齐合环保
CHIHO

CHIHO ENVIRONMENTAL GROUP LIMITED
齊合環保集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 976)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- The Board is pleased to announce that the Group recorded a very strong year of performance and has made a turnaround in the bottom line for the year as the economy is recovering from the pandemic and the global trend in shifting towards to a sustainable development pathway in favour of our industry.

- The Group sold 4.33 million tonnes of recycled products with a revenue of HK$21,950.4 million, an increase of 0.8% and 64.2%, respectively, compared to 2020. All regions have shown improved performance with the European operations continuing to be the core of our business. The Asian operations thrive from the maturing Southeast Asian operations and the ease of the import regulations on recycled metals into China. The North American operations have also recorded higher sales with a smaller scale of operation.

- Gross profit for the year was HK$1,888.5 million, almost doubled as compared to previous year with a gross profit margin of 8.6% (2020: 7.1%). The improvement in the gross profit margin is a result of margin management in a time of rising scrap prices, focusing on high margin businesses and the continuous portfolio review and clean up.

- Net profit for the year has turned around from a loss of HK$864.2 million in 2020 to a profit of HK$692.0 million for the current year, resulting from the transformation initiatives and optimisation programs implemented last year which are bearing fruit in allowing the Group to become leaner and more efficient.

- The Board does not recommend the payment of a final dividend in 2021 (2020: Nil).

UNAUDITED 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**", "**Chiho**", "**we**" and "**our**") for the year ended 31 December 2021 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") as follows (together with the comparative figures for the year ended 31 December 2020):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	**2021** *HK$M* **(Unaudited)**	2020 *HK$M* (Audited)
Revenue	*3*	**21,950.4**	13,368.1
Cost of sales	*5*	**(20,061.9)**	(12,421.6)
Gross profit		**1,888.5**	946.5
Other income		**88.9**	139.7
Other gains/(losses), net	*4*	**159.3**	(79.7)
Impairments on non-financial assets	*4*	**(29.6)**	(519.2)
(Impairments)/Reversal of impairments on financial assets, net		**(32.9)**	7.4
Distribution and selling expenses	*5*	**(59.9)**	(54.0)
Administrative expenses	*5*	**(1,185.8)**	(1,084.8)
		828.5	(644.1)
Finance income		**9.5**	11.0
Finance costs		**(243.3)**	(243.5)
Finance costs, net	*6*	**(233.8)**	(232.5)
Share of post-tax profit/(loss) of an associate		**0.8**	(0.1)
Share of post-tax profit of joint ventures		**288.2**	66.9
Profit/(Loss) before income tax		**883.7**	(809.8)
Income tax expense	*7*	**(191.7)**	(54.4)
Profit/(Loss) for the year		**692.0**	(864.2)
Profit/(Loss) attributable to:			
Shareholders of the Company		**702.0**	(848.1)
Non-controlling interests		**(10.0)**	(16.1)
		692.0	(864.2)
Profit/(Loss) per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
Basic profit/(loss) per share	*9*	**0.44**	(0.53)
Diluted profit/(loss) per share	*9*	**0.44**	(0.53)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Profit/(Loss) for the year	**692.0**	(864.2)
Other comprehensive (loss)/income		
Item that may be reclassified to profit or loss:		
Currency translation differences on foreign operations	**(313.3)**	389.5
Items that will not be reclassified to profit or loss:		
Change in fair value of equity investments at fair value through other comprehensive income	**4.3**	(1.1)
Remeasurements of post-employment benefit obligations	**8.0**	(1.2)
Share of other comprehensive gain/(loss) of joint ventures	**1.4**	(1.3)
Income tax relating to these items	**(3.7)**	0.6
Other comprehensive (loss)/income for the year, net of tax	**(303.3)**	386.5
Total comprehensive profit/(loss) for the year	**388.7**	(477.7)
Total comprehensive profit/(loss) for the year attributable to:		
Shareholders of the Company	**396.3**	(463.7)
Non-controlling interests	**(7.6)**	(14.0)
	388.7	(477.7)

CONSOLIDATED BALANCE SHEET

At 31 December 2021

	Notes	2021 HK$M (Unaudited)	2020 HK$M (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**2,256.6**	2,623.9
Right-of-use assets		**701.5**	844.5
Investment properties		**56.3**	20.7
Intangible assets		**848.9**	957.2
Investments accounted for using the equity method		**907.8**	696.4
Financial assets at fair value through profit or loss		**0.8**	0.9
Financial assets at fair value through other comprehensive income		**91.3**	104.6
Other non-current assets	*10*	**14.8**	4.2
Deferred income tax assets		**78.9**	110.4
		4,956.9	5,362.8
Current assets			
Inventories		**1,567.8**	1,169.3
Trade, bills and other receivables	*10*	**2,226.9**	1,709.0
Amounts due from related parties		**66.8**	129.3
Derivative financial instruments		**31.1**	14.3
Tax recoverable		**17.3**	23.0
Pledged bank deposits and restricted bank deposits		**142.4**	122.7
Cash and cash equivalents		**782.3**	913.8
		4,834.6	4,081.4
Assets held for sale		**167.0**	428.7
		5,001.6	4,510.1
Total assets		**9,958.5**	9,872.9

	Notes	**2021**	2020
		HK$M	*HK$M*
		(Unaudited)	(Audited)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.1
Other reserves		**6,704.1**	7,009.8
Accumulated losses		**(1,846.3)**	(2,548.3)
		4,873.9	4,477.6
Non-controlling interests		**(14.4)**	(13.4)
Total equity		**4,859.5**	4,464.2
Non-current liabilities			
Borrowings		**50.8**	178.3
Lease liabilities		**190.1**	342.3
Retirement benefit obligations		**18.9**	29.7
Other payables	*11*	**106.8**	102.6
Deferred income tax liabilities		**305.8**	363.8
		672.4	1,016.7
Current liabilities			
Trade, bills and other payables	*11*	**2,240.1**	1,689.5
Current income tax liabilities		**254.0**	93.7
Borrowings		**1,611.1**	2,120.1
Lease liabilities		**177.1**	202.2
Amounts due to related parties		**104.9**	63.4
Derivative financial instruments		**39.4**	59.7
		4,426.6	4,228.6
Liabilities directly associated with assets held for sale		**–**	163.4
		4,426.6	4,392.0
Total liabilities		**5,099.0**	5,408.7
Total equity and liabilities		**9,958.5**	9,872.9

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION:

1 GENERAL INFORMATION

The Company is an investment holding company. 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 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**" or "**China**"), 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 profit of HK$692.0 million for the year ended 31 December 2021. As at 31 December 2021, the Group had net current assets of HK$575.0 million. As at the same date, it had borrowings of HK$1,661.9 million, of which HK$1,611.1 million are current borrowings due within twelve months from 31 December 2021, while its cash and cash equivalents amounted to HK$782.3 million only.

The Group has maintained continuous communication with banks and lenders of the Group and believes that the existing borrowing 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/lenders and the fact that majority of these facilities are secured by the Group's properties and other assets. Meanwhile, the Group is also actively looking for other sources of financing to lower the overall financing expenses and enhance the capital structure.

Also, 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 strengthen its working capital and mitigate the potential negative impacts of COVID-19 pandemic.

The Directors have assessed the Group's cash flow projection covering a period of not less than twelve months from 31 December 2021. 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.

2.1.2 Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

The following amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2021:

HKFRS 16 (Amendments)	Covid-19 Related Rent Concessions
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2

The amended standards 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) New and amended standards, interpretation and annual improvements to be effective

The following new and amended standards, interpretation and annual improvements are not effective for financial year beginning on 1 January 2021, and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKFRS 16 (Amendments)	Leases	1 April 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: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 (Amendments) and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
HKAS 12(Amendments)	Deferred tax related to assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 17	Insurance Contracts	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	Applied when an entity applies "Classification of Liabilities as Current or Non-current – Amendments to HKAS 1"
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, interpretation 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: Asia, Europe and North America. 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, fair value gain/loss on trading derivative financial instruments, and gain/loss on disposals of assets held for sale, joint ventures, property, plant and equipment, right-of-use assets and intangible assets. 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, 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 2021 and 2020, respectively:

	For the year ended									
	31 December 2021 (unaudited)					31 December 2020 (audited)				
	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	**2,130.8**	**19,150.0**	**1,012.4**	**–**	**22,293.2**	1,710.5	10,708.9	1,086.1	–	13,505.5
Inter-segment sales	**(1.9)**	**(327.5)**	**(13.4)**	**–**	**(342.8)**	–	(129.0)	(8.4)	–	(137.4)
External sales	**2,128.9**	**18,822.5**	**999.0**	**–**	**21,950.4**	1,710.5	10,579.9	1,077.7	–	13,368.1
Segment profit/(loss)	**18.9**	**994.0**	**182.3**	**(77.7)**	**1,117.5**	(49.6)	218.5	(62.7)	(683.5)	(577.3)
Finance income					**9.5**					11.0
Finance costs					**(243.3)**					(243.5)
Profit/(Loss) before income tax					**883.7**					(809.8)
Income tax expense					**(191.7)**					(54.4)
Profit/(Loss) for the year					**692.0**					(864.2)
Depreciation and amortisation expenses	**(72.1)**	**(307.6)**	**(8.9)**	**(18.1)**	**(406.7)**	(81.2)	(307.3)	(42.8)	(19.5)	(450.8)
Fair value gain/(loss) on trading derivative financial instruments *(Note)*	**–**	**–**	**–**	**3.2**	**3.2**	–	–	–	(68.1)	(68.1)
Fair value loss on financial assets at fair value through profit or loss	**(0.5)**	**–**	**–**	**–**	**(0.5)**	(2.3)	(0.2)	–	–	(2.5)
(Loss)/Gain on disposals of property, plant and equipment, right-of-use assets and intangible assets	**–**	**–**	**–**	**(32.9)**	**(32.9)**	–	–	–	23.4	23.4
Gain/(Loss) on disposals and deregistration of subsidiaries or joint ventures	**–**	**–**	**–**	**11.0**	**11.0**	–	–	–	(4.5)	(4.5)
Gain on disposals of assets held for sale	**–**	**–**	**–**	**113.1**	**113.1**	–	–	–	–	–
Provision for impairments on property, plant and equipment and right-of-use assets	**–**	**–**	**–**	**(1.3)**	**(1.3)**	–	–	–	(222.8)	(222.8)
Provision for impairment on investments in joint ventures	**–**	**–**	**–**	**(7.3)**	**(7.3)**	–	–	–	–	–
Impairments on intangible assets	**–**	**–**	**–**	**(21.0)**	**(21.0)**	–	–	–	(205.1)	(205.1)
Impairments on assets held for sale	**–**	**–**	**–**	**–**	**–**	–	–	–	(91.3)	(91.3)

Note: The fair value gain/(loss) on derivative financial instruments for the year ended 31 December 2021 represented the fair value loss related to those trading derivative financial instruments that were not subject to hedge accounting.

Segment assets

Reconciliation of segment assets to total assets as at 31 December 2021 and 31 December 2020 are provided as follows:

	As at							
	31 December 2021 (unaudited)				31 December 2020 (audited)			
	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	**1,739.0**	**7,069.9**	**240.0**	**9,048.9**	1,541.4	6,772.4	497.6	8,811.4
Deferred income tax assets				**78.9**				110.4
Tax recoverable				**17.3**				23.0
Derivative financial instruments				**31.1**				14.3
Cash and cash equivalents				**782.3**				913.8
Total assets				**9,958.5**				9,872.9

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 2021	As at 31 December 2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Asia	**716.8**	661.8
Europe	**3,865.4**	4,209.8
North America	**194.7**	271.9
Total	**4,776.9**	5,143.5

Analysis of revenue by category

	For the year ended	
	31 December	31 December
	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Metal recycling		
– Ferrous metal	**14,136.9**	8,397.9
– Non-ferrous metal	**7,142.8**	4,362.6
Forging and foundry	**67.6**	99.0
Others	**603.1**	508.6
Total	**21,950.4**	13,368.1

Information about major customers

No single customer contributed 10% or more to the Group's revenue during the years ended 31 December 2021 and 2020.

4. OTHER GAINS/(LOSSES), NET

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Gain/(Loss) on fair value change of:		
– trading derivative financial instruments not subject to hedge accounting	**3.2**	(68.1)
– financial assets at fair value through profit or loss	**(0.5)**	(2.5)
Foreign exchange gains/(losses), net	**29.2**	(28.3)
(Loss)/Gain on disposals of property, plant and equipment, right-of-use assets and intangible assets	**(32.9)**	23.4
Gain/(Loss) on disposals and deregistration of subsidiaries or joint ventures	**11.0**	(4.5)
Gain on disposals of assets held for sale	**113.1**	–
Impairments on non-financial assets:		
– provision for impairments on property, plant and equipment *(Note (i))*	**(1.3)**	(150.0)
– provision for impairments on right-of-use assets	**–**	(72.8)
– provision for impairment on investments in joint ventures	**(7.3)**	–
– impairments on intangible assets *(Note (ii))*	**(21.0)**	(205.1)
– impairments on assets held for sale	**–**	(91.3)
Paycheck Protection Program loan forgiveness	**40.2**	–
Others	**(4.0)**	0.3
	129.7	(598.9)

Notes:

(i) For the year ended 31 December 2021, the Group recognised a provision for impairments on property, plant and equipment of HK$1.3 million (2020: HK$150.0 million) which was related to certain idle assets in Europe (2020: Asia, Europe and the United States).

(ii) The Group divested the processing operations in the United States to strategically focus on the brokerage business, resulting in an impairment on brand name which was related to the North America operations and classified as intangible assets with indefinite useful lives of HK$21.0 million for the year ended 31 December 2021.

5. EXPENSES BY NATURE

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Changes in inventories of work-in-progress and finished goods	**(79.4)**	(471.1)
Raw materials and consumables used	**17,639.0**	10,627.3
Provision for impairments on inventories, net	**31.3**	18.5
Freight cost	**883.5**	807.7
Utilities and waste disposal cost	**438.7**	388.5
Employee benefit expenses	**1,111.0**	1,065.6
Depreciation and amortisation expenses of property, plant and equipment, intangible assets, right-of-use assets and investment properties	**406.7**	450.8
Legal and professional expenses	**175.0**	66.5
Auditors' remuneration		
– audit services	**19.2**	21.0
– non-audit services	**8.0**	4.4
Repair and maintenance expenses	**222.7**	181.3
Lease expenses		
– short-term leases	**7.6**	10.7
– low-value leases	**5.9**	4.8
Administrative services provided by related parties	**4.0**	2.8
Other expenses	**434.4**	381.6
Total cost of sales, distribution and selling expenses and administrative expenses	**21,307.6**	13,560.4

6. FINANCE COSTS, NET

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Interest income from bank deposits	**7.9**	7.0
Interest income from fixed return investment	**–**	2.2
Interest income from related parties	**1.6**	1.8
Finance income	**9.5**	11.0
Interest expense on bank loans, overdrafts and bills payables	**(65.0)**	(57.5)
Interest expense on other borrowings	**(159.0)**	(155.6)
Interest expense on lease liabilities	**(18.6)**	(29.7)
Interest expense on loans from related parties	**(0.7)**	(0.7)
Finance costs	**(243.3)**	(243.5)
Finance costs, net	**(233.8)**	(232.5)

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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% (2020: 25%) on the estimated assessable profit for the year.

Germany and the United States ("**US**") income taxes have been provided at the rate of approximately 30% (2020: 30%) and 26% (2020: 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.

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Current income tax (expense)/credit:		
Germany	**(175.7)**	(35.5)
US	**0.1**	–
PRC EIT	**(4.4)**	(1.4)
Hong Kong profits tax	**(5.6)**	(1.5)
Other jurisdictions	**(26.7)**	(1.6)
	(212.3)	(40.0)
Over/(Under) provision in prior years:		
Germany	**0.4**	(4.9)
US	**–**	3.2
Other jurisdictions	**0.8**	(9.2)
	1.2	(10.9)
Deferred income tax credit/(expense)	**19.4**	(3.5)
Income tax expense	**(191.7)**	(54.4)

8. DIVIDENDS

No dividend was paid or proposed during 2021 and 2020, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the years ended 31 December 2021 and 2020.

9. PROFIT/(LOSS) PER SHARE

(a) Basic

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

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Profit/(Loss)		
Profit/(Loss) for the year attributable to shareholders of the Company	**702.0**	(848.1)
Number of shares		
Weighted average number of ordinary shares in issue (thousands)	**1,605,152**	1,605,152
Basic profit/(loss) per share (expressed in HK$)	**0.44**	(0.53)

(b) Diluted

The Group has no potentially dilutive shares outstanding during the years ended 31 December 2021 and 2020.

10. TRADE, BILLS AND OTHER RECEIVABLES

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Trade receivables	**1,827.1**	1,336.6
Less: loss allowance	**(55.4)**	(50.0)
Trade receivables, net	**1,771.7**	1,286.6
Bills receivables	**3.2**	15.4
Deposits and prepayments	**191.2**	165.8
Deposits paid for purchase of raw materials	**49.4**	40.6
VAT recoverable	**128.2**	99.4
Other receivables *(Note)*	**98.0**	105.4
	2,241.7	1,713.2
Less: non-current portion		
Other deposits and receivables	**(14.8)**	(4.2)
	2,226.9	1,709.0

Note: As at 31 December 2021, the balance includes a receivable of HK$46.7 million (2020: HK$45.2 million) from the Taizhou Bay Committee, a government authority in the PRC.

As at 31 December 2021 and 2020, the aging analysis of the gross trade receivables based on invoice date was as follows:

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
0 – 90 days	**1,729.3**	1,230.7
91 – 180 days	**28.0**	41.7
Over 180 days	**69.8**	64.2
	1,827.1	1,336.6

11. TRADE, BILLS AND OTHER PAYABLES

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
Trade payables	**1,801.3**	1,377.2
Contract liabilities	**40.0**	18.1
Other taxes payable	**53.8**	49.0
Accrued salaries and employee benefits	**164.6**	125.9
Provision for claims and contingencies	**3.4**	12.1
Accrued professional expenses	**31.2**	20.6
Asset retirement obligations	**69.5**	79.7
Other payables and accruals *(Note)*	**183.1**	109.5
	2,346.9	1,792.1
Less: non-current portion		
Asset retirement obligations	**(69.5)**	(79.7)
Other payables	**(37.3)**	(22.9)
	2,240.1	1,689.5

Note: As at 31 December 2021, the balance includes a receipt in advance of HK$44.3 million for disposals of certain assets held for sales in the PRC.

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

	2021	2020
	HK$M	*HK$M*
	(Unaudited)	(Audited)
0 – 90 days	**1,747.6**	1,351.7
91 – 180 days	**11.9**	4.9
Over 180 days	**41.8**	20.6
	1,801.3	1,377.2

CHAIRMAN'S STATEMENT

Amid the continuation of the Coronavirus pandemic and its variants, businesses and society pushed ahead with a recovery as vaccines became available in most countries across the globe. During the year in review, the Group demonstrated continuous resilience and achieved significant growth in business. We are pleased to announce that Chiho recorded a very strong performance and has made both a top-line and bottom-line turnaround in the fiscal year of 2021.

The rebound of global industrial activities led to a strong growth in demand for ferrous and non-ferrous metals, which resulted in direct benefits for Chiho. Our staff returned safely to work as most countries implemented vaccination programs to contain the pandemic, and alongside herd immunity, people are learning to live with the pandemic and are creating a "new normal".

Our operations in Europe, North America and Asia all resumed to close-to-normal levels in 2021. While our business activities started to once again make a profit, as the world entered a "new normal", the Group made some structural changes to the business model and operations to enhance our overall efficiency and profitability. Certain loss-making units, including our Northeastern US businesses, were divested as part of a business transformation process. At the same time, a new business strategy was rolled out to strengthen our existing business and capture new growth opportunities arising from global efforts to achieve carbon neutrality.

During the year, we heavily invested in our business operations in China, one of our key growth markets in the coming years. The Chinese government stated in its 14th Five-Year Plan that a circular economy would be a priority for the country's future development. The favourable policies and active discussions on achieving carbon neutrality have offered immediate growth opportunities for us. As a leading player in the recycling business, we made a head start by collaborating with China's largest aluminum producer, China Hongqiao Ltd. ("**Hongqiao**"), to establish a new industrial recycling facility in Binzhou, China, as well as investing in a ELV and electric vehicle ("**EV**") battery recycling facility in Taizhou, China. Both facilities are expected to bring tremendous, long-term revenue growth to the Group.

Review of Operations

The Group's total tonnage and revenue in the fiscal year of 2021 was 4.33 million tonnes and HK$21,950.4 million respectively, an increase of 0.8% and 64.2% compared to 2020. Gross profit for the year rose 99.5% compared to 2020, with the gross profit margin increasing from 7.1% in 2020 to 8.6% in 2021.

The European operations continue to remain as our core business and have performed consistently well. Building on our century-old roots in the region, the Group not only has maintained good relationships with our established local customer base, but also continued to have strong ties with certain global automobile brands to maintain stable source of scraps. Our European operations have been enhancing their technical know-how and have taken further action to protect its technology by conducting patent applications; as well as deploying additional resources to upgrade the core equipment, expand our fleet size and modernise our yard facilities. All these measures enable the Group to establish a unique proposition and strengthen its leading position among its industry peers in Europe. Currently, the European operations alone continue to account for more than 80% of our group revenue. The tonnage and revenue for the region generated in 2021 was 3.93 million tonnes and HK$19,150.0 million respectively, an increase of 6.7% and 78.8% compared to 2020.

In North America, we restructured the operations by selling our loss-making facilities and diverted resources to support our North American brokage and Mexican yard businesses. As such, the tonnage and revenue generated in North America saw a temporary drop of 43.4% and 6.8% year-on-year. However, the gross profit and gross profit margin significantly improved to HK$191.4 million and 18.9%, an increase of 142.3% and 11.6% compared to 2020. Furthermore, the North American segment made a turnaround in net profit in 2021.

Our Asian operations maintained stable growth in 2021. We have been ramping up the operations in Southeast Asia with a focus on the profitable e-motor recycling business. While the lift of the import restrictions imposed by the Chinese government has benefited our Asian operations, the significant volatility in the steel prices in the second half of the year and the power rationing in industrial centers in China have impacted the demand of scrap ferrous. As such, the tonnage of the Asian operations slightly decreased by 0.05 million tonnes to 0.20 million tonnes in 2021 compared to 2020. However, the increase in the sales proportion of the non-ferrous metals has driven the growth in the revenue for the region, leading to an increase of 24.6% in revenue compared to 2020. The gross profit and gross profit margin also improved to HK$94.0 million and 4.4%, an increase of 92.2% and 1.6% compared to 2020.

Automobile ownership has been growing steadily in China over recent years and increasingly more vehicles need efficient recycling to help enhance the country's circular economy models. The current percentage of cars being recycled remains far lower than many developed countries, hence the demand for recycling of ELV and EV batteries in China is on the rise. In addition, it is estimated that in 2025, roughly 20% of new cars will be EVs in China. With all of these vehicles containing lithium-ion batteries that require suitable recycling, there is no doubt that there will be huge short-term and long-term growth potentials for Chiho and the broader recycling industry.

To maximise the tremendous opportunities in China, the Group established a joint venture with Hongqiao, to build a flagship recycling park in Binzhou, China in late 2020. The facility had a processing capacity of up to 100,000 tonnes of ELV and mixed metals, as well as 500,000 tonnes of secondary aluminum production per annum. The project has been extended to include the construction of a recycling facility for EV lithium-ion batteries in 2021. The trial run of the secondary aluminum production will be commenced shortly.

In addition, the Group has announced its plan to invest in a new ELV and EV battery recycling facility in Taizhou, China, in November 2021. The projected 100-acre recycling facility is designed to process up to 50,000 ELV and 10,000 tonnes of EV batteries per year. This project will combine the competitive, advanced technology from Scholz and our extensive network in the local region to transform our existing production base in Taizhou, China, into a leading recycling center for ELV and EV batteries. The first phase of ELV and mixed metals recycling is expected to go live in the second half of 2022.

Prospect

As Scholz celebrates its 150th anniversary in 2022, Chiho is proud to witness this remarkable milestone of one of the most promising trading, processing and recycling enterprise in Europe. Chiho will continue to support and empower all of its subsidiaries to work as one group towards a common goal – to achieve carbon neutrality and build a sustainable future.

Moving forward, Chiho is optimistic about the prospect of our recycling business and confident that we can capture the tremendous opportunities brought about by the post-COVID economic reset and a global shift towards recycling and sustainability. At the same time, fueled by a transformation that is currently underway, Chiho is positioning itself for new growth. With our vision to continue providing global, first-class circular economy solutions to our customers over the long-term, and to further our commitment to the responsible management of the environment and sustainability efforts, the Group will continue with a three-pillar strategy, focusing on strengthening our core competencies and businesses, concentrating on high margin businesses and tapping into fast growing markets.

Our core business in Europe, where we have always had a strong presence, will continue to grow and strengthen at a healthy and steady pace. Our European operations will remain as our research and development hub with its expertise in recycling technology to support our operations across the globe. Elsewhere, we expect our operations in North America to become leaner and focus on achieving higher overall efficiency.

Chiho is ready to expand our suite of offerings and venture into higher margin businesses that include the recycling of EV batteries and plastic. The Chinese market, in particular, presents huge potentials as the country possesses 44% of the world's EVs. New policies have been implemented in this area, including the Measures for the Management of End-of-Life Vehicle Recycling*《報廢機動車回收管理辦法》in 2020. Together with stricter carbon emission policies, growing demand for EVs and the current absence of a structured recycling system for retired batteries in China presents many opportunities for our business. We expect that both our Binzhou and Taizhou facilities will help us expand in this space and maximise our growth opportunities by providing a combined capacity to recycle approximately 60,000 EV batteries per annum. In Europe, as the demand for the safe and efficient recycling of lithium-ion batteries continues to grow, we will further strengthen our technology and capacity to fulfill the market need.

Our operations in Southeast Asia will continue to expand and support our Chinese business. As countries open up their ports and borders again, logistics are expected to improve and global trade volumes are expected to rise. Local partners will remain part of our wider network in sourcing and trading ferrous metals, while local facilities will ensure a stable export supply of non-ferrous recycled materials to China.

Aligning with the management changes within Chiho, the Board and I firmly believe that with the new management team on board, we will be in a stronger position to make significant progress and develop even further. I have full confidence that our global recycling business will continue to perform exceptionally in this carbon neutral era. I would like to take this chance to extend my heart-felt gratitude to the members of the Board and all of our staff worldwide for their loyalty, dedication, continuous efforts and valuable contributions, and also to our customers and partners for their unwavering support and trust. I hope you all stay safe and healthy.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group sold 4.33 million tonnes of recycled products in 2021. While the tonnage sold showed a marginal increase of a 0.8% comparing to 4.30 million tonnes sold in 2020, revenue for the year has increased 64.2% from HK$13,368.1 million in 2020 to HK$21,950.4 million in 2021.

While the COVID-19 pandemic continues, the negative impact brought about by the pandemic on economic activities has eased substantially in 2021. The Group's business operations have returned to grounds comparable to pre-pandemic with minor occasional disruptions in certain regions. Demand for scrap products were strong as the global economies are recovering, and led to sharp increase in commodity prices in the first half of 2021, and remained volatile for the rest of the year. Furthermore, the Group's trading volume started to benefit from the ease of restrictions over import of recycled metals into China with reinstituted new standards for imports of both ferrous and non-ferrous scrap metals.

The European segment continues to be the key contributor in terms of revenue. The contribution from the Asian and North American segments have dropped relatively as businesses and assets in these regions were under the divestment process, reflecting the continuous restructuring of the Group's businesses for more efficient use of our resources.

Gross Profit/Margin

Gross profit for the year was HK$1,888.5 million, an increase of 99.5% compared to the previous financial year with a gross profit margin of 8.6% (2020: 7.1%). The improvement in the gross profit margin is a result of margin management in a time of rising scrap prices, focusing on high margin businesses and the continuing portfolio review and clean up. However, the increasing freight cost has eroded the margin as there was a lack of cargo vessels and containers and higher energy costs resulted from the global logistic bottleneck.

Operating expenses

Total operating expenses for the year were HK$1,245.7 million, an increase of 9.4% over the previous financial year, but as a percentage of revenue, it has decreased to 5.7% (2020: 8.5%). The transformation initiatives and optimisation programs implemented last year are bearing fruit in allowing the Group become leaner and more efficient. Current year's administrative expenses were influenced by costs related to refinancing activities.

Profit/(Loss) Attributable to Shareholders and Earnings/(Loss) Per Share

Profit attributable to shareholders of the Company for the year ended 31 December 2021 was HK$702.0 million, as compared to a loss of HK$848.1 million in the last financial year.

Basic earnings per share for the year ended 31 December 2021 was HK$0.44 as compared to loss per share of HK$0.53 in the previous financial year.

Analysis of Cash Flow from Operations

The Group's cash generated from operations before changes in working capital for the year was HK$1,195.2 million, more than three-fold increase as compared to last year as operating profit increased. 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 2021 were HK$4,873.9 million, an increase of 8.9% from 31 December 2020. Shareholders' funds per share increased from HK$2.79 as at 31 December 2020 to HK$3.04 as at 31 December 2021.

The Group's financial resources remain steady. As at 31 December 2021, the Group had cash, various bank balances, pledged and restricted bank deposits amounting to HK$924.7 million (2020: HK$1,036.5 million), used mainly for repayment of external borrowings and working capital needs for expansion of business operations.

The current ratio improved from 1.03 as at 31 December 2020 to 1.13 as at 31 December 2021. 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 2021 were HK$1,661.9 million (2020: HK$2,298.4 million). Such borrowings were mainly utilised for the purchase of mixed recycle metal and working capital, and mainly denominated in Euro, US Dollar and Renminbi. Approximately HK$1,354.7 million (2020: approximately HK$1,928.2 million) of borrowings are at fixed interest rates.

The gearing ratio of the Group as at 31 December 2021 was 16.7% (2020: 23.3%) which is calculated based on the total borrowings divided by our total assets.

Working Capital Change

Overall, our net operating cycle has improved significantly in the current year, showing our commitment to improve operating efficiencies.

Inventories as at 31 December 2021 were HK$1,567.8 million (2020: HK$1,169.3 million) due to the change in the scrap price and higher business volume. The inventory turnover days for the financial year was 25 days (2020: 39 days) as business activities resumed to close-to-normal level during the year.

Provision for inventories as at 31 December 2021 were HK$43.0 million (2020: HK$14.0 million).

Net trade and bills receivables as at 31 December 2021 were HK$1,774.9 million, increased from HK$1,302.0 million as at 31 December 2020. Debtor turnover days for the financial year lowered from 31 days in last financial year to 26 days in this financial year.

Trade and bills payables as at 31 December 2021 were HK$1,801.3 million (2020: HK$1,377.2 million). Creditor turnover days for the year ended 31 December 2021 were 29 days (2020: 30 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 2021, the Group invested HK$260.5 million (2020: HK$329.8 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

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

The European segment sold 3.93 million tonnes of recycled products for the year ended 31 December 2021, an increase of 6.7% compared to the last year of 3.68 million tonnes. Segment revenue was HK$19,150.0 million, increased by 78.8% against 2020. Demand for metals were strong as industrial activities resumed from the COVID-19 impact, and both automotive industry and steel production in Europe have experienced very strong recovery despite shortage in chips. Such strong demand drove the scrap prices higher. With the ease on the restrictions over the import of recycled ferrous and non-ferrous metals in China, the European segment also benefited with higher volume sold.

Through the economic recovery and the improved margin management, European segment's gross profit for the year reached HK$1,622.8 million, close to two-fold increase at 94.3% as compared to last year, and gross profit margin for the year also increased from 7.8% in 2020 to 8.5% in the current year. Amid the improvement in gross profit margin, the European segment experienced significant increase in logistic and transportation costs from high competition for cargo resources globally.

Segment profit for the year was HK$994.0 million (2020: HK$218.5 million), more than 4.5-fold increase as compared to last year. Apart from the improved business environment, various operational efficiency incentives implemented last year materialised and further increased European segment's profitability.

North America

The North American segment has undergone a business transformation process beginning from last year to sell non-performing assets to better allocate resources to more profitable businesses. The disposal of the US yard businesses has been completed during the year, and will focus on brokerage businesses going forward. The North American segment, therefore, reported 0.21 million tonnes of recycled products sold for the year (2020: 0.37 million tonnes), and a segment revenue of HK$1,012.4 million (2020: HK$1,086.1 million).

Segment gross profit for the year was HK$191.4 million (2020: HK$79.0 million) and gross profit margin was at 18.9% (2020: 7.3%), as there was a strong recovery in the steel production sector after a sharp decline in 2020, driving up the demand and price for scrap steel. As such, the North American segment has turned from a loss of HK$62.7 million in 2020 to a profit of HK$182.3 million in the current year.

Asia

The Asian segment sold 0.20 million tonnes of recycled products in the current year, a drop of 19.5% against 2020 of 0.25 million tonnes sold. While there was higher contribution from the maturing e-motor recycling business in the Southeast Asia, as well as benefited from the restrictions eased on the import of cleaned recycled products into China, the China scrap market experienced some challenges. China steel prices experienced significant volatility in the second half of the year, along with power rationing in industrial centers, impacting the demand of scrap ferrous. But the change in sales mix with more focus on non-ferrous sales have drove the segment revenue to increase 24.6% from HK$1,710.5 million in 2020 to HK$2,130.8 million.

With higher contribution from the Southeast Asian operations, and a focus on high margin non-ferrous sales, segment gross profit for the year was HK$94.0 million, an increase of 92.2% as compared to 2020. Gross profit margin also increased from 2.9% in 2020 to 4.4% in 2021. As such, segment profit has turned from a loss of HK$49.6 million in last year to a profit of HK$18.9 million in the current year.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2021, the Group had pledged certain property, plant, equipment, right-of-use assets, investment properties, inventories, trade receivables and bank deposits with an aggregate carrying value of approximately HK$4,330.7 million (31 December 2020: HK$4,337.0 million) to secure borrowings and general banking facilities granted to the Group.

As at 31 December 2021, the Group had capital commitments in respect of acquisition of property, plant, equipment and additions in construction in progress which are contracted for but not provided for in the amount of HK$103.0 million (31 December 2020: HK$16.5 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 financial guarantees to certain related party and joint ventures of HK$19.5 million and HK$53.7 million (31 December 2020: HK$14.9 million and HK$38.0 million), respectively. As the risk of default is very remote and there is no history of default, no financial guarantee liability was recognised.

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 (the "**Court**") (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 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 parties subsequently filed amended pleadings. On Delco's application, the Court granted leave to Delco to discontinue its claim against the Company for the HK$57.8 million, with certain issues still to be decided by the Court.

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. The exact scope of the indemnity is yet to be determined.

A writ of summons was issued by Delco as plaintiff on 10 November 2016 in the Court (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. 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 parties subsequently filed amended pleadings and gave evidence at the trial in July 2021. The case is still in progress, with the parties having made closing submissions, and the parties are awaiting judgment from the Court.

Whilst the Board does not consider HCA 3040/2015 and HCA 2939/2016 to be claims of material importance for the reason set out above, details of HCA 3040/2015 and HCA 2939/2016 are disclosed herein for the sake of completeness.

EVENTS DURING AND AFTER THE REPORTING PERIOD

Reference is made to the announcements of the Company dated 30 December 2021, 7 February 2022 and 21 March 2022 in relation to the potential Restructuring (as defined below) of the Controlling Shareholders (as defined below) (collectively, the "**Announcements**").

As disclosed in the Announcements, Loncin Group Co., Limited, Loncin Holdings Co., Limited and USUM Investment Group Limited (the "**Controlling Shareholders**"), which are intermediate controlling shareholders of the Company, and ten other companies related to the Controlling Shareholders (together with the Controlling Shareholders, the "**Loncin Restructuring Companies**") are undergoing a restructuring (the "**Restructuring**") under the supervision of the Fifth Intermediate People's Court of Chongqing City (重慶市第五中級人民法院) (the "**Chongqing Intermediate Court**"). On 30 September 2021, the Chongqing Intermediate Court accepted the filing of the application for the pre-restructuring of the Loncin Restructuring Companies. Temporary restructuring administrator has been appointed to lead the restructuring process. On 30 December 2021, the Company was informed that, with the authorisation from the Loncin Restructuring Companies, their temporary restructuring administrator has signed a restructuring investment agreement with an investors consortium (the "**Consortium**") which is led by Shandong Jiuyang Group Limited* (山東九羊集團有限公司). On 7 February 2022, the Company received a notice from USUM Investment Group Limited that it had received a ruling from Chongqing Intermediate Court on 30 January 2022 approving the acceptance of the restructuring application of USUM Investment Group Limited.

As a matter of procedure, implementation of the Restructuring is conditional upon and remains subject to approval by the creditors of the Loncin Restructuring Companies at a creditors' meeting and sanction by the Chongqing Intermediate Court. As at the date of this announcement, neither the creditors' approval nor the court's sanction has been obtained. In the event that the aforementioned approval and sanction are obtained and the Restructuring is implemented, the ultimate beneficial owner of the Controlling Shareholders may be changed, and a mandatory general offer under the Takeovers Code may be triggered.

Given that the Company is not one of the Loncin Restructuring Companies and is independent from the Controlling Shareholders in respect of business, personnel, assets and finance, the Board confirms that the Restructuring of the Controlling Shareholders mentioned above currently has no material adverse impact on the operation and the financial status of the Company.

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.

In 2010, the Group adopted a commodity price risk hedging policy which has been subsequently updated to cater for the changing operating conditions of the Group. The latest commodity price risk hedging policy 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 2021, the Group had a workforce of 2,866 (31 December 2020: 2,832) employees. In addition, we engaged approximately 306 (31 December 2020: 270) workers and office staff through local contractors. We have not experienced any strikes, work suspension or significant labor disputes which have affected our operations in the past. We have not experienced any significant difficulties in recruiting and retaining qualified staff. We continue to maintain good relationships with our employees.

The Group's total staff costs for the year were approximately HK$1,111.0 million (2020: 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 market standards, 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.

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 2021.

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 2021 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 2021, the Company has complied with all the applicable code provisions of the Corporate Governance Code ("**CG Code**"), contained in Appendix 14 to the Listing Rules, save and except as explained below:

C.2.1

Pursuant to code provision C.2.1 (former code provision A.2.1) of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chen Chunguo ("**Mr. Chen**") resigned as the chairman of the Board ("**Chairman**") and an executive Director with effect from 3 March 2021. Since then, Mr. Rafael Heinrich Suchan ("**Mr. Suchan**"), the chief executive officer of the Company ("**CEO**"), has been temporarily taking up all the responsibilities of the Chairman.

Mr. Suchan was suspended from his role as the CEO by the Board on 6 December 2021; and he was further removed as an executive Director by the shareholders of the Company in the extraordinary general meeting of the Company held on 7 January 2022; and on the same date, he ceased to be the CEO.

Mr. Li Linhui ("**Mr. Li**") was appointed as the Chairman and temporarily took up the responsibilities of the CEO with effect from 13 December 2021.

Vesting the roles of both Chairman and CEO in the same person is a temporary measure due to the vacancies of the position of Chairman or CEO. Also, the Directors considered that the present arrangement would not impair the balance of power and authority considering the background and experience of the Directors and the number of independent non-executive Directors on the Board. The Company is looking for a suitable candidate for the position of the CEO. Accordingly, the Directors considered that the temporary deviation from provision C.2.1 of the CG Code was appropriate in such circumstances.

The Company will, from time to time, review the effectiveness of the Group's corporate governance structure and consider whether any changes are necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. 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 2021.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2021 (2020: Nil).

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Prof. Yan Guowan (as chairman), Prof. Li Zhiguo and Mr. Szeto Yuk Ting. 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 2021.

REVIEW OF UNAUDITED ANNUAL RESULTS AND IMPLICATIONS UNDER THE TAKEOVERS CODE

Certain auditing procedures on the annual results for the year ended 31 December 2021 has not been completed due to the impact of new wave of COVID-19 pandemic on travel restriction and quarantine policies in Hong Kong and certain countries which the Group has footprints in, which has affected the preparation and audit process of the financial statements. The unaudited annual results for the year ended 31 December 2021 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 2021 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 2021 contained herein have been reviewed by and agreed with the Audit Committee.

Both the positive profit alert of the Group for the year ended 31 December 2021 (the "**Positive Profit Alert**") as disclosed in the announcement dated 1 March 2022 and the unaudited annual results contained in this announcement (collectively, the "**Profit Forecast Figures**") constitute profit forecast under Rule 10 of the Takeovers Code and are required to be reported on by the financial advisers and the accountants or auditors in accordance with Rule 10.4 of the Takeovers Code.

Pursuant to the "Joint Statement in relation to Results Announcements in light of Travel Restrictions related to the Severe Respiratory Disease associated with a Novel Infectious Agent" ("**Joint Statement**") dated 4 February 2020 jointly issued by the Securities and Futures Commission ("**SFC**") and the Stock Exchange, where the Company is unable to obtain agreement from its auditors but is otherwise in all respects able to publish its preliminary results in full compliance with the other reporting requirements set out in the Listing Rules, it should publish such preliminary results on or before the deadline. Given the time constraints and due to the impact of COVID-19 pandemic, the Company has encountered genuine practical difficulties in meeting the requirements of Rule 10.4 of the Takeovers Code. Accordingly, this unaudited annual results announcement does not meet the standard required by Rule 10 of the Takeovers Code.

Under Rule 10.4 of the Takeovers Code and Practice Note 2 of the Takeovers Code, if the Profit Forecast Figures are first published in an announcement, it must be repeated in full, together with the reports from the Company's financial adviser and auditors or accountants on the Profit Forecast Figures, in the next document to be sent to the shareholders of the Company (the "**Shareholders' Document**"). The Profit Forecast Figures will be reported on by the Company's financial advisers and auditors or accountants as soon as possible in compliance with the Takeovers Code and such reports will be set out in the next Shareholders' Document. As the audited annual results announcement of the Company for the year ended 31 December 2021 ("**Audited Annual Results**") is expected to be published prior to the despatch of the Shareholders' Document in the event a general offer obligation actually arises, the requirement of "reporting on" under Rule 10 of the Takeovers Code for the Profit Forecast Figures is expected to be superseded by the publication of the Audited Annual Results.

PUBLICATION OF UNAUDITED ANNUAL RESULTS AND ANNUAL REPORT

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 2021 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 annual results for the year ended 31 December 2021 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) by mid-May 2022. 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. This unaudited annual results announcement does not meet the standard required by Rule 10 of the Takeovers Code. Shareholders and potential investors should exercise caution in placing reliance on such forecasts in assessing the merits and demerits of the possible offer as described in the announcement dated 21 March 2022 and when dealing in the securities of the Company.

By order of the Board
Chiho Environmental Group Limited
Li Linhui
Chairman

Hong Kong, 31 March 2022

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

Executive Directors:	Mr. Tu Jianhua Mr. Li Linhui *(Chairman)* Mr. Miao Yu Mr. Yao Jietian
Independent Non-Executive Directors:	Prof. Li Zhiguo Prof. Yan Guowan Mr. Szeto Yuk Ting

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

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

* *For identification purpose only*