes	2020 HK$M	2019 HK$M
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.1
Other reserves		**7,009.8**	6,614.9
Accumulated losses		**(2,548.3)**	(1,689.7)
		4,477.6	4,941.3
Non-controlling interests		**(13.4)**	(10.3)
Total equity		**4,464.2**	4,931.0
Non-current liabilities			
Borrowings		**178.3**	226.4
Lease liabilities		**342.3**	569.4
Retirement benefit obligations		**29.7**	27.3
Other payables	*11*	**102.6**	96.6
Deferred income tax liabilities		**363.8**	342.8
		1,016.7	1,262.5
Current liabilities			
Trade, bills and other payables	*11*	**1,689.5**	1,066.9
Current income tax liabilities		**93.7**	101.2
Borrowings		**2,120.1**	2,569.0
Lease liabilities		**202.2**	191.7
Amounts due to related parties		**63.4**	37.5
Derivative financial instruments		**59.7**	30.2
		4,228.6	3,996.5
Liabilities directly associated with assets held for sale		**163.4**	–
		4,392.0	3,996.5
Total liabilities		**5,408.7**	5,259.0
Total equity and liabilities		**9,872.9**	10,190.0

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 aluminium 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 (the "**Stock Exchange**").

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 HKFRS and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") 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 basis

The Group reported a net loss of HK$864.2 million. As at 31 December 2020, the Group had net current assets of HK$118.1 million. As at the same date, it had borrowings of HK$2,298.4 million, of which HK$2,120.1 million are current borrowings due within twelve months from 31 December 2020, while its cash and cash equivalents amounted to HK$913.8 million only.

Included in current borrowings as at 31 December 2020 was a syndicated term loan (the "**Syndicated Term Loan**") with an outstanding principal amount of HK$1,511.8 million originally scheduled to be fully repayable on 31 March 2021. In addition, bank loans of HK$150.8 million ("Bank Loans") have also been classified as current liabilities as at 31 December 2020 as they may be immediately payable due to non-compliance of certain restrictive financial undertaking, of which a forbearance agreement has been entered with the relevant bank subsequent to 31 December 2020 (see note (ii) below).

The above conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern.

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group, taking into account the potential impact arising from the COVID-19 pandemic if any, and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

(i) The Group repaid an amount of HK$116.3 million of the Syndicated Term Loan subsequent to 31 December 2020, resulting in a remaining outstanding loan principal of HK$1,395.5 million as of the date of approval of these consolidated financial statements. In March 2021, the Group has successfully agreed with the lenders of the Syndicated Term Loan to extend the maturity date of the Syndicated Term Loan to January 2022 with two partial repayment instalments of HK$155.1 million each on or before end of June and September 2021, respectively, and that certain undertakings of the Group are revised. The Group will continue to monitor its compliance with the restrictive financial and non-financial undertaking requirements and the Directors expect the Group would be in compliance throughout the remaining term of the Syndicated Term Loan.

(ii) The Group repaid an amount of HK$107.9 million of the Bank Loans subsequent to 31 December 2020. In March 2021, the Group has entered into an agreement with the relevant bank for forbearance from exercising their rights to demand immediate repayment of the remaining balance until the earlier of full repayment or August 2021.

(iii) The Group is in advance negotiations with various financial institutions in Europe and Asia for a new secured long-term borrowing with a principal amount of no less than HK$1,200.0 million (approximately Euro 130.0 million). The Group received proposed term sheets but has not entered into any binding agreement with the financial institutions to date. Management is confident that the new long-term borrowing will be obtained in due course.

(iv) The Group is pursuing the disposals of certain idle and non-performing land and buildings in the specific regions to raise additional cash to finance the repayment of borrowings.

(v) The Group maintains continuous communication with other banks of the Group and believes that the existing other banking facilities available to the Group will be successfully renewed when their current terms expire given the long standing relationship the Group has with the relevant banks and the fact that majority of these facilities are secured by the Group's properties and other assets.

(vi) The Group continues its efforts to ramp up the production capability of the new recycling facilities in Asia by deploying sufficient additional working capital, implement measures in Europe and North America to generate cash flow from operations, and further control capital and operating expenditures to strength its working capital and mitigate the potential negative impact of COVID-19 pandemic.

(vii) The Group is actively looking for other sources of financing including other debt or equity financing to enhance the capital structure and reduce the overall financing expenses.

The Directors have assessed the Group's cash flow projection covering a period of not less than twelve months from 31 December 2020. They are of the opinion that 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.

Notwithstanding the above, material uncertainty exists as to whether the Group can achieve the plans and measures described in (iii) to (vii) above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to successfully secure a new long-term borrowing in Europe or Asia, dispose of certain idle and non-performing land and buildings in specific regions, renew the existing other banking facilities when their current terms expire, successfully ramp up the production capability of the new recycling facilities in Asia and to generate cash inflow from the Group's operations, and secure various sources of financing as and when required.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2.1.2 Changes in accounting policy and disclosures

(a) Amended standards and conceptual framework adopted by the Group

The following amended standards and conceptual framework have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2020:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting
HKFRS 3 (Amendments)	Definition of a Business

The amended standards and conceptual framework 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.

(b) ***The following new and amended standards and annual improvements have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group***

The following new and amended standards and annual improvements are not effective for financial year beginning on 1 January 2020, and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKFRS 16 (Amendments)	Leases	1 June 2020
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment	1 January 2022
HKAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
HKFRS 3 (Amendments)	Business Combinations	1 January 2022
HKAS 1 (Amendments)	Presentation of Financial Statements	1 January 2023
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrowers if a Term Loan that contains a Repayment on Demand Clause	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 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 and annual improvements 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.

The Group's chief operating decision-maker ("**CODM**"), which has been identified as the Executive Committee that makes strategic decisions, assesses the Group's performance from geographic perspective and has identified three reportable segments of its business which are Asia, Europe and North America, respectively. The operating segments are assessed based on the measure of segment profit. This measurement basis excludes the effects of non-operating gains/losses, such as impairments on non-financial assets, 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 2020 and 2019, respectively:

	For the year ended									
	31 December 2020					31 December 2019				
	Asia	**Europe**	**North America**	**Unallocated**	**Total**	Asia (Restated)	Europe	North America	Unallocated (Restated)	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	**1,710.5**	**10,708.9**	**1,086.1**	**–**	**13,505.5**	2,015.4	12,166.8	1,410.9	–	15,593.1
Inter-segment sales	**–**	**(129.0)**	**(8.4)**	**–**	**(137.4)**	–	(194.8)	(34.9)	–	(229.7)
External sales	**1,710.5**	**10,579.9**	**1,077.7**	**–**	**13,368.1**	2,015.4	11,972.0	1,376.0	–	15,363.4
Segment (loss)/profit *(Note)*	**(49.6)**	**218.5**	**(62.7)**	**(683.5)**	**(577.3)**	(126.9)	379.7	(48.4)	(91.3)	113.1
Finance income					**11.0**					23.6
Finance costs					**(243.5)**					(236.2)
Loss before income tax					**(809.8)**					(99.5)
Income tax expense					**(54.4)**					(34.3)
Loss for the year					**(864.2)**					(133.8)
Depreciation and amortisation expenses	**(81.2)**	**(307.3)**	**(42.8)**	**(19.5)**	**(450.8)**	(65.8)	(291.1)	(44.3)	(21.3)	(422.5)
Fair value loss on derivative financial instruments	**–**	**–**	**–**	**(68.1)**	**(68.1)**	–	–	–	(2.1)	(2.1)
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(2.3)**	**(0.2)**	**–**	**–**	**(2.5)**	1.7	–	–	–	1.7
Gain on disposal of property, plant and equipment and right-of-use assets	**–**	**–**	**–**	**23.4**	**23.4**	–	–	–	33.3	33.3
Loss on disposals and deregistration of subsidiaries or joint ventures	**–**	**–**	**–**	**(4.5)**	**(4.5)**	–	–	–	(13.7)	(13.7)
Provision for impairment on property, plant and equipment and right-of-use assets	**–**	**–**	**–**	**(222.8)**	**(222.8)**	–	–	–	(0.9)	(0.9)
Impairment on intangible assets	**–**	**–**	**–**	**(205.1)**	**(205.1)**	–	–	–	–	–
Impairment on assets held for sale	**–**	**–**	**–**	**(91.3)**	**(91.3)**	–	–	–	–	–

Note:

During the current year, the Group's CODM has changed their perspective on the unallocated segment and certain administrative expenses were reclassified from the Asia segment to the unallocated segment for the year ended 31 December 2020. Therefore, the segment loss for the Asia segment and unallocated segment for the year ended 31 December 2019 were restated from HK$172.3 million and HK$45.9 million to HK$126.9 million and HK$91.3 million, respectively, to conform to current year's presentation.

Segment assets

Reconciliation of segment assets to total assets as at 31 December 2020 and 31 December 2019 are provided as follows:

	As at							
	31 December 2020				31 December 2019			
	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	**1,541.4**	**6,772.4**	**497.6**	**8,811.4**	2,037.9	6,206.0	908.7	9,152.6
Deferred income tax assets				**110.4**				109.3
Fixed return investment				**–**				88.4
Tax recoverable				**23.0**				29.9
Derivative financial instruments				**14.3**				25.0
Cash and cash equivalents				**913.8**				784.8
Total assets				**9,872.9**				10,190.0

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 2020	As at 31 December 2019
	HK$M	*HK$M*
Asia	**661.8**	1,033.7
Europe	**4,209.8**	4,178.5
North America	**271.9**	723.1
Total	**5,143.5**	5,935.3

Analysis of revenue by category

	For the year ended 31 December 2020 HK$M	31 December 2019 HK$M
Metal recycling		
– Ferrous metal	**8,397.9**	10,063.9
– Non-ferrous metal	**4,362.6**	4,279.3
Forging and foundry	**99.0**	342.4
Others	**508.6**	677.8
Total	**13,368.1**	15,363.4

Information about major customers

No single customer contributed 10% or more to the Group's revenue during the years ended 31 December 2020 and 2019.

4. OTHER (LOSSES)/GAINS, NET

	2020 HK$M	2019 HK$M
(Loss)/Gain on fair value change of:		
– derivative financial instruments	**(68.1)**	(2.1)
– financial assets at fair value through profit or loss	**(2.5)**	1.7
Foreign exchange (losses)/gains, net	**(28.3)**	13.9
Gain on disposal of property, plant and equipment and right -of-use assets	**23.4**	33.3
Loss on disposal and deregistration of subsidiaries or joint ventures	**(4.5)**	(13.7)
Impairments on non-financial assets:		
– provision for impairment on property, plant and equipment *(Note (i))*	**(150.0)**	(0.9)
– provision for impairment on right-of-use assets *(Note (ii))*	**(72.8)**	–
– impairment on intangible assets *(Note (iii))*	**(205.1)**	–
– impairment on assets held for sale *(Note (iv))*	**(91.3)**	–
Reversal of provision for onerous contracts	**–**	5.3
Reversal of provision for asset retirement obligations	**–**	0.9
Others	**0.3**	4.7
	(598.9)	43.1

Notes:

(i) During the year ended 31 December 2020, the Group recognised a provision for impairment on property, plant and equipment of HK$150.0 million (2019: HK$0.9 million) of which (a) HK$115.1 million related to idle assets in Asia and Europe; and (b) HK$34.9 million were related to certain property, plant and equipment in North America, which their recoverable amount is below their carrying value based on management's assessment.

(ii) During the year ended 31 December 2020, the Group recognised a provision for impairment on certain leased land and building of HK$63.9 million in Asia, which their recoverable amount is below their carrying value based on management's assessment. The remaining provision of impairment on right-of-use assets of HK$8.9 million was related to certain leased equipment and machineries in North America.

(iii) The North America region is undergoing business transformation to strategically focus on the Southwest US operations, and has divested or in the process of divesting the operations in the Northeastern US, which resulted in impairments on goodwill and intangible assets with indefinite useful lives of HK$183.9 million and HK$6.6 million, respectively, during the year ended 31 December 2020.

During the year ended 31 December 2020, an impairment loss of HK$14.6 million was also recognised on the goodwill of Yantai Liheng Environmental Protection Technology Co., Ltd* ("**Yantai Liheng**") based on management's assessment on the prospect of Yantai Liheng, taking into account the fluctuations in the waste oil prices and the competitive business environment.

(iv) During the year ended 31 December 2020, certain property, plant and equipment and right-of-use assets were transferred to assets held for sale. Upon the transfers, such assets have been measured at lower of their net book value and fair value less cost to sell, which resulted in impairment losses of HK$91.3 million.

* *For identification purpose only*

5. EXPENSES BY NATURE

	2020 *HK$M*	2019 *HK$M*
Changes in inventories of work-in-progress and finished goods	**(471.1)**	(141.9)
Raw materials and consumables used	**10,627.3**	12,266.9
Provision/(Reversal of provision) for impairment on inventories, net	**18.5**	(1.9)
Freight cost	**807.7**	877.1
Utilities and waste disposal cost	**388.5**	363.5
Employee benefit expenses	**1,065.6**	1,155.1
Depreciation and amortisation expenses of property, plant and equipment, intangible assets, right-of-use assets and investment properties	**450.8**	422.5
Legal and professional expenses	**66.5**	43.8
Auditors' remuneration		
– Audit services	**21.0**	27.5
– Non-audit services	**4.4**	7.3
Repair and maintenance expenses	**181.3**	210.4
Lease expenses		
– short-term leases	**10.7**	20.1
– low value leases	**4.8**	13.4
Administrative services provided by related parties	**2.8**	1.7
Other expenses	**381.6**	241.6
Total cost of sales, distribution and selling expenses and administrative expenses	**13,560.4**	15,507.1

6. FINANCE COSTS, NET

	2020 *HK$M*	2019 *HK$M*
Interest income from bank deposits	**7.0**	9.5
Interest income from fixed return investment	**2.2**	12.6
Interest income from related parties	**1.8**	1.5
Finance income	**11.0**	23.6
Interest expense on bank loans, overdrafts, bills payable and note payable	**(57.5)**	(79.4)
Interest expense on other borrowings	**(155.6)**	(137.7)
Interest expense on lease liabilities	**(29.7)**	(18.5)
Interest expense on loans from related parties	**(0.7)**	(0.6)
Finance costs	**(243.5)**	(236.2)
Finance costs, net	**(232.5)**	(212.6)

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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% (2019: 25%) on the estimated assessable profit for the year.

Germany and USA income taxes have been provided at the rate of approximately 30% (2019: 30%) and 26% (2019: 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.

	2020	2019
	HK$M	*HK$M*
Current income tax expense:		
Germany	**(35.5)**	(23.8)
PRC EIT	**(1.4)**	(0.3)
Hong Kong profits tax	**(1.5)**	(1.3)
Other jurisdictions	**(1.6)**	(5.0)
	(40.0)	(30.4)
(Under)/Over provision in prior years:		
Germany	**(4.9)**	(1.1)
Hong Kong profits tax	**–**	0.2
USA	**3.2**	2.1
Other jurisdictions	**(9.2)**	0.5
	(10.9)	1.7
Deferred income tax expense	**(3.5)**	(5.6)
Income tax expense	**(54.4)**	(34.3)

8. DIVIDENDS

No dividend was paid or proposed during 2020 and 2019, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the years ended 31 December 2020 and 2019.

9. LOSS PER SHARE

(a) Basic

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

	2020	2019
	HK$M	*HK$M*
Loss		
Loss for the year attributable to shareholders of the Company	**(848.1)**	(128.7)
Number of shares		
Weighted average number of ordinary shares in issue (thousands)	**1,605,153**	1,605,153
Basic loss per share (expressed in HK$)	**(0.53)**	(0.08)

(b) Diluted

The Group has no potentially dilutive shares outstanding during the years ended 31 December 2020 and 2019.

10. TRADE, BILLS AND OTHER RECEIVABLES

	2020	2019
	HK$M	*HK$M*
Trade receivables	**1,336.6**	983.1
Less: loss allowance	**(50.0)**	(39.9)
Trade receivables, net	**1,286.6**	943.2
Bills receivables	**15.4**	14.1
Deposits and prepayments	**165.8**	139.1
Deposits paid for purchase of raw materials	**40.6**	39.3
VAT recoverable	**99.4**	116.4
Other receivables *(Note)*	**105.4**	140.7
	1,713.2	1,392.8
Less: non-current portion		
Other deposits and receivables	**(4.2)**	(17.0)
	1,709.0	1,375.8

Note: As at 31 December 2020, the balance includes a receivable of HK$45.2 million (2019: HK$64.0 million) from the Taizhou Bay Committee, a government authority in the PRC.

At 31 December 2020 and 2019, the aging analysis of the gross trade receivables based on invoice date was as follows:

	2020	2019
	HK$M	*HK$M*
0 – 90 days	**1,230.7**	885.8
91 – 180 days	**41.7**	48.1
Over 180 days	**64.2**	49.2
	1,336.6	983.1

11. TRADE, BILLS AND OTHER PAYABLES

	2020	2019
	HK$M	*HK$M*
Trade payables *(Note)*	**1,377.2**	639.3
Contract liabilities	**18.1**	40.0
Other taxes payable	**49.0**	67.5
Accrued salaries and employee benefits	**125.9**	143.5
Provision for claims and contingencies	**12.1**	17.7
Accrued professional expenses	**20.6**	22.6
Asset retirement obligations	**79.7**	72.8
Other payables and accruals	**109.5**	160.1
	1,792.1	1,163.5
Less: non-current portion		
Asset retirement obligations	**(79.7)**	(72.8)
Other payables	**(22.9)**	(23.8)
	1,689.5	1,066.9

Note: As at 31 December 2020, the balance includes payables of HK$332.6 million related to recourse factoring.

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

	2020	2019
	HK$M	*HK$M*
0 – 90 days	**1,351.7**	601.3
91 – 180 days	**4.9**	12.5
Over 180 days	**20.6**	25.5
	1,377.2	639.3

CHIEF EXECUTIVE OFFICIER'S STATEMENT

The year 2020 was marked by the unprecedented health and safety crisis resulting from the outbreak of the novel coronavirus ("**COVID-19**") pandemic. As the crisis unfolded, our first priority has been, and will continue to be, the safety of our employees, our business partners and the communities in which we operate. As the Chief Executive Officer of the Group, I am proud of the management team's response to swiftly ensure a safe working environment for our employees while keeping our business operations running. The management teams and employees in our more than 250 sites across the globe implemented the necessary measures to reduce costs, preserve cash and ensure liquidity while being faced with lockdowns and industrial shutdown. Safe operations have been ensured via an increased utilisation of various kinds of protective gear combined with social distancing.

Business operations in Asia were hit hardest in the first quarter when a country-wide lockdown was imposed in China and which brought our operations to a standstill from late January onwards. We resumed operations when lockdowns in China were gradually lifted in April 2020. Following the resumption of industrial activity in the second quarter, the Chinese economy was quick to resume growth leading to an overall positive economic development.

Our operations in Europe and North America had a strong start into the year 2020 resulting in first quarter results outperforming those in the same period in 2019. As the pandemic spread across the globe, other countries also adopted various lockdown measures which impacted our operations in Europe and North America. As recycling and waste management are considered essential industries, our operations in Europe and the United States ("**US**" or "**USA**") were allowed to continue operations despite the lockdowns. However, many of our customers and suppliers were affected. During the second quarter of 2020, inflow volume dropped approximately up to 50% during the total lockdowns in Europe and US.

As the lockdowns were lifted, governments adopted various monetary, fiscal, and administrative measures to jumpstart their economies. The stimulus packages rolled out in China, Europe and North America benefit our short-term and long-term business development as they also include significant investments in infrastructure and transportation with an emphasis on sustainability and green development. We already see this translating into greater demand for ferrous and non-ferrous metal scrap leading to a strong business recovery beginning in September 2020. After a very strong fourth quarter 2020, we see that momentum going into 2021.

Most importantly, China resumed the imports of non-ferrous metal scrap beginning 1 November 2020. Import restrictions imposed in 2018 have been detrimental to our Chinese operations for the last two years. The new regulations provide clarity and a framework to resume imports to the world's biggest non-ferrous market – China. The new import standards require recycled aluminium, recycled copper, and recycled brass to meet certain quality requirements which we can ensure in our Southeast Asian operations as well as our extensive yard networks in Europe and US to provide the required recycled metal qualities for the Chinese market.

Operationally, the second half of 2020 performed better than the same period in 2019. As we strive to improve business efficiency, the management team 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. The restructuring efforts helped to free up resources to target growth opportunities. The disposal and restructuring initiatives lead to one-off non-cash impairments amounting to HK$519.2 million. Including the impairments, the Group reported a net loss attributable to shareholders of HK$848.1 million for the year ended 31 December 2020 (2019: net loss attributable to shareholders of HK$128.7 million).

Review of Operations

The Group's tonnage and revenue for the year declined by 9.7% and 13.0%, respectively, compared to 2019. The drop is largely attributed to the decline in activities during the total lockdown period in the second quarter of 2020 and the subsequent periods before rebounding in September 2020.

Gross profit for the year rose 7.8% compared to 2019, with gross profit margin increasing from 5.7% in 2019 to 7.1% in 2020. The improvement in margins is largely attributed to focus on strict margin management.

While operations in Europe were hit hard by the lockdowns in the second quarter of 2020, a strong rebound in the second half of 2020 resulted in profitable European operations in 2020 excluding the one-off non-cash impairments. This strong rebound is attributable in part to the strong recovery in the construction and automotive sector.

In North America, where our operations are primarily based in the US, revenue and tonnage dropped by 23.0% and 16.6%, respectively, and reported a segment loss of HK$62.7 million. Operationally, US was the hardest hit region from the pandemic, if measured in terms of tonnage and revenue decline by percentage. The Group expects the exiting of the loss-making Northeast US region to improve the bottom line of the North America operation in the future.

Our Asian operations, including Greater China, were also affected by the pandemic. Operations in India and Malaysia were closed during the entire second quarter of 2020 before gradually resuming operation in June 2020. In Thailand, lockdown measures and travel restrictions allowed only for a slow start in July 2020 before skilled supervisors and personnel were able to travel from China to Thailand to ramp up operations from February 2021 onwards.

In Greater China, the tough measures at the onset of the pandemic helped mainland China to emerge out of the pandemic lockdown faster than other countries. The pickup in demand from China subsequently lifted the profitability of the Chinese operations. The domestic ferrous scrap business in mainland China continued to grow. As a whole, revenue in Asia has dropped 15.1% despite the tonnage sold increased by 9.7% comparing to 2019. Gross profit for the year was HK$48.9 million, a remarkable turnaround from a gross loss of HK$83.0 million compared to 2019.

Operationally, we adopted various cost-cutting measures to help the Group become leaner and more efficient. During the lockdowns, while the fixed costs were largely unavoidable, we focused on managing variable cost. The initial lockdowns in the second quarter of 2020 caught most people unprepared. It also caused unforeseen issues such as delays at ports which affected normal container shipments. We see that returning to pre-pandemic level as the operators adapt to the new normal.

Towards the end of 2020, with China moving out of the pandemic faster than other countries, it is also exporting more compared to imports. Meanwhile, Europe and US were at different levels of managing the pandemic in their countries. This caused a disruption in supply chains and shipping lines run short on empty containers for China. A spike in freight rates followed. We see the situation easing gradually as supply chains across the globe stabilise over time. We were mostly able to pass this increase in freight cost to customer in China in need of the supplies.

Prospect

The various expansionary monetary policies combined with increased infrastructure investments have an effect on inflation expectations and commodities prices. We foresee commodities likely to move into the upswing cycle. Stricter environmental requirements are also leading to a higher utilisation of metal scrap.

In 2020, the Chinese government has announced its target to reach carbon neutrality by 2060 and reaching a carbon dioxide emissions peak in 2030. This goal translates into the Chinese government's requirement for the steel industry, which accounts for more than half of global steel production and consumption, to implement measures in the coming five years to reach a carbon dioxide emissions peak already in 2025. As one of the requirements, the ratio of recycled ferrous scrap in the production of steel in China has to increase to 30% by 2025 leading to an annual demand increase for recycled ferrous scrap of more than 100 million tons to more than 300 million tons per year.

Similar measures are being required from non-ferrous metal producers in China. Since the production of aluminium based on recycled scrap material requires approximately 95% less energy, producers in China have an increased demand for aluminium scrap. As part of our growth strategy in China, we entered into a joint venture with a unit of China Hongqiao Group Limited ("**Hongqiao**") to jointly develop a recycling industrial park project in Binzhou City, Shandong Province, China. Combined Phase I and II is envisaged to process up to 100,000 ELVs and 500,000 tonnes of aluminium per annum. As part of Phase II, the Group is preparing a feasibility study for the recycling of 50,000 electric vehicle lithium batteries in Binzhou. As design, development and construction are already underway, we expect first pour of liquid aluminium by end of 2021, and ELV processing line going live by mid-2022.

The European Commission's 2020 Circular Economy Action Plan, which outlines policy solutions that would create compelling incentives for aluminium recycling, had and will have positive implications for our extensive business in the region and serves as important milestone for the continent's transition to a climate-neutral and waste-free economy.

Our operations in Malaysia, Thailand and India are gradually ramping up. Through our wide network, we are able to source the material to feed the processing. We leverage on our local partners for domestic ferrous sales, while exporting recycled copper scrap to China with our in-depth understanding of the Chinese market. The focus for these operations in 2021 is to increase productivity and expand production level.

In the regions where we operate, we see effects from the strong industrial rebound on both ferrous and non-ferrous metals. The resumption of import of recycled non-ferrous metals into China beginning late last year is also positive for our business. We see this volume continuing to grow in 2021 as demand remains strong in the Chinese market.

We are cautiously optimistic on the future as the global community is adapting to the new normal. The vaccination roll out is also gathering pace, and this improves the prospects of getting the pandemic under control in the foreseeable future.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The Group sold 4.3 million tonnes of recycled products in 2020, a 9.7% decrease comparing to 4.8 million tonnes sold in 2019. Revenue for the year was HK$13,368.1 million, a decrease of approximately 13.0% as compared to HK$15,363.4 million last year.

The COVID-19 pandemic has caused significant impact to the up- and downstream industries in all the countries where the Group operates, as such, the Group's core recycling business has also been inevitably affected, particularly in the first half of 2020. 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 tonnage volume of recycled metal has improved over the second half of 2020, and also an improvement over the same period in 2019.

	2020		2019	
	HK$M	**As a percentage of total segment revenue**	*HK$M*	As a percentage of total segment revenue
Europe	**10,708.9**	**79.3%**	12,166.8	78.0%
North America	**1,086.1**	**8.0%**	1,410.9	9.1%
Asia	**1,710.5**	**12.7%**	2,015.4	12.9%
Total segment revenue	**13,505.5**	**100.0%**	15,593.1	100%
Inter-segment sales	**(137.4)**		(229.7)	
Revenue	**13,368.1**		15,363.4	

Gross Profit/Margin

Despite of the drop in tonnage sold and revenue in 2020 as compared to 2019, gross profit for year was HK$946.5 million, an increase of 7.8% compared to the previous financial year and the gross profit margin was 7.1% (2019: 5.7%) due to margin management. Interruptions to the supply chains during the lockdowns in the first half of 2020 and depletion of inventories did drive demand, as well as scrap prices, up in the second half of 2020 as businesses recover.

Operating expenses

Total operating expenses were HK$1,138.8 million, an increase of 11.5% over the previous financial year. The increase is in part due to one-time effects. Total operating expenses as a percentage of revenue increased from 6.6% to 8.5%. Various cost cutting measures have been adopted to make our operations leaner, which lead to higher efficiency from 2021 onwards.

	2020		2019	
	HK$M	**As a percentage of revenue**	*HK$M*	As a percentage of revenue
Distribution and selling expenses	**54.0**	**0.4%**	51.5	0.3%
Administrative expenses	**1,084.8**	**8.1%**	970.1	6.3%
Total	**1,138.8**	**8.5%**	1,021.6	6.6%

Loss Attributable to Shareholders and Loss Per Share

Loss attributable to shareholders of the Company for the year ended 31 December 2020 was HK$848.1 million, as compared to a loss of HK$128.7 million in the last financial year.

The increased losses mainly attributable to the one-off non-cash impairment losses of HK$519.2 million recorded for the year ended 31 December 2020. 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 disposing our loss making operations in Northeastern US and Denmark, and restructuring of certain Asia businesses, leading to the one-off non-cash impairment losses.

Basic loss per share for the year ended 31 December 2020 was HK$0.53 as compared to loss per share of HK$0.08 in the previous financial year.

Analysis of Cash Flow from Operations

The Group's cash generated from operations for the year was HK$953.7 million, an increase of 18.7% compared to last year as operating profit decreased. The Group has been carefully managing the working capital in response to the uncertainties in the market conditions due to the pandemic.

Liquidity and Financial Resources

Shareholders' funds as at 31 December 2020 were HK$4,477.6 million, a decline of 9.4% from 31 December 2019, and included foreign exchange gains from the appreciation of foreign currencies, namely Euro and Renminbi, against Hong Kong dollar over the current year. Shareholders' funds per share dropped slightly from HK$3.08 as at 31 December 2019 to HK$2.79 as at 31 December 2020.

The Group's financial resources remain steady. As at 31 December 2020, the Group had cash, various bank balances and pledged bank deposits amounting to HK$1,036.5 million (2019: HK$976.5 million), used mainly for repayment of external borrowings and working capital needs for expansion of business operations.

The current ratio improved from 1.01 as at 31 December 2019 to 1.03 as at 31 December 2020. Certain long-term borrowings were classified as current liabilities as they will be maturing within the next twelve months. Management is in active discussions with lenders and potential lenders to refinance the maturing borrowings.

Total external borrowings as at 31 December 2020 were HK$2,298.4 million (2019: HK$2,795.4 million). Such borrowings were mainly utilised for the purchase of mixed recycle metal and working capital, and denominated in Euro, US Dollar and Renminbi. Approximately HK$1,928.2 million (2019: approximately HK$2,102.8 million) of borrowings are at fixed interest rates.

The gearing ratio of the Group as at 31 December 2020 was 23.3% (2019: 27.4%) which is calculated based on the total borrowings divided by our total assets.

Working Capital Change

Inventories as at 31 December 2020 were HK$1,169.3 million (2019: HK$1,495.9 million). The inventory turnover days for the financial year was 39 days as compared to 45 days for 2019 as business activities increased towards the end of year.

Provision for inventories as at 31 December 2020 were HK$14.0 million, as compared to the provisions of HK$35.9 million as at 31 December 2019.

	2020	2019
All figures are in HK$M unless stated otherwise		
Inventories	**1,169.3**	1,495.9
Average inventories as a percentage of revenue	**10.0%**	11.7%
Turnover days	**39 days**	45 days

Net trade and bills receivables as at 31 December 2020 were HK$1,302.0 million, increased from HK$957.3 million as at 31 December 2019. Debtor turnover days for the financial year increased from 28 days to 31 days compared with the last financial year. Strong volumes and sales were noted towards the end of 2020 as businesses recover strongly as well as favourable commodity prices.

	2020	2019
All figures are in HK$M unless stated otherwise		
Trade and bills receivables, net	**1,302.0**	957.3
Average receivables as a percentage of revenue	**8.5%**	7.6%
Turnover days	**31 days**	28 days

Trade and bills payables as at 31 December 2020 were HK$1,377.2 million (2019: HK$639.3 million). Creditor turnover days for the year ended 31 December 2020 were 30 days (2019: 21 days).

	2020	2019
All figures are in HK$M unless stated otherwise		
Trade and bills payables	**1,377.2**	639.3
Turnover days	**30 days**	21 days

Treasury Policies

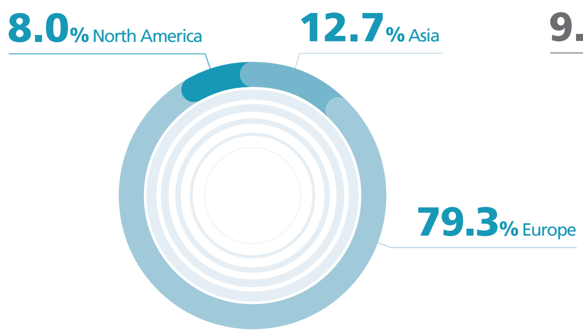
The Group's treasury policies are designed to mitigate the impact of fluctuations in commodity prices and foreign currency exchange rates arising from the Group's global operations. The Group principally uses future contracts to hedge the commodity risks, and forward foreign exchange contracts to hedge 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

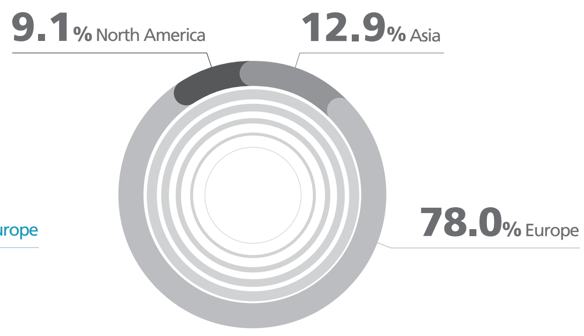
For the year ended 31 December 2020, the Group invested HK$329.8 million (2019: HK$733.2 million) in the purchase of tangible assets including land, buildings, plant, machinery and equipment, leasehold improvements, office equipment for improving production efficiency. These capital expenditures were financed through internal resources and lease arrangements.

BUSINESS REVIEW

Revenue by Regions

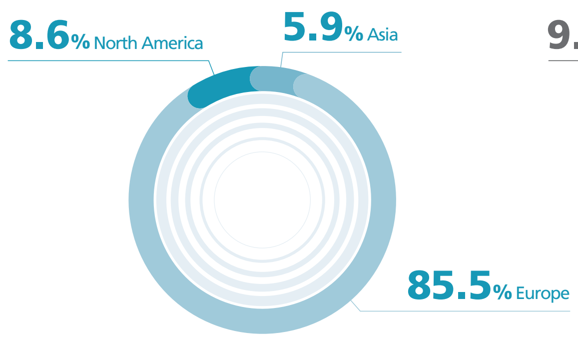


FY2020

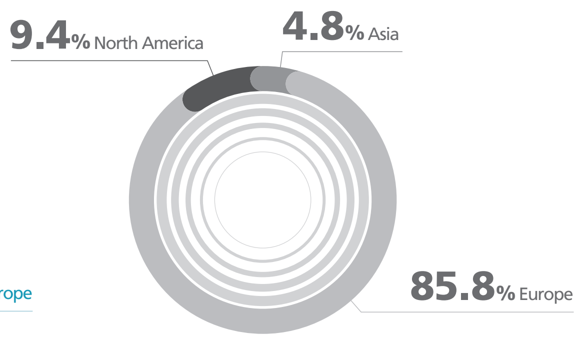


FY2019

Sales Quantity by Regions

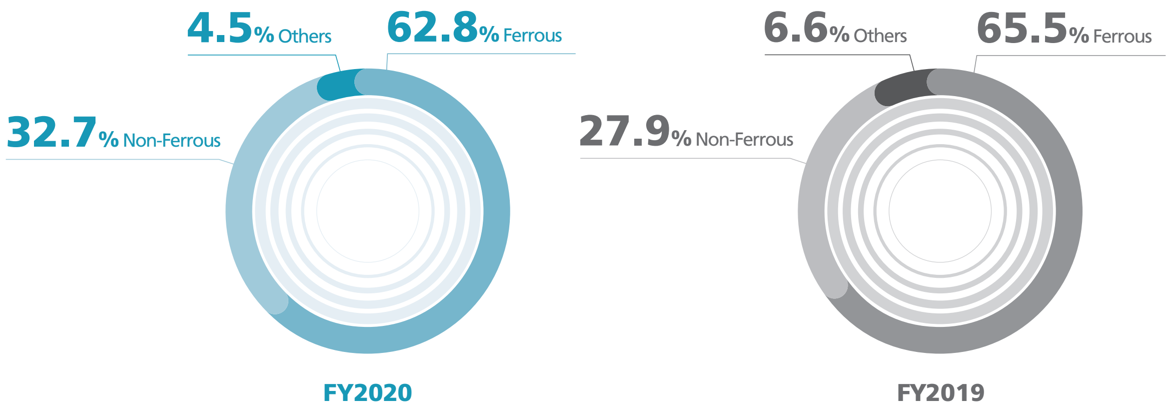


FY2020

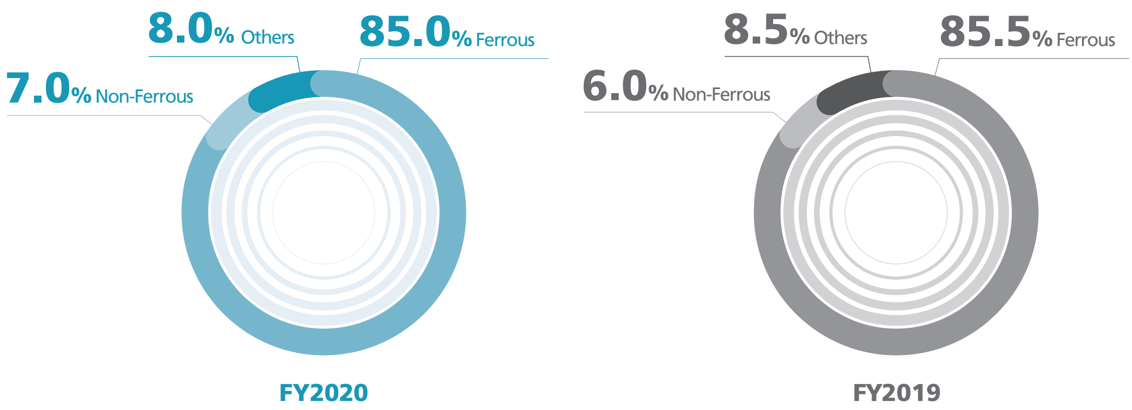


FY2019

Revenue by Products



Sales Quantity by Products



Operational Performance

The Group continued to operate in our long established markets and expanded into new markets in South/Southeast Asia. Through the geographic diversification, we are in a good position to mitigate the risks of depending overly on a single market. We are among the processing and technology leaders in ferrous and non-ferrous metal recycling worldwide, and own many advanced processing technologies in scrap metal shredding and post-shredding processing.

Europe

Our Europe segment provides all steps in recycling mixed metal scraps and is equipped with one-stop shop services for collecting, gathering, sorting, processing and trading.

Our scrap metal services include cleaning, sorting, shearing, shredding, baling, crushing, blending and briquetting. 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).

The Europe segment sold 3.68 million tonnes of recycled products for the year ended 31 December 2020, a drop of 10.0% compared to last year of 4.09 million tonnes. Segment revenue was HK$10,708.9 million, decreased by 12.0% against 2019. Steel producers have been hit by a general freeze in steel consumption, shutdowns and disrupted supply chains during the lockdown periods. Crude steel production in 2020 dropped by around 12% as compared to 2019. With automotive manufacturing and steel mill production capacity recovering from late August 2020 onwards, scrap flows have begun to ease up in the second half of the year, driving our sales rebound in the latter half of the year.

Scrap prices remained at a low level in the first half of 2020 but have been rising in the second half of this year as the production sector restarted. Global infrastructure spending have further driven the scrap price higher. Gross profit for the year reached HK$835.4 million, a decrease of 4.7% compared with last year due to the reduced volume. Gross profit margin for the year has increased from 7.2% in 2019 to 7.8% in the current year due to better margin management, product mix and rising prices towards year end.

Segment profit for the year was HK$218.5 million (2019: HK$379.7 million) as impacted by lower sales volume during the lockdown periods. Intensive cost cutting measures, including temporary work reduction and people optimisation, were implemented also preserving liquidity during the turbulent times. Apart from margin control, several business improvement initiatives have been initiated, including yard network reorganisations and restructuring plans at certain locations.

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.

For the year ended 31 December 2020, the North America segment sold 0.37 million tonnes, as compared to 0.45 million tonnes last year. Segment revenue was HK$1,086.1 million, a decline of 23.0% against last year, as our operations in the US was the region hardest hit from the pandemic. Similar to Europe, the pandemic and the subsequent lockdown measures have continued to impede the scrap flows in North America. Demand recovered as most electric arc furnace production capacity has restarted, partly recovering the loss of sales and volume from the first half of the year.

Segment gross profit for the year was HK$79.0 million (2019: HK$103.2 million) as volume dropped but gross profit margin remained constant at 7.3% as compared to 2019, as the global scrap prices have been increasing towards the end of 2020.

While intensive cost cutting and people optimising measures were also implemented to our North America operation to mitigate the impact brought about by the pandemic, the low sales tonnage has inevitably increased the segment loss from HK$48.4 million in 2019 to HK$62.7 million this year. To focus on growth opportunities and better utilisation of resources, the Group is in the process of divesting the loss-making business in the US Northeast region and expects the profitability of the North America operation will improve in the future.

Asia

Our Asia operation focuses on recycling of mixed metal, in particular e-motor dismantling, waste electrical and electronic equipment and waste oil. Our major production facilities in Asia include China (Hong Kong, Taizhou and Yantai), Malaysia, India, and expanded into Thailand in the current year.

The sales tonnage for the Asia segment increased by approximately 9.7% from 0.23 million tonnes in 2019 to 0.25 million tonnes in the current year. Our Asian businesses were also affected by complete lockdowns firstly in China and then in South/Southeast Asia, but a growing domestic scrap steel business in China has compensated for the lost tonnage during lockdowns. Sales tonnage increased with more ferrous scraps sold in Asia in the current year, but segment revenue for the year was HK$1,710.5 million, a drop of 15.1% from HK$2,015.4 million as compared to 2019, due to changes in the sales mix.

The Asia scrap prices followed the global upward trend as demand boosted from government measures are in place to revive the economy. Segment gross profit and gross profit margin for the year was HK$48.9 million and 2.9%, respectively, a turnaround from a gross loss of HK$83.0 million and gross loss margin of 4.1% in 2019. Hence, Asia's segment loss has narrowed from HK$126.9 million in 2019 to HK$49.6 million in 2020.

As the Chinese market resumes the import of non-ferrous scraps with the lift of the import restrictions imposed by the Chinese government, and the stimulus plans lay down by the Chinese government in promoting investments and infrastructure, the performance of the Asia segment will recover in the near future.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2020, the Group had pledged certain plants and buildings, land use rights, inventories, trade receivables and bank deposits with an aggregate carrying value of approximately HK$4,337.0 million (31 December 2019: HK$3,807.4 million) to secure borrowings.

As at 31 December 2020, 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 consolidated financial statements and amounted to HK$16.5 million (31 December 2019: HK$128.9 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 provided a financial guarantee of HK$9.5 million (31 December 2019: HK$1.2 million) to a related party.

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 nonpayment 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 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, with the parties filing amended pleading and evidence, and preparing for trial.

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. Such indemnity was previously secured by a sum, including the amount of HK$57.8 million in an escrow account set up by HWH, and is now subject to a Mareva injunction granted by the Court on 30 October 2019 until the determination of, inter alia, HCA3040/2015 or further order of the Court. 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, with the parties filing amended pleading and evidence, and preparing for trial.

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 commodity price risk, foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group's risk management strategy is to mitigate the adverse effects of these risks on its financial performance.

Since 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 recently modified in February 2021 and is available 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 US 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 2020, the Group had a workforce of 2,832 employees. In addition, we engaged approximately 270 separation and selection workers through local recognised contractors. We have not experienced any strikes, work stoppages or significant labour 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$1,065.6 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 and performance.

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 2020 of the Company are set out below:

Experience including other directorships

Dr. Loke Yu, an independent non-executive director of the Company, was appointed as a non-executive director of Veson Holdings Limited (formerly known as SCUD Group Limited) (stock code: 1399) with effect from 1 September 2020 and resigned as an independent non-executive director of CIMC-TianDa Holdings Company Limited (stock code: 445) with effect from 1 February 2021.

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 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this announcement, the Company has maintained sufficient public float under the Listing Rules throughout the financial year ended 31 December 2020 and as at the date of this announcement.

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 2020, the Company has complied with all the applicable code provisions of the CG code and Corporate Governance Report, contained in Appendix 14 to the Listing Rules, save and except as explained below:

A.2.1

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 period from 1 January 2020 to 29 February 2020, Mr. Qin Yongming ("**Mr. Qin**") held the offices of chairman of the Board ("**Chairman**") and chief executive officer of the Company ("**CEO**"). The Board believed that vesting the roles of both Chairman and CEO in the same person provided the Company with strong and consistent leadership and allowed 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 Code was appropriate in such circumstance.

Mr. Qin tendered his resignation as the CEO on 1 March 2020 to focus on his other roles in the Group, but remained as the Chairman and an executive director of the Company. Mr. Rafael Heinrich Suchan ("**Mr. Suchan**") was appointed as the CEO of the Company with effect from 1 March 2020. The change of the CEO allows the Company to better comply with the requirement under the code provision A.2.1 of the CG Code.

Mr. Qin resigned as the Chairman and Mr. Chen Chunguo was appointed as the Chairman with effect from 16 December 2020, while Mr. Suchan remains as the CEO.

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 2020.

FINAL DIVIDEND

The Board of Directors did not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises two independent non-executive Directors, namely Dr. Loke Yu (as chairman) 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 audited consolidated results for the year ended 31 December 2020.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures set out in the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements nor Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the external auditor of the Company:

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that, the Group reported a net loss of HK$864.2 million for the year ended 31 December 2020. As at the same date, the Group's total borrowings amounted to HK$2,298.4 million, of which HK$2,120.1 million were current borrowings due within twelve months from 31 December 2020, while its cash and cash equivalents amounted to HK$913.8 million only. Included in current borrowings as at 31 December 2020 was a secured syndicated term loan with an outstanding principal amount of HK$1,511.8 million scheduled to be fully repayable on 31 March 2021. In addition, bank loans of HK$150.8 million have been classified as current liabilities as at 31 December 2020 as they may be immediately payable due to non-compliance of certain restrictive financial undertaking. These events or conditions, along with other matters as set forth in Note 2.1.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

ANNUAL GENERAL MEETING

The Company will announce the date of annual general meeting and the book closure dates for determining the eligibility of the shareholders to attend and vote at the annual general meeting of the Company in due course in accordance with the Listing Rules and applicable laws.

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

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chihogroup.com). The annual report of the Company for the year ended 31 December 2020 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

APPRECIATION

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

By order of the Board
Chiho Environmental Group Limited
Rafael Heinrich Suchan
Chief Executive Officer and Executive Director

Hong Kong, 31 March 2021

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

Executive Directors:	Mr. Tu Jianhua
	Mr. Rafael Heinrich Suchan *(Chief Executive Officer)*
	Mr. Martin Simon *(Chief Financial Officer)*
	Mr. Miao Yu
Independent Non-Executive Directors:	Dr. Loke Yu
	Mr. Ko Frankie Andrew

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