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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Chiho Environmental Group Limited (the "**Company**") is pleased to present the audited annual consolidated results of the Company and its subsidiaries (the "**Group**", "**Chiho**", "**we**" and "**our**") for the year ended 31 December 2022 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") as follows (together with the comparative figures for the year ended 31 December 2021):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	**2022** *HK$M*	2021 *HK$M*
Revenue	*3*	**19,574.3**	21,950.4
Cost of sales	*5*	**(18,366.6)**	(20,061.9)
Gross profit		**1,207.7**	1,888.5
Other income		**74.4**	88.9
Other gains, net	*4*	**205.9**	159.3
Impairments on non-financial assets	*4*	**(74.3)**	(29.6)
Reversal of/(Provision for) impairments on financial assets, net		**15.9**	(32.9)
Distribution and selling expenses	*5*	**(47.1)**	(59.9)
Administrative expenses	*5*	**(927.7)**	(1,185.8)
		454.8	828.5

	Notes	**2022**	2021
		HK$M	*HK$M*
Finance income		**8.3**	9.5
Finance costs		**(195.0)**	(243.3)
Finance costs, net	*6*	**(186.7)**	(233.8)
Share of post-tax (loss)/profit of an associate		**(1.6)**	0.8
Share of post-tax profit of joint ventures		**137.5**	288.2
Profit before income tax		**404.0**	883.7
Income tax expense	*7*	**(166.6)**	(191.7)
Profit for the year		**237.4**	692.0
Profit/(Loss) attributable to:			
Shareholders of the Company		**264.5**	702.0
Non-controlling interests		**(27.1)**	(10.0)
		237.4	692.0
Earnings per share attributable to shareholders of the Company for the year (expressed in HK$ per share)			
Basic earnings per share	*9*	**0.16**	0.44
Diluted earnings per share	*9*	**0.16**	0.44

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 *HK$M*	2021 *HK$M*
Profit for the year	**237.4**	692.0
Other comprehensive (loss)/income		
Item that may be reclassified to profit or loss:		
Currency translation differences on foreign operations	**(323.9)**	(313.3)
Items that will not be reclassified to profit or loss:		
Change in fair value of equity investments at fair value through other comprehensive income	**(2.6)**	4.3
Remeasurements of post-employment benefit obligations	**0.8**	8.0
Share of other comprehensive income of joint ventures	**3.8**	1.4
Income tax relating to these items	**–**	(3.7)
Other comprehensive loss for the year, net of tax	**(321.9)**	(303.3)
Total comprehensive (loss)/income for the year	**(84.5)**	388.7
Total comprehensive (loss)/income for the year attributable to:		
Shareholders of the Company	**(49.7)**	396.3
Non-controlling interests	**(34.8)**	(7.6)
	(84.5)	388.7

CONSOLIDATED BALANCE SHEET

At 31 December 2022

	Notes	2022 HK$M	2021 HK$M
ASSETS			
Non-current assets			
Property, plant and equipment		**2,202.6**	2,256.6
Right-of-use assets		**618.0**	701.5
Investment properties		**54.3**	56.3
Intangible assets		**786.1**	848.9
Investments accounted for using the equity method		**710.7**	907.8
Financial assets at fair value through profit or loss		**0.8**	0.8
Financial assets at fair value through other comprehensive income		**84.8**	91.3
Other non-current assets	*10*	**10.8**	14.8
Deferred income tax assets		**52.5**	78.9
		4,520.6	4,956.9
Current assets			
Inventories		**1,323.7**	1,567.8
Trade, bills and other receivables	*10*	**1,640.3**	2,226.9
Amounts due from related parties		**82.7**	66.8
Derivative financial instruments		**17.1**	31.1
Tax recoverable		**31.9**	17.3
Pledged bank deposits and restricted bank deposits		**52.3**	142.4
Cash and cash equivalents		**713.7**	782.3
		3,861.7	4,834.6
Assets held for sale		**190.7**	167.0
		4,052.4	5,001.6
Total assets		**8,573.0**	9,958.5

	Notes	**2022** HK$M	2021 HK$M
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**16.1**	16.1
Other reserves		**6,389.9**	6,704.1
Accumulated losses		**(1,581.8)**	(1,846.3)
		4,824.2	4,873.9
Non-controlling interests		**(43.5)**	(14.4)
Total equity		**4,780.7**	4,859.5
Non-current liabilities			
Borrowings	*11*	**111.3**	50.8
Lease liabilities		**192.1**	190.1
Retirement benefit obligations		**11.1**	18.9
Other payables	*12*	**98.8**	106.8
Deferred income tax liabilities		**281.0**	305.8
		694.3	672.4
Current liabilities			
Trade, bills and other payables	*12*	**1,778.3**	2,240.1
Current income tax liabilities		**85.5**	254.0
Borrowings	*11*	**1,030.8**	1,611.1
Lease liabilities		**119.9**	177.1
Amounts due to related parties		**68.4**	104.9
Derivative financial instruments		**15.1**	39.4
		3,098.0	4,426.6
Total liabilities		**3,792.3**	5,099.0
Total equity and liabilities		**8,573.0**	9,958.5

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, waste electrical and electronic equipment, 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 Act 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, a company incorporated in Hong Kong with limited liability. Loncin Group is 98% owned by Mr. Tu Jianhua, 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 Hong Kong Financial Reporting Standards ("**HKFRS**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1 Going concern basis

As at 31 December 2022, the Group had total borrowings of HK$1,142.1 million of which HK$1,030.8 million are current borrowings. Included in the current borrowings as at 31 December 2022 was a secured syndicated term loan (the "**Syndicated Term Loan**") with an outstanding balance of HK$742.4 million fully repayable by 31 March 2023 (Note 11), while the Group's cash and cash equivalents amounted to HK$713.7 million.

The above conditions indicated the existence of a material uncertainty with respect to 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 impact arising from the fluctuation of metal commodity prices, and its available sources of financing in order to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

(i) In January 2023, the Group collected the disposal proceeds of certain assets and repaid HK$128.8 million of the Syndicated Term Loan.

(ii) On 24 March 2023, the Group has successfully agreed in writing with the lender of the Syndicated Term Loan to extend the maturity date of the remaining loan principal with two partial repayment instalments of HK$78.1 million and HK$170.2 million on or before 31 March 2023 and 30 June 2023, respectively, and the remaining principal balance of HK$390.4 million to be repayable by 30 March 2024. The Group paid the aforesaid first instalment of HK$78.1 million on 24 March 2023.

(iii) The Group plans to finance the remaining repayment instalments of the Syndicated Term Loan through financial and operational measures as mentioned in (iv) to (vii) 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.

(iv) The Group is in advance negotiations with various financial institutions for a new secured long-term borrowing with a principal amount of no less than HK$780.9 million. The Group received two proposed term sheets but has not entered into any binding agreement with the financial institutions as of the date of approval of these consolidated financial statements. The Directors are confident that the new long-term borrowing will be obtained in due course.

(v) The Group maintains continuous communication with other banks and the Directors believe that the existing other borrowings available to the Group, amounting to approximately HK$399.7 million as at 31 December 2022, will be successfully renewed with substantially the same terms upon expiration.

2.1 Going concern basis (Continued)

(vi) The Group continues its efforts to implement measures in Europe to generate cash flow from operations including further control capital and operating expenditures to strength its working capital.

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

The Directors have assessed the Group's cash flow projection covering a period of not less than twelve months from 31 December 2022. 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 31 December 2022. Accordingly, the Directors are satisfied that it is appropriate to prepare the Group's consolidated financial statements on a going concern basis.

Notwithstanding the above, a material uncertainty exists as to whether the Group can achieve the plans and measures described in (iii) to (vii) above. Whether the Group will be able to continue as a going concern would depend upon:

a. the Group's ability to continuously comply with undertaking requirements of the Syndicated Term Loan;

b. successfully secure a new long-term borrowing;

c. successfully renew existing borrowings and banking facilities with substantially the same terms upon expiration;

d. successfully implement measures in Europe to generate cash inflow from operations; and

e. secure various sources of financing as and when required.

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

2.2 Changes in accounting policy and disclosures

(a) *Amended standards, annual improvements and accounting guideline*

The following amended standards, annual improvements and accounting guideline have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2022:

HKFRS 16 (Amendments)	Covid-19 Related Rent Concessions
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use
HKAS 37 (Amendments)	Onerous Contract – Cost of Fulfilling a Contract
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
Annual Improvements to HKFRSs 2018-2020 Cycle	Annual Improvements to HKFRSs 2018-2020 Cycle
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations

The Group also elected to adopt the following amendments early:

HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amended standards, annual improvements and accounting guideline 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) *Amended standards and interpretation to be effective*

The following amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning on 1 January 2022 and have not been applied by the Company:

		Effective for annual periods beginning on or after
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
HKFRS 17 and HKFRS 17 (Amendments)	Insurance Contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The above amended standards and interpretation 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.

3 SEGMENT INFORMATION (CONTINUED)

The following table presents revenue and segment profit information regarding the Group's reportable segments for the years ended 31 December 2022 and 2021, respectively:

	For the year ended									
	31 December 2022					31 December 2021				
	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	**1,787.1**	**17,841.4**	**35.7**	**–**	**19,664.2**	2,130.8	19,150.0	1,012.4	–	22,293.2
Inter-segment sales	**(3.9)**	**(86.0)**	**–**	**–**	**(89.9)**	(1.9)	(327.5)	(13.4)	–	(342.8)
External sales	**1,783.2**	**17,755.4**	**35.7**	**–**	**19,574.3**	2,128.9	18,822.5	999.0	–	21,950.4
Segment (loss)/profit	**(104.0)**	**707.8**	**(17.9)**	**4.8**	**590.7**	18.9	994.0	182.3	(77.7)	1,117.5
Finance income					**8.3**					9.5
Finance costs					**(195.0)**					(243.3)
Profit before income tax					**404.0**					883.7
Income tax expense					**(166.6)**					(191.7)
Profit for the year					**237.4**					692.0
Depreciation and amortisation expenses	**(69.3)**	**(277.4)**	**(0.5)**	**(16.1)**	**(363.3)**	(72.1)	(307.6)	(8.9)	(18.1)	(406.7)
Fair value gain on trading derivative financial instruments *(Note)*	**–**	**–**	**–**	**15.7**	**15.7**	–	–	–	3.2	3.2
Fair value gain/(loss) on financial assets at fair value through profit or loss	**–**	**3.2**	**–**	**–**	**3.2**	(0.5)	–	–	–	(0.5)
Gain/(Loss) on disposals of property, plant and equipment and right-of-use assets	**17.8**	**17.5**	**–**	**–**	**35.3**	–	–	–	(32.9)	(32.9)
Gain on disposals and deregistration of subsidiaries or joint ventures	**–**	**–**	**–**	**–**	**–**	–	–	–	11.0	11.0
Gain on disposals of assets held for sale	**82.7**	**74.0**	**–**	**–**	**156.7**	–	–	–	113.1	113.1
Provision for impairments on property, plant and equipment and right-of-use assets	**–**	**–**	**–**	**(1.0)**	**(1.0)**	–	–	–	(1.3)	(1.3)
Provision for impairment on investments in joint ventures	**(12.0)**	**(61.3)**	**–**	**–**	**(73.3)**	–	–	–	(7.3)	(7.3)
Provision for impairments on intangible assets	**–**	**–**	**–**	**–**	**–**	–	–	–	(21.0)	(21.0)

Note: The fair value gain on trading derivative financial instruments for the year ended 31 December 2022 and 2021 represented the fair value gain related to those trading derivative financial instruments that were not subject to hedge accounting.

3 SEGMENT INFORMATION (CONTINUED)

Segment assets

Reconciliation of segment assets to total assets as at 31 December 2022 and 31 December 2021 are provided as follows:

	As at							
	31 December 2022				31 December 2021			
	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	**1,337.6**	**6,273.5**	**146.7**	**7,757.8**	1,739.0	7,069.9	240.0	9,048.9
Deferred income tax assets				**52.5**				78.9
Tax recoverable				**31.9**				17.3
Derivative financial instruments				**17.1**				31.1
Cash and cash equivalents				**713.7**				782.3
Total assets				**8,573.0**				9,958.5

Geographical information

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

	As at	
	31 December 2022	31 December 2021
	HK$M	*HK$M*
Asia	**604.2**	716.8
Europe	**3,774.2**	3,865.4
North America	**–**	194.7
Total	**4,378.4**	4,776.9

Analysis of revenue by category

	For the year ended	
	31 December 2022	31 December 2021
	HK$M	*HK$M*
Metal recycling		
– Ferrous metal	**12,624.8**	14,136.9
– Non-ferrous metal	**6,272.7**	7,142.8
Forging and foundry	**86.2**	67.6
Others	**590.6**	603.1
Total	**19,574.3**	21,950.4

3 SEGMENT INFORMATION (CONTINUED)

Information about major customers

No single customer contributed 10% or more to the Group's revenue during the years ended 31 December 2022 and 2021.

4 OTHER GAINS, NET

	2022	2021
	HK$M	*HK$M*
Gain/(Loss) on fair value change of:		
– trading derivative financial instruments not subject to hedge accounting	**15.7**	3.2
– financial assets at fair value through profit or loss	**3.2**	(0.5)
Foreign exchange (losses)/gains, net	**(15.1)**	29.2
Gain/(Loss) on disposals of property, plant and equipment and right-of-use assets	**35.3**	(32.9)
Gain on disposals and deregistration of subsidiaries or joint ventures	**–**	11.0
Gain on disposals of assets held for sale	**156.7**	113.1
Impairments on non-financial assets:		
– provision for impairments on property, plant and equipment	**(1.0)**	(1.3)
– provision for impairment on investments in joint ventures	**(73.3)**	(7.3)
– provision for impairments on intangible assets	**–**	(21.0)
Paycheck Protection Program loan forgiveness	**–**	40.2
Others	**10.1**	(4.0)
	131.6	129.7

5 EXPENSES BY NATURE

	2022	2021
	HK$M	*HK$M*
Changes in inventories of work-in-progress and finished goods	**177.4**	(79.4)
Raw materials and consumables used	**16,005.2**	17,639.0
Provision for impairments on inventories, net	**33.6**	31.3
Freight cost	**780.8**	883.5
Utilities and waste disposal cost	**395.5**	438.7
Employee benefit expenses	**975.6**	1,111.0
Depreciation and amortisation expenses of property, plant and equipment, intangible assets, right-of-use assets and investment properties	**363.3**	406.7
Legal and professional expenses	**32.3**	175.0
Auditors' remuneration		
– audit services	**18.6**	19.2
– non-audit services	**3.7**	8.0
Repair and maintenance expenses	**165.4**	222.7
Lease expenses		
– short-term leases	**3.2**	7.6
– low-value leases	**6.8**	5.9
Administrative services provided by related parties	**18.0**	4.0
Other expenses	**362.0**	434.4
Total cost of sales, distribution and selling expenses and administrative expenses	**19,341.4**	21,307.6

6 FINANCE COSTS, NET

	2022	2021
	HK$M	*HK$M*
Interest income from bank deposits	**7.0**	7.9
Interest income from related parties	**1.3**	1.6
Finance income	**8.3**	9.5
Interest expense on bank loans, overdrafts and bills payables	**(61.1)**	(65.0)
Interest expense on other borrowings	**(122.1)**	(159.0)
Interest expense on lease liabilities	**(11.2)**	(18.6)
Interest expense on loans from related parties	**(0.6)**	(0.7)
Finance costs	**(195.0)**	(243.3)
Finance costs, net	**(186.7)**	(233.8)

7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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% (2021: 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% (2021: 30%) and 26% (2021: 26%), respectively, on the estimated assessable profit for the year.

7 INCOME TAX EXPENSE (CONTINUED)

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.

	2022	2021
	HK$M	*HK$M*
Current income tax expense:		
Germany	**(111.9)**	(175.7)
US	**–**	0.1
PRC EIT	**(12.6)**	(4.4)
Hong Kong profits tax	**–**	(5.6)
Other jurisdictions	**(31.8)**	(26.7)
	(156.3)	(212.3)
Over provision in prior years:		
Germany	**1.8**	0.4
Hong Kong	**(0.6)**	–
Other jurisdictions	**1.6**	0.8
	2.8	1.2
Deferred income tax (expense)/credit	**(13.1)**	19.4
Income tax expense	**(166.6)**	(191.7)

7 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities as follows:

	2022	2021
	HK$M	*HK$M*
Profit before income tax	**404.0**	883.7
Tax calculated at domestic tax rates applicable to profits in the respective countries	**133.4**	255.9
Tax effect of expenses not deductible for tax purpose	**85.5**	50.0
Tax effect of income not taxable for tax purpose	**(45.5)**	(29.7)
Tax effect of temporary differences not recognised	**5.4**	(28.0)
Tax effect of tax losses not recognised	**40.0**	48.0
Tax effect of utilisation of tax losses previously not recognised	**(10.9)**	(27.2)
Tax impact on share of results from an associate and joint ventures	**(38.5)**	(76.1)
Over provision in respect of prior years	**(2.8)**	(1.2)
Income tax expense for the year	**166.6**	191.7

The weighted average applicable tax rate was 33.0% (2021: 28.9%). The increase is caused by changes in the profitability of certain subsidiaries.

8 DIVIDENDS

No dividend was paid or proposed during 2022 and 2021, nor has any dividend been proposed by the Company since the end of the reporting period in respect of the years ended 31 December 2022 and 2021.

9 EARNINGS PER SHARE

(a) Basic

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

	2022	2021
	HK$M	*HK$M*
Profit		
Profit for the year attributable to shareholders of the Company	**264.5**	702.0
Number of shares		
Weighted average number of ordinary shares in issue (thousands)	**1,605,152**	1,605,152
Basic earnings per share (expressed in HK$)	**0.16**	0.44

(b) Diluted

The Group has no potentially dilutive shares outstanding during the years ended 31 December 2022 and 2021.

10 TRADE, BILLS AND OTHER RECEIVABLES

	2022	2021
	HK$M	*HK$M*
Trade receivables	**1,312.5**	1,827.1
Less: loss allowance	**(38.3)**	(55.4)
Trade receivables, net	**1,274.2**	1,771.7
Bills receivables	**16.3**	3.2
Deposits and prepayments	**123.7**	191.2
Deposits paid for purchase of raw materials	**18.9**	49.4
VAT recoverable	**108.1**	128.2
Other receivables *(Note)*	**109.9**	98.0
	1,651.1	2,241.7
Less: non-current portion		
Other deposits and receivables	**(10.8)**	(14.8)
	1,640.3	2,226.9

Note: As at 31 December 2022, the balance includes a receivable of HK$42.5 million (2021: HK$46.7 million) from the Taizhou Bay Committee, a government authority in the PRC.

As at 31 December 2022, the Group has pledged trade receivables with a net book value of HK$969.0 million (2021: HK$1,448.7 million) to secure certain borrowings and general banking facilities to the Group.

As at 31 December 2022 and 2021, the ageing analysis of the gross trade receivables based on invoice date was as follows:

	2022	2021
	HK$M	*HK$M*
0 – 90 days	**1,258.6**	1,729.3
91 – 180 days	**18.1**	28.0
Over 180 days	**35.8**	69.8
	1,312.5	1,827.1

(a) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to approximate their fair values.

10 TRADE, BILLS AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment and risk exposure

The Group measures the expected credit losses on the trade and bills receivables by grouping them based on shared credit risk characteristics and the days past due. The Group has divided the trade and bills receivables into three groups shared with similar credit risk characteristics based on geographical locations which are Asia, Europe and North America. The expected loss rates are estimated based on the historical credit losses experienced, adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of forward-looking economic conditions. On that basis, the loss allowances as at 31 December 2022 and 2021 were determined as follows:

	Expected credit loss rate	**Gross carrying amount – trade and bills receivables** *HK$M*	**Loss allowances** *HK$M*
As at 31 December 2022			
Active accounts			
Current	**0.2%**	**993.2**	**2.2**
Past due 1 – 30 days	**5.2%**	**238.5**	**12.4**
Past due 31 – 90 days	**12.4%**	**25.9**	**3.2**
Past due over 90 days	**32.0%**	**50.6**	**16.2**
Terminated accounts	**100%**	**4.3**	**4.3**
Total		**1,312.5**	**38.3**

	Expected credit loss rate	Gross carrying amount – trade and bills receivables *HK$M*	Loss allowances *HK$M*
As at 31 December 2021			
Active accounts			
Current	0.7%	1,274.0	9.0
Past due 1 – 30 days	3.6%	299.7	10.6
Past due 31 – 90 days	2.5%	110.5	2.7
Past due over 90 days	13.0%	126.2	16.4
Terminated accounts	100%	16.7	16.7
Total		1,827.1	55.4

10 TRADE, BILLS AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment and risk exposure (Continued)

Loss allowances on terminated accounts are mostly from the Asia region and majority of the loss allowances on active accounts are from the Europe and North America regions.

Movements on the Group's loss allowance of trade receivables are as follows:

	2022	2021
	HK$M	*HK$M*
As at 1 January	**55.4**	50.0
(Reversal)/increase in loss allowance recognised	**(0.6)**	8.3
Receivables written off during the year as uncollectable	**(12.6)**	(0.1)
Currency translation differences	**(3.9)**	(2.8)
As at 31 December	**38.3**	55.4

As at 31 December 2022, provision for impairments on other receivables and prepayments amounted to approximately HK$18.5 million (2021: HK$18.8 million).

The other classes within trade, bills and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade receivables, net of provision, are denominated in the following currencies:

	2022	2021
	HK$M	*HK$M*
RMB	**101.6**	85.0
EUR	**957.1**	1,273.5
US$	**130.0**	265.1
Other currencies	**85.5**	148.1
	1,274.2	1,771.7

The carrying amounts of the Group's other receivables are mainly denominated in RMB, EUR, US$ and Polish Zloty ("**PLN**") (2021: RMB, EUR, US$ and PLN) as at 31 December 2022.

11 BORROWINGS

	2022	2021
	HK$M	*HK$M*
Non-current		
Bank borrowings	**111.3**	50.8
Current		
Bank borrowings	**286.1**	493.9
Other borrowings	**744.7**	1,117.2
	1,030.8	1,611.1
Total borrowings	**1,142.1**	1,661.9

Bank borrowings mature at various dates up to 2025 (2021: 2026) and bear average coupons ranging from 0.9% to 12% per annum (2021: 0.9% to 8.0% per annum).

As at 31 December 2022 and 2021, the Group's bank and other borrowings were repayable as follows:

	Bank borrowings		**Other borrowings**		**Total**	
	2022	2021	**2022**	2021	**2022**	2021
	HK$M	*HK$M*	***HK$M***	*HK$M*	***HK$M***	*HK$M*
Within 1 year	**286.1**	493.9	**744.7**	1,117.2	**1,030.8**	1,611.1
Between 1 and 2 years	**88.8**	13.5	**–**	–	**88.8**	13.5
Between 2 and 5 years	**22.5**	37.3	**–**	–	**22.5**	37.3
	111.3	50.8	**–**	–	**111.3**	50.8
	397.4	544.7	**744.7**	1,117.2	**1,142.1**	1,661.9

11 BORROWINGS (CONTINUED)

The carrying amounts of the bank and other borrowings are denominated in the following currencies:

	2022	2021
	HK$M	*HK$M*
EUR	**45.2**	111.2
US$	**768.2**	1,222.2
RMB	**163.6**	126.5
Czech Koruna ("**CZK**")	**164.9**	174.9
PLN	**0.2**	27.1
	1,142.1	1,661.9

As at 31 December 2022, the Group had aggregate facilities of approximately HK$3,541.7 million (2021: HK$4,067.2 million) for loans, factoring and guarantees. Unused facilities as at the same date amounted to approximately HK$1,135.8 million (2021: HK$818.3 million) which were uncommitted facilities. These facilities are secured/guaranteed by certain properties, plant and equipment, right-of-use assets, investment properties, inventories, trade receivables and bank deposits with an aggregate amount of HK$3,722.9 million (2021: HK$4,330.7 million).

Included in other borrowings was a Syndicated Term Loan drawn down in 2018 with a principal balance of US$95.0 million (2021: US$140.0 million) as at 31 December 2022, of which US$5.0 million was overdue on that day. Management repaid US$13.2 million of the loan principal on 31 January 2023, including the aforesaid overdue balance and subsequently extended the maturity date of the remaining loan balance from 31 March 2023, with certain partial repayment instalments, to 30 March 2024. See Note 2.1 for details.

As at 31 December 2022, current bank borrowings of HK$163.0 million (2021: HK$175.2 million) could not meet certain restrictive financial undertakings and might be immediately repayable should the relevant bank exercise their right of demand. Subsequent to year-end, the Group has obtained waiver letters from relevant banks confirming that such non-compliance would not trigger their immediate demand for repayment of these loan balances.

The carrying amounts of the borrowings approximate their fair values.

12 TRADE, BILLS AND OTHER PAYABLES

	2022	2021
	HK$M	*HK$M*
Trade payables	**1,418.8**	1,801.3
Contract liabilities *(Note)*	**57.9**	40.0
Other taxes payable	**38.0**	53.8
Accrued salaries and employee benefits	**138.8**	164.6
Provision for claims and contingencies	**2.4**	3.4
Accrued professional expenses	**39.1**	31.2
Asset retirement obligations	**68.5**	69.5
Other payables and accruals	**113.6**	183.1
	1,877.1	2,346.9
Less: non-current portion		
Asset retirement obligations	**(68.5)**	(69.5)
Other payables	**(30.3)**	(37.3)
	1,778.3	2,240.1

Note:

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2022	2021
	HK$M	*HK$M*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**40.0**	18.1

12 TRADE, BILLS AND OTHER PAYABLES (CONTINUED)

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

	2022	2021
	HK$M	*HK$M*
0 – 90 days	**1,374.0**	1,747.6
91 – 180 days	**25.6**	11.9
Over 180 days	**19.2**	41.8
	1,418.8	1,801.3

The carrying amounts of the trade, bills and other payables approximate their fair values.

CHAIRMAN'S STATEMENT

The year of 2022 had been an extraordinary year for the global social and economic development, during which the COVID-19 pandemic continued to spread, the war between Russia and Ukraine suddenly broke out, and many countries around the world were plunged into food and energy supply crises and suffered from enormous pressure posed by rare inflation and supply chain instability. The recycling industry was also facing complex challenges and impact worldwide, with its production and sales businesses being affected by economic and trade conditions and other factors. In response to the adverse factors, Chiho Environmental Group Limited ("**the Company**" or "**Chiho**") has put forward the policies of "solidifying operation fundamentals, dynamically reducing costs and enhancing efficiency, optimizing structure governance, and improving supply alerts" to continuously strengthen the capabilities to withstand risks and resist impacts of its regional operating entities and continue to deepen its local sales and business expansion. At the same time, we continued to improve our research and development ("**R&D**") and innovation capabilities and adaptability. In 2022, the Company's regional teams joined hands to drive the progress of several projects in Europe and Asia, and to harvest R&D progress so as to relieve the impact from all aspects under the unfavorable economic environment.

REVIEW OF OPERATIONS

On behalf of the board of directors of Chiho (the "**Board**"), I am pleased to present the audited annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2022. The Group's total tonnage and revenue in the fiscal year of 2022 was 3.81 million tonnes and HK$19,574.3 million, respectively. In particular, 2.04 million tonnes was achieved in the first half of the year, representing around 90.7% of the semiannual plan, of which ferrous metal tonnage was 1.74 million tonnes, accounting for around 85.3% of the total tonnage in the first half of the year. In the second half of the year, due to strong economic fluctuations and the aftershocks of the Russia-Ukraine war, trade and sales declined, with total tonnage of 1.77 million tonnes being achieved, representing around 80.0% of the semiannual plan.

The European operations continued to be Chiho's current core business, whose tonnage accounted for more than 90% of the Group's tonnage around the world. The metal tonnage and revenue of European operations was 3.64 million tonnes and HK$17,841.4 million, respectively. During the year, tonnage in the first half of the year was close to expectations at 1.97 million tonnes; while tonnage in the second half of the year fell short of expectations at 1.67 million tonnes. Despite the complex and volatile external environment, the European operations, as the Group's foundation, firmly sticked to the Group's policy of "solidifying operation fundamentals". In addition, under the environment of high inflation and high cost in Europe, the Group and its European entities communicated efficiently and did their best to achieve balance between social costs and production and operation, thus fulfilling the Group's policy of dynamically reducing costs and enhancing efficiency. In 2022, the Group acquired a brown-field investment property in Hungary to develop a metal recycling center in this area, which will enable further growth of our core business and expand material sourcing opportunities for our steel industry clients in this area. The Group has launched a yard development project in Plzen, the Czech Republic, which will bring further growth and strengthen our business networks in the south-west Bohemia region in the Czech Republic. The project is anticipated to be completed and put into production by the third quarter of 2023 and will add 500,000 tonnes of metal recycled to the Group per year.

In North America, results declined to varying degrees as the Group conducted the sale of loss-making non-core businesses to realize investments in the strategic priority areas and be in line with the Group's policy of optimizing structure governance.

In Greater China, as a result of the containment measures of the pandemic, the sales and production in the region were subject to heavy resistance, and the operating entities in the region were subject to different degrees of pressure posed by production stoppages, staff reductions and logistics delays. In response, the Company maintained a high degree of industry sensitivity, enhanced the efficiency of resumption of production, properly relocated personnel and actively maintained communication with upstream and downstream suppliers and sellers, thus fulfilling the Group's policy of improving supply alerts. Meanwhile, good progress was made on the projects under construction and new projects. In September 2022, the end-of-life vehicle intelligent recycling project of Chiho located in Taizhou, Zhejiang Province, China officially commenced construction. By the end of 2022, the project had completed the construction of the end-of-life vehicle plant and the installation of facilities, as well as the basic design, equipment selection and confirmatory trial of electric vehicle battery recycling. In November 2022, Chiho's joint venture company located in Binzhou City, Shandong Province, China successfully obtained the Certificate of Enterprise Qualification for End-of-life Vehicle Recycling and Dismantling and officially launched the end-of-life vehicle recycling and dismantling production line. Among other things, monthly production capacity of over 1,500 tonnes has been achieved in the joint venture company's recycled aluminum production line. Moreover, by the end of 2022, Chiho has successively obtained 12 invention patents in China, which were licensed by China National Intellectual Property Administration and assessed by experts. In Southeast Asia, Chiho improved the workers' knowledge and skills in recycling, and will continue to improve production efficiency of staff in the region to achieve a significant increase in metal scrap production in this region.

PROSPECT

Even though the conflict between Russia and Ukraine is still not over and the global economic recovery is still facing many challenges, addressing climate change and calling for new renewable resources has become an urgent need for major economies. The current energy crisis has also made countries realise that renewable energy is of lower carbon, more economical and safer. In 2022, the 27th United Nations Climate Change Conference (COP27) reaffirmed the goal of limiting global warming to 1.5 degrees Celsius above pre-industrial temperatures and the need to reduce global greenhouse gas emissions in the coming 20 years and halve them by 2030. In this regard, the European Union is committed to updating its regional carbon reduction target from 55% to 57%. China will also further implement its dual carbon commitment. According to the Progress on the Implementation of China's Nationally Determined Contributions (2022), China's carbon emission intensity (i.e. CO_2 emissions from its organised GDP) in 2021 was 3.8% lower than that in 2020 and 50.8% lower cumulatively than that in 2005, which is closer to China's target of reducing its carbon intensity by more than 65% by 2030 compared to 2005. This is closer to the target of reducing China's carbon intensity by more than 65% by 2030. This carbon reduction achievement has a connection that cannot be ignored with the green development measures announced successively since the "First Year of Carbon Neutrality" of China in 2021.

It is believed that major economies will continue to promulgate directive policies on green and low-carbon industries and accelerating energy transformation. The recycling industry will also continue to develop against the backdrop of policy support, social concern and technology advancement, and will become a trend of the times.

At the same time, the impact of the pandemic has gradually weakened, especially with the adjustment to China's pandemic prevention policy and the gradual resumption of various foreign and domestic interactions, China's economy is expected to resume its growth rate, adding momentum to the recovery of world economy. This will also have a positive impact on Chiho's joint ventures and self investment projects in China.

Despite the turbulence of 2022, we still celebrated the 150th birthday of Scholz, our main operating entity in Europe, amid the pressure and challenges. This celebration is a look back at 100 years of history and also a new start for us to overcome the unknown challenges and embrace the changes in our industry. Over the years, we have achieved consistently good results in key business areas around the world, which is a testament to our continued competitiveness in technology, services and operations, as well as our ability to provide reliable solutions to our partners and customers. We are confident that our creativity, adaptability and resilience will support us through the global economic downturn, save momentum for long-term development and continue to provide our customers with excellent services and solutions in related fields.

Therefore, we need to continuously improve our recycling services and scientific research capabilities, provide customers with the most competitive solutions, continue to consolidate our core business in Europe, and expand our new business in Asia. Nowadays, faced with the rapid development of high technology, how to integrate traditional R&D with intelligence and data is a topic that this industry needs to face, and it is also an effort we need to make in the field of scientific research and innovation. Amidst the complex global economic environment, open and flexible operation mindset and informationalized management mode are also the areas where we need to invest. Let's always get prepared for the world being readjusted to a new normal.

Lastly, I would like to express my sincere gratitude to the Board members, the hard-working and dedicated Chiho staff around the world, as well as our loyal customers and partners who have supported our Group's development over the years. I extend my heartfelt wishes for everyone's physical and mental well-being.

Qin Yongming
Chairman of the Board

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group sold 3.81 million tonnes of recycled products in 2022. While the tonnage sold showed a decrease of 12.0% comparing to 4.33 million tonnes sold in 2021, revenue for the year has decreased by 10.8% from HK$21,950.4 million in 2021 to HK$19,574.3 million in 2022.

The COVID-19 pandemic and its impact on the Group still continued in 2022, with restrictions on transportation and travel for some of the Group's regional entities. The war between Russia and Ukraine commenced in February 2022 led to a short-term increase in the prices of all commodities. However, in mid-2022, with the high price increase for electricity in Europe, consumers of scrap metals reduced their inflow and focused on producing only ordered volumes to optimize their expenses. As the major consumers for ferrous scrap would use electric arc furnaces and their operation capacity would mainly depend on the cost of electricity and therefore result in lower demand for ferrous scrap. Prices for scrap products were weakened significantly in the second half of 2022 and have remained stable since then, but are still significantly lower than the same period in 2021.

The European segment continues to be the key contributor in terms of revenue and profit of the Group. The contribution from the Asian segments continued to grow in 2022 and the repositioning of businesses and the potential disposals of assets for working capital purpose are expected to be completed in 2023.

Gross Profit/Margin

Gross profit for the year was HK$1,207.7 million (2021: HK$1,888.5 million), a decrease of 36.0% compared to the last financial year with a gross profit margin of 6.2% (2021: 8.6%). The decrease in the gross profit margin is a result of increasing provision of inventories in a time of decreasing scrap prices since May 2022. Also, the increasing freight cost and the higher energy costs as a result of the disruptions in the global supply chain of scrap products in Europe and the impact of the Russo-Ukrainian War respectively have eroded the margin.

Operating expenses

Total operating expenses for the year were HK$974.8 million (2021: HK$1,245.7 million), an decrease of 21.7% over the last financial year, and as a percentage of revenue, it has decreased to 5.0% (2021: 5.7%). The decrease in operating expenses was attributable to the overall implementation by the Group of the policy of "cost reduction and efficiency improvement", which achieved higher cost efficiency.

Profit Attributable to Shareholders and Earnings Per Share

Profit attributable to shareholders of the Company for the year ended 31 December 2022 was HK$264.5 million, as compared to HK$702.0 million in the last financial year.

Basic earnings per share for the year ended 31 December 2022 was HK$0.16 as compared to HK$0.44 in the last 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$699.4 million (2021: HK$1,195.2 million). 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 2022 were HK$4,824.2 million (2021: HK$4,873.9 million), an decrease of 1.0% from as at 31 December 2021. Shareholders' funds per share decreased from HK$3.04 as at 31 December 2021 to HK$3.01 as at 31 December 2022.

The Group's financial resources has remained steady. As at 31 December 2022, the Group had cash, various bank balances, pledged and restricted bank deposits amounting to HK$766.0 million (2021: HK$924.7 million), used mainly for repayment of external borrowings and working capital needs for expansion of business operations.

The current ratio improved from 1.13 as at 31 December 2021 to 1.31 as at 31 December 2022. 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 2022 were HK$1,142.1 million (2021: HK$1,661.9 million). Such borrowings were mainly utilized for the purchase of mixed recycle metal and working capital, and mainly denominated in Euro, US Dollar and Renminbi. Approximately HK$935.0 million (2021: approximately HK$1,354.7 million) of borrowings are at fixed interest rates.

The gearing ratio of the Group as at 31 December 2022 was 13.3% (2021: 16.7%) which is calculated based on the total borrowings divided by our total assets. Through the Group's cost reduction and efficiency improvement by strengthened management and control, the Group's gearing ratio decreased reasonably and the pressure on external debt continued to be reduced.

Working Capital Change

Overall, our net operating cycle has remained healthy during the current year, showing our commitment to improve operating efficiencies.

Inventories as at 31 December 2022 were HK$1,323.7 million (2021: HK$1,567.8 million) mainly due to the lower scrap price. The inventory turnover days, which is calculated based on inventory balance as at year ended divided by cost of sales for the year, times three hundred and sixty five days, for the financial year was 26 days (2021: 29 days).

Provision for inventories as at 31 December 2022 were HK$58.6 million (2021: HK$43.0 million).

Trade and bills receivables after netting loss allowance as at 31 December 2022 were HK$1,290.5 million, decreased from HK$1,774.9 million as at 31 December 2021. Debtor turnover days, which is calculated based on trade and bill receivables balance after netting loss allowance as at year ended divided by revenue for the year, times three hundred and sixty five days, for the financial year decreased from 30 days in last financial year to 24 days in this financial year.

Trade and bills payables as at 31 December 2022 were HK$1,418.8 million (2021: HK$1,801.3 million). Creditor turnover days, which is calculated based on trade and bills payables balance as at year ended divided by cost of sales for the year, times three hundred and sixty five days, for the year ended 31 December 2022 were 28 days (2021: 33 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 2022, the Group invested HK$453.8 million (2021: HK$260.5 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 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 3.64 million tonnes of recycled products for the year ended 31 December 2022, a decrease of 7.4% compared to the last year of 3.93 million tonnes. Segment revenue was HK$17,841.4 million, decreased by 6.8% against HK$19,150.0 million of demand for metals were maintaining strong in the first half of 2022. The significant price increase for electricity in Europe reduced the demand and price for scrap metals in the second half of 2022. In the second half of 2022, the sales volume were reduced by around 15% compared to first half of 2022 driven by less demand and the general seasonality in Europe due to summer holidays and Christmas in the second half of the year. Revenue decline is driven by the significant price reduction for ferrous from May to July around 40% to 50% per tonne.

European segment's gross profit for the year was HK$1,241.7 million, decreased by 23.5% as compared to HK$1,622.8 million of last year, and gross profit margin for the year also decreased from 8.5% in 2021 to 7.0% in the current year. The European segment experienced significant increase in logistic and transportation costs from breakdown of global supply chain of scrap products in Europe due to high energy costs.

Segment profit for the year was HK$707.8 million (2021: HK$994.0 million), decreased by 28.8% as compared to last year. With the high electricity cost since second half of 2022, that eroded European segment's profitability.

North America

Since the North American segment has transferred into assets held for sale and there is no operation left. There won't be further negative impacts on the group result in the future. At the beginning of January 2023, the main assets located in Mexico were sold. The North American segment, therefore, reported 0.001 million tonnes of recycled products sold for the year (2021: 0.21 million tonnes), and a segment revenue of HK$35.7 million (2021: HK$1,012.4 million).

Segment gross loss for the year was HK$3.4 million (2021: gross profit of HK$191.4 million) and gross loss margin was at 9.6% (2021: gross profit margin 18.9%). As such, the North American segment has a loss of HK$17.9 million (2021: profit of HK$182.3 million).

Asia

The Asian segment sold 0.17 million tonnes of recycled products in the current year, a decrease of 15% against 2021 of 0.20 million tonnes sold. Electric motor recycling business continued to grow in the Southeast Asia and become one of the contributors to the Asia segment besides the business of metal trading in China. As a result, the segment revenue decreased by 16.1% from HK$2,130.8 million in 2021 to HK$1,787.1 million.

With the limitation of importing the raw materials like electric-motor in Malaysia for the Southeast Asian operations which affected the operation flow in the second half of 2022, segment gross loss for the year was HK$15.7 million, a decrease of 116.7% as compared to segment gross profit HK$94.0 million in 2021. Gross profit margin also decreased from 4.4% in 2021 to gross loss margin 0.8% in 2022. As such, segment loss was HK$104.0 million as compared to segment profit HK$18.9 million 2021.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2022, 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$3,722.9 million (31 December 2021: HK$4,330.7 million) to secure borrowings and general banking facilities granted to the Group.

As at 31 December 2022, 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$72.9 million (31 December 2021: HK$103.0 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$19.0 million and HK$49.9 million (31 December 2021: HK$19.5 million and HK$53.7 million), respectively. As the risk of default is very remote and there is no history of default, no financial guarantee liability was recognized.

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 shareholder' loan assignment dated 24 June 2010 between, amongst others, Delco Asia and the Company. The Company filed its defense 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 favor 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 defense on 24 March 2017 and the plaintiff filed its reply to the Company and CTHK's defense 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, 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 and 6 March 2023 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 (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 and the joint administrators of Loncin Restructuring Companies in relation to the Restructuring will continue to monitor the implementation of the Restructuring plan. There is uncertainty 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. In the event that the Restructuring is implemented, the ultimate beneficial owner of the Controlling Shareholders may be changed. The Company was informed by the leader of a consortium of investors that will participate in the Restructuring and will invest in and purchase assets from Loncin Restructuring Companies that, on 2 March 2023, it has obtained a confirmation from the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong that it will not trigger a mandatory general offer for the shares of the Company as a result of the Restructuring under Note 8 to Rule 26.1 of the Takeovers Code.

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 is of the view that the Restructuring mentioned above currently has no material adverse impact on the operation and the financial status of the Company.

The Company will closely monitor the subsequent development and effect of the Restructuring. Further announcement(s) will be made by the Company as and when appropriate or required in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and/or the Securities and Futures Ordinance.

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 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 31 December 2022, the Group had a workforce of 2,748 (31 December 2021: 2,866) employees. In addition, as at 31 December 2022, we engaged approximately 459 (31 December 2021: 306) 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 year were approximately HK$975.6 million (2021: HK$1,111.0 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 2022.

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 2022 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 2022, 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

During the year ended 31 December 2022, Mr. Li Linhui was the chairman of the Board and temporarily performed the responsibilities of the role of chief executive officer.

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.

With effect from 21 March 2023, Mr. Li Linhui has resigned as an executive Director. He has ceased to be the chairman of the Board and has ceased to assume the responsibilities of chief executive officer of the Company. Mr. Qin Yongming has been appointed as an executive Director and the chairman of the Board. Mr. Zhang Wei has been appointed as an executive Director and the chief executive officer of the Company. Given that the roles of chairman of the Board and chief executive officer are now separate and are no longer performed by the same individual, as at the date of this announcement, the Company complies with all the applicable code provisions of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. All Directors have confirmed, following specific enquiries made by the Company of all such Directors, that they had complied with the required standard set out in the Model Code during the year ended 31 December 2022.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2022 (2021: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

Further announcement(s) will be made by the Company in respect of the proposed date on which the forthcoming annual general meeting will be held and the period during which the register of members of the Company will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting.

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 audited consolidated results for the year ended 31 December 2022.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to this set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

EXTRACT OF INDEPENDENT AUDITOR'S OPINION

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

Our Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that, as at 31 December 2022, the Group had total borrowings of HK$1,142.1 million of which HK$1,030.8 million are current borrowings. Included in the current borrowings as at 31 December 2022 was a secured syndicated term loan with an outstanding balance of HK$742.4 million fully repayable by 31 March 2023, while the Group's cash and cash equivalents amounted to HK$713.7 million. These conditions, along with other matters as set forth in Note 2.1.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chihogroup.com). The annual report of the Company for the year ended 31 December 2022 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in April 2023.

APPRECIATION

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

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

Hong Kong, 29 March 2023

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. Zhang Wei *(Chief Executive Officer)*
Independent Non-Executive Directors:	Prof. Li Zhiguo Prof. Yan Guowan Mr. Szeto Yuk Ting

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