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CHIHO ENVIRONMENTAL GROUP LIMITED

齊合環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 976)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Chiho Environmental Group Limited (the “**Company**” or “**Chiho**”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”, “**we**” and “**our**”) for the six months ended 30 June 2024 (the “**Period**”), together with the comparative figures for the corresponding period in 2023 as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	Six months ended 30 June	
		2024	2023
		<i>HK\$M</i>	<i>HK\$M</i>
		(Unaudited)	(Unaudited)
Revenue	3	8,852.8	8,821.7
Cost of sales		<u>(8,315.3)</u>	<u>(8,260.4)</u>
Gross profit		537.5	561.3
Other income		41.2	49.6
Other gains, net	4	7.4	4.4
Impairments on non-financial assets	4	–	(0.4)
Reversal of impairments on financial assets, net		1.3	21.0
Distribution and selling expenses		(23.6)	(23.1)
Administrative expenses		<u>(455.8)</u>	<u>(461.7)</u>
		<u>108.0</u>	<u>151.1</u>

		Six months ended 30 June	
		2024	2023
	<i>Notes</i>	<i>HK\$M</i>	<i>HK\$M</i>
		(Unaudited)	(Unaudited)
Finance income		2.1	1.9
Finance costs		(95.3)	(95.2)
Finance costs, net		(93.2)	(93.3)
Share of post-tax profit of an associate		–	0.5
Share of post-tax profit of joint ventures		58.3	42.4
Profit before income tax		73.1	100.7
Income tax expense	<i>5</i>	(33.4)	(50.5)
Profit for the period	<i>6</i>	39.7	50.2
Profit/(loss) attributable to:			
Shareholders of the Company		50.5	53.2
Non-controlling interests		(10.8)	(3.0)
		39.7	50.2
Earnings per share attributable to shareholders of the Company for the period (expressed in HK\$ per share)			
Basic earnings per share	<i>8</i>	0.03	0.03
Diluted earnings per share	<i>8</i>	0.03	0.03

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2024	2023
	<i>HK\$M</i>	<i>HK\$M</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>39.7</u>	<u>50.2</u>
Other comprehensive (loss)/income		
<i>Item that may be reclassified to profit or loss:</i>		
Currency translation differences	(124.0)	78.3
<i>Items that will not be reclassified to profit or loss:</i>		
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	2.2	(0.2)
Share of other comprehensive income of joint ventures	<u>–</u>	<u>0.6</u>
Other comprehensive (loss)/income for the period	<u><u>(121.8)</u></u>	<u><u>78.7</u></u>
Total comprehensive (loss)/income for the period	<u><u>(82.1)</u></u>	<u><u>128.9</u></u>
Total comprehensive (loss)/income for the period attributable to:		
Shareholders of the Company	(81.7)	134.6
Non-controlling interests	<u>(0.4)</u>	<u>(5.7)</u>
	<u><u>(82.1)</u></u>	<u><u>128.9</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2024	At 31 December 2023
<i>Notes</i>		<i>HK\$M</i> (Unaudited)	<i>HK\$M</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		2,138.5	2,232.6
Right-of-use assets		650.0	635.2
Investment properties		47.4	49.7
Intangible assets		760.1	793.5
Investments accounted for using the equity method		762.8	738.3
Financial assets at fair value through profit or loss		0.8	0.8
Financial assets at fair value through other comprehensive income		86.3	87.6
Other deposits	9	9.0	7.5
Deferred income tax assets		100.5	62.3
		4,555.4	4,607.5
Current assets			
Inventories		1,567.1	1,712.2
Trade, bills and other receivables	9	2,290.3	1,784.6
Amounts due from related parties		107.6	85.3
Derivative financial instruments		23.6	16.5
Tax recoverable		133.2	91.1
Pledged bank deposits and restricted bank deposits		1.1	5.0
Cash and cash equivalents		189.2	366.5
		4,312.1	4,061.2
Assets held for sale		51.3	51.7
		4,363.4	4,112.9
Total assets		8,918.8	8,720.4

		At 30 June 2024	At 31 December 2023
	<i>Notes</i>	<i>HK\$M</i> (Unaudited)	<i>HK\$M</i> (Audited)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		16.1	16.1
Other reserves		6,374.3	6,506.5
Accumulated losses		<u>(1,540.6)</u>	<u>(1,591.1)</u>
		4,849.8	4,931.5
Non-controlling interests		<u>(57.4)</u>	<u>(57.0)</u>
Total equity		<u>4,792.4</u>	<u>4,874.5</u>
Non-current liabilities			
Borrowings		177.4	116.6
Lease liabilities		277.8	247.0
Other payables	10	106.9	110.9
Deferred income tax liabilities		<u>315.2</u>	<u>285.4</u>
		877.3	759.9
Current liabilities			
Trade, bills and other payables	10	2,134.7	2,013.5
Current income tax liabilities		45.0	55.3
Borrowings		833.0	786.5
Lease liabilities		112.8	114.8
Amounts due to related parties		78.5	97.1
Derivative financial instruments		<u>45.1</u>	<u>18.8</u>
		3,249.1	3,086.0
Total liabilities		<u>4,126.4</u>	<u>3,845.9</u>
Total equity and liabilities		<u>8,918.8</u>	<u>8,720.4</u>

NOTES:

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2024 has been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”), ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

1.1.1 Going concern basis

As at 30 June 2024, the Group had total borrowings of HK\$1,010.4 million of which HK\$833.0 million were classified as current borrowings. As at 30 June 2024, the cash and cash equivalents held by the Group was amounting to HK\$189.2 million.

Included in current borrowings as at 30 June 2024, a secured syndicated term loan (the “**Syndicated Term Loan**”) was due on 30 March 2024 which the Group has not repaid and this constituted an event of default under the Syndicated Term Loan agreement. Consequently, on 2 April 2024, the Company received a demand letter (the “**Demand Letter**”) from the lender of the Syndicated Term Loan for immediate repayment of the outstanding loan balance and the applicable default interest.

The Syndicated Term Loan was initially drawn down during the year ended 31 December 2018 with a loan principal of HK\$1,691.5 million and a repayment period of two years. Upon the maturity of its initial term, the Syndicated Term Loan was extended during each of the years ended 31 December 2020, 2021, 2022 and 2023. Over the past years, the Group made repayments of loan principal, interests and arrangement fees totalling HK\$1,943.3 million under the Syndicated Term Loan and lowered its outstanding balance under the Syndicated Term Loan to HK\$390.0 million as at 30 June 2024.

As of the date of approving these condensed consolidated financial statements, no binding agreement has been entered into by the Group and the lender.

The above conditions indicated 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 circumstance, the Directors have given careful consideration to the future liquidity and performance of the Group, taking into account the potential or unforeseeable impact arising from the current global economic situation resulting in fluctuation of metal commodity prices, and its available sources of financing to mitigate the liquidity pressure and to further improve its financial position which include, but not limited to, the following:

- (i) The Group plans to finance the repayment of the remaining Syndicated Term Loan through financial and operational measures as mentioned in (ii) to (v) below. The Group will continue to monitor its compliance with the undertaking requirements of the Syndicated Term Loan. The Directors expect the Group would be in compliance throughout the remaining term of the Syndicated Term Loan.
- (ii) The Group is in negotiation with various Asian and European financial institutions for a new secured long-term borrowing. The Group has short-listed two proposed term sheets for further review and negotiation but has not entered into any binding agreement with the financial institutions as of the date of approval of these condensed consolidated interim financial statements. The Directors are confident that the new long-term borrowing will be obtained in due course.
- (iii) The Group plans to continue the discussion with the lender of the Syndicated Term Loan on the extension of the Syndicated Term Loan and has proposed to extend the corresponding maturity to March 2025 with certain partial repayments in remaining months of 2024. Based on the Directors, latest communication with the lender, the Directors confirmed that the lender of the Syndicated Term Loan is considering the extension proposal submitted by the Group and currently has no plan to take any further action on the repayment of the Syndicated Term Loan further to the Demand Letter. The Directors believe that the extension can be concluded in due course and the waiver letters will be granted in view of the historical renewal experience and the adequacy of collateral being held by the lender.
- (iv) The Group continues its efforts to implement measures in Europe to generate cash flow from operations including further control on capital and operating expenditures and speed up the sales of inventories and the collection of outstanding trade receivables to strength its working capital.
- (v) 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 30 June 2024. 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 condensed consolidated balance sheet. Accordingly, the Directors are satisfied that all these measures and actions are appropriate to prepare the Group's condensed consolidated financial statements on a going concern basis.

2 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2023, as described in those annual consolidated financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2024.

Amendments to HKFRSs effective for the financial year ending 31 December 2024 do not have a material impact on the Group.

3 SEGMENT INFORMATION

The Group's revenue mainly represents the amounts received or receivable for the sales of recycled scraps, net of sales related taxes, during the period. 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 two reportable segments of its business: Asia and Europe. 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 and right-of-use 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 six months ended 30 June 2024 and 2023, respectively:

	For the six months ended							
	30 June 2024				30 June 2023			
	Asia	Europe	Unallocated	Total	Asia	Europe	Unallocated	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Revenue								
Total segment revenue	867.1	8,098.4	-	8,965.5	762.5	8,224.8	4.0	8,991.3
Inter-segment sales	(112.7)	-	-	(112.7)	(83.5)	(86.1)	-	(169.6)
External sales	754.4	8,098.4	-	8,852.8	679.0	8,138.7	4.0	8,821.7
Segment profit/(loss)	5.4	190.9	(30.0)	166.3	(102.6)	337.4	(40.8)	194.0
Finance income				2.1				1.9
Finance costs				(95.3)				(95.2)
Profit before income tax				73.1				100.7
Income tax expense				(33.4)				(50.5)
Profit for the period				39.7				50.2
Depreciation and amortisation expenses	(28.8)	(150.5)	-	(179.3)	(30.8)	(156.7)	-	(187.5)
Fair value loss on derivative financial instruments (<i>Note</i>)	-	-	(14.8)	(14.8)	-	-	(11.7)	(11.7)
Gain on disposals of property, plant and equipment and right-of-use assets	-	-	12.1	12.1	-	-	8.9	8.9
Gain on disposals of assets held for sale	-	-	-	-	-	-	6.1	6.1
Provision for impairments on property, plant and equipment (<i>Note 4</i>)	-	-	-	-	-	-	(0.4)	(0.4)

Note: The fair value loss on derivative financial instruments for the period ended 30 June 2024 and 2023 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 30 June 2024 and 31 December 2023 are provided as follows:

	30 June 2024				31 December 2023			
	Asia <i>HK\$M</i>	Europe <i>HK\$M</i>	Unallocated <i>HK\$M</i>	Total <i>HK\$M</i>	Asia <i>HK\$M</i>	Europe <i>HK\$M</i>	Unallocated <i>HK\$M</i>	Total <i>HK\$M</i>
Segment assets	<u>1,171.2</u>	<u>7,298.2</u>	<u>2.9</u>	<u>8,472.3</u>	<u>1,313.5</u>	<u>6,844.6</u>	<u>25.9</u>	<u>8,184.0</u>
Deferred income tax assets				100.5				62.3
Tax recoverable				133.2				91.1
Derivative financial instruments				23.6				16.5
Cash and cash equivalents				<u>189.2</u>				<u>366.5</u>
Total assets				<u><u>8,918.8</u></u>				<u><u>8,720.4</u></u>

4 OTHER GAINS, NET

	Six months ended 30 June	
	2024 <i>HK\$M</i>	2023 <i>HK\$M</i>
Loss on fair value change of:		
– derivative financial instruments	(14.8)	(11.7)
Foreign exchange gain, net	8.0	0.1
Gain on disposals of property, plant and equipment, and right-of-use assets	12.1	8.9
Gain on disposals of assets held for sale	–	6.1
Others	2.1	1.0
Impairments on non-financial assets		
– provision for impairments on property, plant and equipment	–	(0.4)
	<u><u>7.4</u></u>	<u><u>4.0</u></u>

5 INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2023: 16.5%) on the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong during both interim periods.

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% (2023: 25%) on the estimated assessable profit for the period.

Germany income tax has provided at the rate of approximately 30% (2023: 30%) on the estimated assessable profit for the period.

Taxation on profits from other jurisdictions has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates. Income tax expense is recognised based on management’s estimate of the weighted average annual income tax rate expected for the period.

	Six months ended 30 June	
	2024	2023
	<i>HK\$M</i>	<i>HK\$M</i>
Current income tax expense:		
Germany	34.1	51.1
PRC EIT	0.4	0.5
Hong Kong Profits Tax	–	–
Other jurisdictions	4.4	2.5
	38.9	54.1
Over provision in prior years:		
Other jurisdictions	(0.8)	–
PRC EIT	–	(3.4)
Deferred income tax expense	(4.7)	(0.2)
Income tax expense	33.4	50.5

6 PROFIT FOR THE PERIOD

Profit for the period has been arrived after charging:

	Six months ended 30 June	
	2024	2023
	<i>HK\$M</i>	<i>HK\$M</i>
Changes in inventories of work-in-progress and finished goods	55.2	54.7
Raw materials and consumables used	7,023.9	7,058.7
Provision for inventories, net	5.3	37.0
Employee benefit expenses	480.8	479.8
Depreciation and amortisation expenses	179.3	187.5
Legal and professional expenses	14.4	20.6
	<u>55.2</u>	<u>54.7</u>

7 DIVIDEND

No dividend was paid or proposed during current and previous interim periods, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the period ended 30 June 2024 and 2023.

8 EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2024	2023
	<i>HK\$M</i>	<i>HK\$M</i>
Profit		
Profit for the period attributable to shareholders of the Company	<u>50.5</u>	<u>53.2</u>
Number of shares		
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>1,605,152</u>	<u>1,605,152</u>
Basic earnings per share (<i>expressed in HK\$</i>)	<u>0.03</u>	<u>0.03</u>

(b) Diluted

The Group has no potentially dilutive shares outstanding during the interim periods ended 30 June 2024 and 2023.

9 TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2024 <i>HK\$M</i>	At 31 December 2023 <i>HK\$M</i>
Trade receivables	1,873.0	1,434.7
<i>Less: loss allowance</i>	<u>(15.6)</u>	<u>(27.3)</u>
Trade receivables, net	1,857.4	1,407.4
Bills receivables	16.0	10.2
Deposits and prepayments	164.7	134.6
Deposits paid for purchase of raw materials	62.7	20.9
VAT recoverable	113.6	105.9
Other receivables (<i>Note</i>)	<u>84.9</u>	<u>113.1</u>
	2,299.3	1,792.1
<i>Less: non-current portion</i>		
Other deposits	<u>(9.0)</u>	<u>(7.5)</u>
	<u>2,290.3</u>	<u>1,784.6</u>

Note: As at 30 June 2024, the balance included a receivable of HK\$41.6 million (31 December 2023: HK\$41.9 million) from the Taizhou Bay Committee, a government authority in the PRC.

At 30 June 2024 and 31 December 2023, the aging analysis of the trade receivables based on invoice date was as follows:

	At 30 June 2024 <i>HK\$M</i>	At 31 December 2023 <i>HK\$M</i>
0 – 90 days	1,821.0	1,350.5
91 – 180 days	15.7	36.4
Over 180 days	<u>36.3</u>	<u>47.8</u>
	<u>1,873.0</u>	<u>1,434.7</u>

10 TRADE, BILLS AND OTHER PAYABLES

	At 30 June	At 31 December
	2024	2023
	<i>HK\$M</i>	<i>HK\$M</i>
Trade payables	1,727.8	1,644.8
Contract liabilities	137.8	90.2
Other tax payable	29.3	31.0
Accrued salaries and employee benefits	117.2	132.0
Accrued professional expenses	11.5	27.7
Asset retirement obligations	78.8	70.9
Other payables and accruals	139.2	127.8
	<u>2,241.6</u>	<u>2,124.4</u>
<i>Less: non-current portion</i>		
Asset retirement obligations	(78.8)	(70.9)
Other payables (including retirement benefit obligations)	(28.1)	(40.0)
	<u>(106.9)</u>	<u>(110.9)</u>
	<u>2,134.7</u>	<u>2,013.5</u>

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

	At 30 June	At 31 December
	2024	2023
	<i>HK\$M</i>	<i>HK\$M</i>
0 – 90 days	1,694.8	1,529.1
91 – 180 days	10.7	12.5
Over 180 days	22.3	103.2
	<u>1,727.8</u>	<u>1,644.8</u>
	<u>1,727.8</u>	<u>1,644.8</u>

CHAIRMAN'S STATEMENT

Global economic growth slowed down in the first half of 2024, with geopolitical tensions and differences in market volatility across regions causing uneven growth across key economies. In Europe, despite a downward trend in inflation and a gradual rebound in economic activity, the ongoing Russian-Ukrainian conflict and weak economic sentiment posed headwinds to the region's economic recovery. The metals trading industry in the region was also affected by the contraction of demand in downstream markets, with ferrous and non-ferrous metals trading volumes on a downward trend. These factors, to some extent, exacerbated the pressure of the business growth of metal recycling and trading-related companies.

In view of the unfavorable economic and market conditions in key business regions, Chiho has been more prudent in project developing and investing in, and has strengthened its financial controls, particularly for profit and liquidity. At the same time, the Group continued to implement the policy of “**stabilizing the base of operating**” in its European entities, striving to balance the pressure of social costs and the pressure of corporate production and operation, and achieve cost down and efficiency enhancement. In its Asian entities, the Group promoted technology research and development (“**R&D**”) in the field of resource recycling and has obtained a number of patents for inventions related to the resource utilization of scrap vehicles and the recycling of lithium batteries, which will empower the business and operations of the entities in each region.

Benefiting from the Group's consistent implementation of its established development strategies and business plans, and its efforts to ensure the efficient operation of its mature business segments, as well as its proactive efforts to enhance the leanness of its production operations, Chiho achieved positive growth in revenue in the first six months of 2024, reversing the downturn since the second half of last year. Notably, the Asia region recorded significant growth in revenue, gross profit and gross margin.

OPERATION REVIEW

On behalf of the Board, I am pleased to present the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2024. The Group's total sales volume and revenue for the first six months of 2024 amounted to 1.8 million tonnes and HK\$8,852.8 million respectively.

Metal sales volume and revenue in Europe operations amounted to 1.76 million tonnes and HK\$8,098.4 million respectively, representing a year-on-year decrease of 4.0% and 1.5% respectively. As the business in Europe operations accounted for over 90% of the Group's operating, the decline in performance in Europe due to factors such as the economic and market environment resulted in the Group's sales volume to fall short of the expected growth during the Period. In the face of external pressures, the Group, on the one hand, has stabilized its existing business and production in the region to enhance quality and efficiency, and on the other hand, strengthened its investment management, tightened upstream and downstream exchanges and co-operation, and focused on innovation in recycling technology. Since the Group joined the Car2Car Alliance in 2023, Chiho's European subsidiary, Scholz Recycling GmbH (together with its subsidiaries, the "**Scholz Group**"), has been actively exchanging knowledge and cooperating with automobile manufacturers, recyclers, and universities in order to promote the R&D of innovative methods of dismantling and sorting of end-of-life vehicles (ELVs). The alliance is committed to achieve highly automated dismantling and sorting of ELVs by automating through digital technology and artificial intelligence (AI). In the first half of 2024, the Scholz Group established strategic partnership with Autocirc, a European automotive components and parts recycler, to further improve the quality of recycled automotive parts and the quality of recycled raw materials. Both parties will integrate core business of ELVs recycling in the key European markets through a long-term, substantial co-operation. At the same time, through the strategic cooperation, the Scholz Group will support Autocirc in expanding its automotive parts remanufacturing business in Central and Eastern Europe, and Autocirc, with its experience in automotive parts remanufacturing, will support Scholz in improving the efficiency of ELVs recycling.

The Group's metal sales volume in Asia was 0.07 million tonnes and revenue was HK\$867.1 million. The revenue increased by 13.7% period-over-period, while the gross profit increased by 133.2%, the gross profit margin increased to 3.4%. The growth in revenue and gross profit in the region was attributable to the increase in the proportion of higher-priced metal products in the trading business. During the first half of 2024, the Group continued to improve its operational management, enhance its internal efficiency and strengthen its budgetary control to ensure the stable development of its subsidiaries in the region. As a result of the improvement of internal communication, in the face of the unfavorable situation of persistently high procurement cost of ELVs and the downward trend of scrap steel price, the relevant operation team of Qishun Recycling Project in Taizhou, Zhejiang, China, adjusted the procurement channels, optimized dismantling technology in the production process, to enhance the efficiency of dismantling and reduce the cost of dismantling of ELVs. The team also expanded the sales channel, adjusted the classification standard of dismantled products according to the market situation, and determined production in accordance with the sale target, which improved the operating indicators in a short period of time. In addition, during the Period, the Group obtained a number of patents for recycling technology in the region, including three patents related to automobile lithium batteries recycling, namely **“A System and Method for Recycling Electrode Powder from Waste Lithium Batteries by Low Temperature Evaporation”**, **“A System and Method for Shredding Waste Lithium Ion Batteries”** and **“A Resource Utilization System and Method for New Energy Vehicles”**, all of which have been awarded by the State Intellectual Property Office of the People's Republic of China (the **“PRC”**). The accumulation of patents in the region provides technical support for the Group's recycling business and sustainable development.

PROSPECT

In the second half of 2024, despite the optimistic expectation of economic growth, the global economy continue to face multiple challenges and risks. The persistence of geopolitical conflicts, rising operating costs due to the reshaping of supply and industry chains, and inflation will continue to add to the complexity and uncertainty of the world economy. In European market, which accounts for 90% of the Group's revenue, the pressure on its operation caused by soaring energy price and rising labor cost will not be alleviated in short-term. In anticipation of possible adverse factors, the Group will continue to stabilize its existing businesses of metals recycling and trading, ELVs recycling and dismantling, enhance the quality of key businesses, develop higher efficiency projects, reduce costs, strengthen cooperation with upstream and downstream market players, and drive technological innovation, to ride out the downturn period with toughness.

In terms of the outlook of the recycling industry, with the global trend in carbon reduction, the key economies are actively promoting the recycling of renewable resources and setting targets for the development of the circular economy. In March 2024, the European Environment Agency (EEA) released the report regarding “Accelerating Circular Economy in Europe – State and Prospect 2024” (the “**Report**”). The Report noted that although the European Union (the “**EU**”) has a much higher rate of recycled material use than the rest of the world, the growth of such rate was less than 1 percentage point as compared to 2010, and falls short of the target of doubling the use of recycled materials in the EU by 2030 as set out in the Action Plan for the Circular Economy. The report explained that many circular economy policies and measures are still relatively new, and some have not yet been fully implemented at national level. The Report suggested that future actions will increase the use of secondary raw materials for productive reuse through the circular economy, and will promote the establishment of a governance framework for resource utilization and the circular economy.

Meanwhile, the State Council of the PRC issued the Action Plan for Promoting Large-scale Equipment Renewal and Consumer Goods Replacement (the “**Action Plan**”), which implemented four major actions, namely, equipment renewal, consumer goods replacement, recycling and upgrading of standards. According to the Action Plan, by 2027, the recycling volume of scrap vehicles will be approximately a double of 2023, the recycling volume of used and waste electric home appliances will increase by 30% compared with 2023, and the share of recycled materials in the supply of resources will be further increased. According to the relevant information released by the Ministry of Commerce of the PRC in June 2024, from January to May 2024, 2.2 million vehicles were recycled in Mainland China, representing a year-on-year growth of 19.4%; in May 2024 alone, 577,000 vehicles were recycled, representing a year-over-year growth of 48.9%, and a month-on-month growth of 16.2%.

The growth in scrap vehicles recycling stipulated in the Report and the Action Plan, have further boost the Group’s confidence in business development in the two important regions of Europe and China. As the economies continue to implement green and low-carbon initiatives, the potential of the global recycling industry is broadening. The Group will seize the opportunities and face the challenges, and overcome the external pressures by leveraging its extensive business network, innovative recycling technologies to serve customers with stronger competitiveness, and maximize the interest of the shareholders of the Company.

Last but not least, I would like to extend my heartfelt gratitude to the loyal customers and partners who always trust and support Chiho’s development, and my utmost respect to the hardworking employees in different regions. Wishing you all stay safe and healthy.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In the first half of 2024, market demand from manufacturers and traders in downstream industries decreased, affected by the slowdown in global economic growth, continuous rates hike by the Federal Reserve as well as geopolitical tensions. Since the metal industry is highly sensitive to demand and supply landscape and economic volatilities, capacity growth during the Period was slow. These factors affected the market sentiment which in turn resulted in global price fluctuation for ferrous and non-ferrous metal. With increasing pressure from demand-side and inflation, the Group recorded slightly lower than expected sales volume in metal scrap.

The Group sold 1.8 million tonnes of recycled products for the six months ended 30 June 2024, representing a 4.4% decrease as compared to 1.9 million tonnes sold in the same period in 2023, but reversed the downward trend during the second half of last year. Total external revenue for the first half of 2024 was HK\$8,852.8 million, representing an increase of 0.4% as compared to HK\$8,821.7 million for the same period last year, this was mainly attributable to positive revenue growth and tightly controlled scrap sales prices.

	Six months ended 30 June			
	2024		2023	
	<i>HK\$M</i>	As a percentage of total segment revenue	<i>HK\$M</i>	As a percentage of total segment revenue
Asia	867.1	9.7%	762.5	8.5%
Europe	8,098.4	90.3%	8,224.8	91.5%
Other	—	—	4.0	0.0%
Total segment revenue	8,965.5	100%	8,991.3	100%
Inter-segment sales	(112.7)		(169.6)	
Revenue	8,852.8		8,821.7	

Gross Profit/Margin

Gross profit for the Period was HK\$537.5 million, representing a decrease of 4.2% as compared to HK\$561.3 million for the same period last year. The gross profit margin decreased slightly from 6.4% for the first half of 2023 to 6.1% for the first half of 2024. The decrease in gross profit was mainly due to the logistic and energy costs remaining high in Germany and decrease in both sales volume and revenue as a result of weak demand for metals in Europe during the Period.

Operating Expenses

Total operating expenses for the Period were HK\$479.4 million, representing a decrease of 1.1% over the same period last year, and as a percentage of revenue, it has decreased to 5.4% (2023: 5.5%). The results was achieved by continuous implementation of the “**stabilizing the base of operating**” policy, through which the Group became continuously lean and efficient. The decrease in administrative expenses was mainly attributable to the Group’s effort in striving a balance between the pressure of social costs and the pressure of corporate production and operation, which led to decrease in production costs and efficiency enhancement.

	Six months ended 30 June			
	2024	As a	2023	As a
	<i>HK\$M</i>	percentage of	<i>HK\$M</i>	percentage of
		revenue		revenue
Distribution and selling expenses	23.6	0.3%	23.1	0.3%
Administrative expenses	455.8	5.1%	461.7	5.2%
Total	<u>479.4</u>	<u>5.4%</u>	<u>484.8</u>	<u>5.5%</u>

Profit Attributable to Shareholders and Earnings Per Share

Profit attributable to shareholders of the Company for the Period was HK\$50.5 million, as compared to a profit of HK\$53.2 million for the same period last year.

Basic earnings per share for the Period was HK\$0.03 which was in line with the same period last year.

Analysis of Cash Flow from Operations

The Group's cash generated from operations before changes in working capital for the Period was HK\$266.0 million, a decrease of 24.7% compared to the first half of 2023 as a result of a decrease in operating profit. The Group has been carefully managing the working capital in response to the uncertainties in the market conditions.

Liquidity and Financial Resources

Shareholders' funds as at 30 June 2024 were HK\$4,849.8 million, a decrease of 1.7% from 31 December 2023, and included foreign exchange losses from the depreciation of foreign currencies, namely Euro, against Hong Kong dollar over the Period. Shareholders' funds per share decreased from HK\$3.07 as at 31 December 2023 to HK\$3.02 as at 30 June 2024.

As at 30 June 2024, the Group had cash, various bank balances and pledged bank deposits amounting to HK\$190.3 million (31 December 2023: HK\$371.5 million), used mainly for the working capital for the expansion of business operations.

The current ratio as at 30 June 2024 was 1.34 (31 December 2023: 1.33). 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 potential lenders to refinance the maturing borrowings.

Total external borrowings as at 30 June 2024 were HK\$1,010.4 million, an addition of HK\$107.3 million as compared to 31 December 2023. Such borrowings were mainly utilized for the purchase of mixed recycle metal and working capital, and denominated in Euro, US Dollar and Renminbi. Approximately HK\$390.0 million (31 December 2023: HK\$390.0 million) of borrowings are at fixed interest rates.

The gearing ratio of the Group as at 30 June 2024 was 11.3% (31 December 2023: 10.4%) which is calculated based on the total borrowings divided by the total assets.

Working Capital Change

Overall, the Group's net operating cycle has improved significantly in the Period, showing the Group's commitment to improve operating efficiencies.

Inventories as at 30 June 2024 were HK\$1,567.1 million (31 December 2023: HK\$1,712.2 million). The inventory turnover days increase from 33 days for the first half of 2023 to 35 days for the first half of 2024.

Provision for inventories as at 30 June 2024 were HK\$5.3 million (31 December 2023: reversal of HK\$23.8 million). The increase of provision was due to the price volatility toward the period end.

	As at 30 June 2024	As at 31 December 2023
Inventories (<i>HK\$M</i>)	1,567.1	1,712.2
Average inventories as a percentage of revenue (annualised)	9.26%	9.21%
	Six months ended 30 June 2024	2023
Turnover days	35	33

Net trade and bills receivables as at 30 June 2024 were HK\$1,873.4 million, increased from HK\$1,417.6 million as at 31 December 2023. Debtor turnover days increased from 31 days for the first half of 2023 to 34 days for the first half of 2024. The higher receivables balance as at 30 June 2024 was mainly due to timing of sales toward Period end. The Group adopts a tight management on credit exposure.

	As at 30 June 2024	As at 31 December 2023
Trade and bills receivables, net (<i>HK\$M</i>)	1,873.4	1,417.6
Average receivables as a percentage of revenue (annualised)	9.3%	8.2%

	Six months ended 30 June	
	2024	2023
Turnover days	34	31

Trade and bills payables as at 30 June 2024 were HK\$1,727.8 million (31 December 2023: HK\$1,644.8 million). Creditor turnover days increased from 34 days for the first half of 2023 to 37 days for the first half of 2024.

	As At	As At
	30 June	31 December
	2024	2023
Trade and bills payables (<i>HK\$M</i>)	1,727.8	1,644.8

	Six months ended 30 June	
	2024	2023
Turnover days	37	34

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 six months ended 30 June 2024, the Group invested HK\$79.3 million in tangible assets including machinery and equipment, leasehold improvements, office equipment for improving production efficiency (30 June 2023: HK\$152.1 million). These capital expenditures were financed through internal resources and lease arrangements.

BUSINESS REVIEW

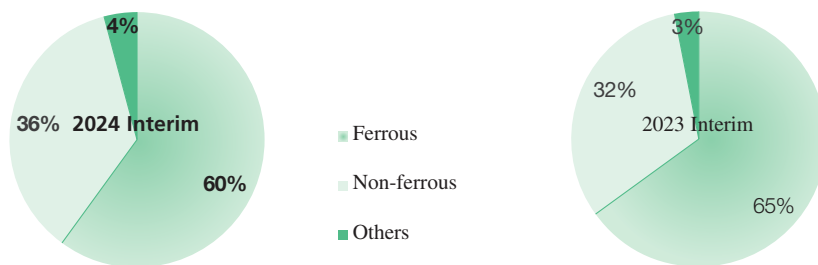
Revenue by Regions



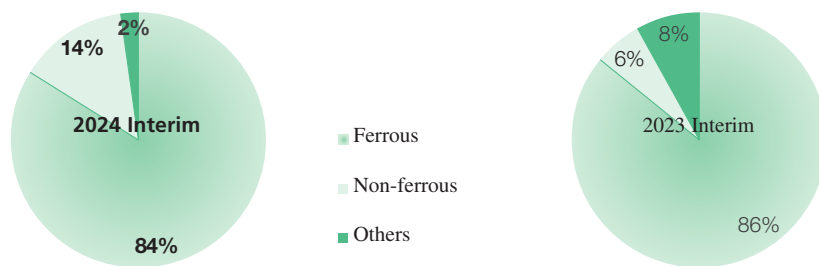
Sales Quantity by Regions



Revenue by Products



Sales Quantity by Products



In the face of weak recovery on demand side, the Group continued to deepen its lean management and strengthen its market research efforts during the Period. In addition, the Group is committed to strive for steady progress and prevent operation risks through project layout coordination in view of prevailing industry and market conditions as well as its existing production capacity. Through the geographic diversification, the Group is in a good position to mitigate the risks of depending overly on a single market. The Group is among the processing and technology leaders in ferrous and non-ferrous metal recycling worldwide, and owns many advanced processing technologies in scrap metal shredding and post-shredding processing.

Europe

In 2024, the European operations were faced with the ongoing Russia-Ukrainian war and weak economic sentiment were posing resistance to the recovery. The European segment sold 1.76 million tonnes of recycled products for the six months ended 30 June 2024, representing a decrease of 4.0% compared to the same period last year of 1.84 million tonnes. Segment revenue decreased by 1.5% to HK\$8,098.4 million as compared to the same period in 2023.

European segment's gross profit for the first half of 2024 was HK\$513.7 million, representing a decrease of 20.6% as compared to the same period last year, and the gross profit margin for the period decreased from 7.9% in 2023 to 6.3% in the Period.

The Group continued to implement the policy of “stabilizing the base of operating“ by striving a balance between the pressure of social costs and corporate production and operations and achieving decrease in production cost and efficiency enhancement in its European operations.

The Company benefited from its position on the market as a key competitor within the region as well as the high scrap prices during the Period, which contributed to the profitability of the European segment. Segment profit for the first half of 2024 was HK\$190.9 million (2023: HK\$337.4 million).

Asia

The sales tonnage for the Asian segment remained stable at 0.07 million tonnes in the first half of 2024 (2023: 0.08 million tonnes). Segment revenue for the first half of 2024 was HK\$867.1 million, which was attributable to the increase in scrap prices, representing a 13.7% increase as compared to the first half of 2023.

Segment gross profit for the first half of 2024 was HK\$25.7 million, representing the turnaround from segment gross loss of HK\$77.4 million in the same period last year. In addition, the gross loss margin in the first half of 2023 was 11.4%, increased to gross profit margin 3.4% in the first half of 2024. The growth in revenue and gross profit was attributable to the increase in the proportion of higher-price metal products in the trading businesses. The Asian segment recorded significant improvement with segment profit of HK\$5.4 million for the first half of 2024 as compared to segment loss of HK\$102.6 million in the same period last year.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2024, the Group had pledged certain property, plants and equipment, right-of-use assets, investment properties, inventories, trade receivables, assets held for sale and bank deposits with an aggregate carrying value of approximately HK\$3,224.8 million (31 December 2023: HK\$4,418.6 million) to secure certain borrowings and general banking facilities granted to the Group.

As at 30 June 2024, the Group had capital commitments in respect of acquisition of property, plant and equipment and additions in construction in progress which are contracted, but not provided for in the amount of HK\$57.0 million (31 December 2023: HK\$116.5 million).

As at the date of this interim results announcement, save as disclosed below, the Board is not aware of any material contingent liabilities.

The Group has provided financial guarantees to certain related parties and joint ventures of HK\$20.2 million and HK\$50.9 million (31 December 2023: HK\$20.3 million and HK\$50.9 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 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 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.

Disclosure Pursuant to Rules 13.19 and 13.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)

Reference is made to the announcements (the “Loan Announcements”) of the Company dated 5 July 2018 and 3 April 2024.

A facility agreement was entered into between the Company and certain independent third party institutions in relation to a syndicated term loan of up to US\$300,000,000. Unless the context requires otherwise, capitalized terms used herein shall have the same meaning as those defined in the Loan Announcements.

The Loan was initially drawn down during the year ended 31 December 2018 with a loan principal of US\$220,000,000 (equivalent to HK\$1,691.5 million) and a repayment period of two years. Upon the maturity of its initial term, the repayment date of the Loan has been extended during each of the years ended 31 December 2020, 2021, 2022 and 2023 with the final repayment date of 30 March 2024 as last extended. Over the past years, the Group has repaid the majority of the Loan and the outstanding principal of the Loan amounted to US\$50,000,000 (equivalent to HK\$376.0 million) (the “**Outstanding Loan Balance**”) as at the final repayment date of 30 March 2024, which remained outstanding as at the date of this announcement (the “**Default**”). The Default constitutes an event of default under the Facility Agreement. As a result, the facility agent to the Facility Agreement is entitled to declare the Outstanding Loan Balance immediately due and repayable.

On 2 April 2024, the Company received a demand letter from the facility agent for immediate repayment of the Outstanding Loan Balance and the applicable default interest under the Facility Agreement. The management of the Group is in the course of negotiating with the facility agent for a further extension of the final repayment date to the Loan.

Subsequently, the Company was notified by the facility agent that an assignment agreement was made on 12 August 2024 between the facility agent, which is one of the existing lenders, as assignor and a third party institution as assignee. Pursuant to which, such third party institution becomes a party to the facility agreement as a lender and the facility agent is released from all obligations under the facility agreement. The facility agent also resigned as the facility agent and the security agent in relation to such facility.

Further announcement(s) will be made by the Company as and when necessary or appropriate if there are any material updates on the Outstanding Loan Balance and the Default.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Save as disclosed in this interim results announcement, there were no other significant investments held, material acquisitions or disposals of subsidiaries, associates or joint ventures and any concrete future plans for material investment or capital assets.

EVENTS DURING AND AFTER THE REPORTING PERIOD

Potential Restructuring of the Controlling Shareholders

References are made to the announcements of the Company dated 30 December 2021, 7 February 2022, 21 March 2022, 22 April 2022, 22 July 2022, 31 October 2022, 18 November 2022, 23 November 2022, 23 December 2022, 19 January 2023, 17 February 2023, 6 March 2023, 22 November 2023, 22 May 2024, 29 July 2024, 20 August 2024 and 23 August 2024 in relation to the potential restructuring (the “**Restructuring**”) of the Controlling Shareholders (as defined below) under the supervision of the Fifth Intermediate People’s Court of Chongqing City (collectively, the “**Announcements**”).

As disclosed in the Announcements, Loncin Group Co., Limited, Loncin Holdings Co., Limited and USUM Investment Group Limited (“**USUM Group**”) (collectively, 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 in the course of implementing the Restructuring plan. As per the notification from Mr. Tu Jianhua (“**Mr. Tu**”), a director of USUM Group dated 28 July 2024, the administrator of the Restructuring (the “**Administrator**”) altered the Restructuring plan and signed agreement with a third party purchaser in relation to the disposal (the “**Disposal**”) of certain assets of the Loncin Restructuring Companies without obtaining proper authorization and consent from the creditors’ meeting and the board approval from the Loncin Restructuring Companies. Mr. Tu filed a lawsuit (the “**Lawsuit**”) with the Fifth Intermediate People’s Court of Chongqing City (the “**Court**”) on 16 July 2024 to challenge the validity of such agreement. Mr. Tu would also file an invalidation lawsuit against such agreement in relation to the parts relevant to the Company. The Disposal which involved partial shares of the Company held by USUM Investment Group Hong Kong Limited, has not been completed.

On 16 August 2024, The Shanghai Stock Exchange (the “**Shanghai Stock Exchange**”) issued a letter to Loncin Motor Co., Limited (“**Loncin Motor**”). According to such letter, the Shanghai Stock Exchange was of the view that the Administrator’s requisition of shareholders’ meeting may subject to litigation risk. The Shanghai Stock Exchange requested Loncin Motor and the Administrator to closely monitor the development of the Lawsuit and proactively report to the local government and the Court the progress of the Lawsuit. In addition, Loncin Motor and the relevant parties were reminded to comply with the relevant regulations and requirements under China Companies Ordinance, Rules for the Shareholders’ Meetings of Listed Companies, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the articles of association of Loncin Motor with respect to the convention of the shareholders’ meeting and the proposed change of directors.

On 21 August 2024, the Court has made a civil ruling approving the extension of the execution of the Restructuring plan for further six months (i.e. until 21 February 2025). For details of the above updates on the Restructuring, please refer to the announcements of the Company dated 29 July 2024, 20 August 2024 and 23 August 2024.

Given that the Lawsuit has been filed with the Court challenging the validity of the relevant disposal agreements, it is uncertain as to whether the Disposal would be proceeded. It is also uncertain as to the progress and outcome of the Restructuring. If the Restructuring is not successfully implemented, there is a risk that the Controlling Shareholders will be declared bankrupt. Considering 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 is of the view that the Restructuring and the Disposal has no material adverse impact on the operation and the financial status of the Company.

The Company will continue to closely monitor the subsequent development and effect of the Restructuring. Further announcement(s) will be made by the Company if there is any substantial progress in relation to the Restructuring, or, if no further extension is granted by the Court to extend the execution period of the Restructuring plan upon the expiry of the above extended period, or as required in accordance with the Listing Rules and/or other applicable codes, laws and regulations.

Disclosure Pursuant to Rules 13.19 and 13.21 of the Listing Rules

The disclosure is set out in the section headed “CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES” in the Management Discussion and Analysis section of this interim results announcement.

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.

The Group adopted a commodity price risk hedging policy which has been subsequently updated to cater for the changing operating conditions of the Group.

As part of its foreign currency hedging strategy, the Board closely monitors the Group’s foreign currency borrowings in view of the volatile exchange rates 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 30 June 2024, the Group had a workforce of 2,632 (31 December 2023: 2,617) employees. In addition, we engaged approximately 421 (31 December 2023: 470) 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 and we provide a variety of internal and external training programmes to our employees.

The Group's total staff costs for the six months ended 30 June 2024 were approximately HK\$480.8 million (2023: HK\$479.8 million). The remuneration package of staff consists of basic salary, mandatory provident fund, insurances and other benefits as considered appropriate. Remuneration of employees of the Group is determined by the senior management of the Group by reference to market standards, individual performance, experience and their respective contribution to the Group so as to retain competent employees.

The emoluments of the Directors are recommended by the remuneration committee of the Company with reference to factors including the duties and responsibilities, backgrounds, qualifications and experience of the Directors, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the Board's approval. Other emoluments including discretionary bonuses, are determined by the Board with reference to the Directors' duties, abilities, reputation and performance.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

For the Group, maintaining trusting relationships with investors has always been paramount. The Board accordingly continues to engage with them regularly and to keep them apprised of its latest corporate and business developments in a timely manner.

Looking to the future, the Group will be taking steps to increase transparency with both investors and shareholders to strengthen its corporate governance in line with their best interests. As part of this initiative, additional visibility will be provided around strategic plans and approaches, with the aim of eliciting feedback and reaffirming the collective understanding of the Group's business, market activities and growth opportunities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company recognises the importance of corporate transparency and accountability and is committed to achieving a high standard of corporate governance. Throughout the six months ended 30 June 2024, the Company has complied with all the applicable code provisions in Part 2 of the Corporate Governance Code (the “**CG Code**”) contained in Appendix C1 to the Listing Rules, save and except as explained below:

C.2.1

Pursuant to code provision C.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.

With effect from 14 December 2023, Mr. Zhang Wei (“**Mr. Zhang**”) resigned as an executive Director due to job adjustment and he remained as the chief executive officer of the Company. Mr. Zhang subsequently resigned as the chief executive officer of the Company with effect from 25 June 2024. Since then, Mr. Qin Yongming, the chairman of the Board, temporarily performs the role of chief executive officer.

Vesting the roles of both chairman and chief executive officer in the same person is a temporary measure due to the vacancy of the position of chief executive officer. The Company is in the process of identifying a suitable candidate to fill the vacancy.

The Directors considered that the 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. 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding directors’ securities transactions by Directors. All Directors have confirmed, following the specific enquiries made by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2024.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2024.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024.

SIGNIFICANT EVENTS

Save as disclosed in this interim results announcement, the Company and any of its subsidiaries did not have any other significant events after 30 June 2024.

REVIEW OF INTERIM REPORT

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed the financial matters and internal control systems, including reviewed and approved of the Group’s unaudited condensed consolidated results for the six months ended 30 June 2024.

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

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (www.hkexnews.hk) and the Company (www.chihogroup.com). The interim report of the Company for the six months ended 30 June 2024 containing all the information required by the Listing Rules will be despatched to the Company’s shareholders and posted on the above websites in September 2024.

APPRECIATION

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

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

Hong Kong, 28 August 2024

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

Executive Directors:

Mr. Tu Jianhua
Mr. Qin Yongming (*Chairman*)
Mr. Miao Yu
Mr. Yao Jietian
Mr. Wang Li
Mr. Liu Yongxin

Independent Non-Executive Directors: Prof. Li Zhiguo

Mr. Szeto Yuk Ting
Ms. Leung Pui Yee