Scholz Holding GmbH, London

Half Year Group Accounts and Management Report
30.06.2016

Contents

I.

Scholz Holding GmbH, London
Consolidated balance sheet as of 30 June 2016

Assets			31.12.2015
	EUR k	EUR k	EUR k
A. Fixed assets			
I. Intangible assets	12.623		14.682
II. Property, plant and equipment	343.290		373.418
III. Financial assets	46.371		65.912
		402.284	454.012
B. Current assets			
I. Inventories	96.580		118.251
II. Receivables and other assets			
1. Trade receivables	151.497		74.071
2. Other assets	108.588		121.093
	260.085		195.163
III. Cash on hand and bank balances	36.755		36.450
		393.420	349.865
C. Prepaid expenses		8.749	5.908
D. Deferred tax assets		10.410	0
E. Capital Deficit		533.172	455.407
		1.348.035	1.265.192

Equity and liabilities			31.12.2015
	EUR k	EUR k	EUR k
A. Equity		0	0
B. Translation reserves		2.245	2.032
C. Special items		67.878	65.790
D. Liabilities			
1. Bond	182.500		182.500
2. Liabilities to banks	716.371		712.356
3. Trade payables	132.334		244.295
4. Other liabilities	240.096		55.301
		1.271.301	1.194.451
E. Deferred income		1.834	1.804
F. Passive latente Steuern		4.776	1.116
		1.348.035	1.265.192

II.

Scholz Holding GmbH, London
Consolidated income statement for 01.01.-30.06.2016

			01.01.-30.06.2015
		EUR k	EUR k
1.	Total output	896.702	1.330.255
2.	Other operating income	34.115	19.801
3.	Cost of materials		
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	637.855	1.009.309
	b) Cost of purchased services	57.118	58.637
		694.973	1.067.946
4.	Amortization, depreciation and write downs of intangible assets and property, plant and equipment	27.425	30.274
5.	Other operating expenses and Personnel expenses	200.226	226.083
		227.652	256.357
6.	Financial result	-30.391	-29.915
7.	Results from ordinary activities	-22.199	-4.161
8.	Extraordinary result	-41.928	-6.081
9.	Income taxes and other taxes	686	4.121
10.	Group retained earnings	-64.813	-14.362

III. Group Management Report for the Six Months Ending 30 June 2016

A. Development of Business

1. General Economic Situation

The global economic development since January 2016 exceeded the expectations of IWF. Nevertheless the first half year 2016 was shaped by relevant events, i.e. the referendum of Great Britain to leave the Eurozone, continuation of low or even negative interest rates and the European refugee crisis. Above all the latter will test the stability of the partnership in the European Union. Furthermore some traditional national economies have still not recovered by consequences of the financial crisis - partly influenced by missing far-reaching structural reforms - as well as the subsequent recession of years 2008 and 2009 and contend still with low or negative growth rates and high unemployment.

In the first half year 2016 Germany recorded a slight economic growth of 1.1% compared to the previous half year. This is mainly related to additional measures in regard to the inflow of refugees as well as the above-average economic output of construction industry and services. In Germany, however, the scrap foreign commerce decreased during this period. Both steel imports and exports declined by 10.7% respectively 10.6%.

The raw material markets were affected by overcapacities and price volatilities in the first half year 2016. The significant investments of recent years led in the three relevant markets iron ore, steel scrap and steel to a clear supply surplus. Although the prices in the first quarter 2016 could stabilize at a level that is still quite low compared to previous years there was a strong decline of volume of old steel scrap (i.e. cars) and run into shortness in the range of secondary scrap.

The prices for steel scrap according to the BDSV index (one of the major indices in the steel scrap industry) were highly volatile in the first half of the year. This reflects the low price in March of EUR 133.90 per metric ton, on the other hand the high price in May of EUR 230.40 per metric ton and the significant price fall by 27% down to EUR 168.10 per metric ton in June.

The development for non-ferrous metals was similar volatile in first half year 2016. Prices for copper ranged from USD 4.300 per metric ton to USD 5.100 per metric ton. Since January the aluminum price increased from USD 1.470 per metric ton to USD 1.630 per metric ton in June (+10.9%), but the price were also subject to massive fluctuations. The nickel prices developed similarly to the aluminum prices. The increasing trend in January from USD 8.550 per metric ton up to USD 9.400 per metric ton in June (+9.9%) was also dominated by significant price distortions.

B. Development of Business over the Period under Review

1. Significant Events during the Course of the Year to Date

A significant event in fiscal year 2015 and in the first half of 2016 was the discontinuation of operations with regard to its investment in the Scholz Group in September 2015 by the minority investor Toyota Tsusho Corporation (TTC), Nagoya, Japan, which had acquired a stake in 2014. The transfer of the TTC shares and the shareholder loan became legally effective at the beginning of 2016.

In particular, this meant that:

- TTC’s shares (39.9%) were sold to the Scholz family (24.9%) or, in some cases, to a trustee of Scholz Holding (15%),

- A shareholder loan of EUR 60m (plus accrued and unpaid interest) granted by TTC was transferred to the trustee of Scholz Holding GmbH.

In order to master the structural and financial challenges in the Scholz Group, Scholz Holding GmbH embarked on a comprehensive restructuring program. Its key aspects were:

- Initiating the restructuring of balance sheet liabilities. In this context, Scholz Holding’s center of main interest (COMI) was relocated to London, UK, on 14 January 2016. All employees (apart from management) and all operations of Scholz Holding GmbH were transferred to the newly founded Scholz Management Service GmbH, Essingen.

- Initiating an investor process to win new investors or lenders, thereby raising additional funds for the Group.

- In connection with these comprehensive restructuring activities and the relocation of the COMI to London, UK, Mr. Parag-Johannes Bhatt and Dr. Kay Oppat stepped down from their roles as general managers of Scholz Holding GmbH on 1 January 2016. As part of the restructuring measures Scholz Holding's management board has been reconfigured and consists now of Ian Bowden and Richard Lynn.

Alongside the corporate changes and related comprehensive restructuring of the entire Group, the operational realignment of the Scholz Group initiated in fiscal years 2013 and 2014 was continued. In particular, entities and assets that did not belong to the Group’s core business were sold in this context. Management recognized further significant write-downs in the first half of 2016 which were attributable to the persistently difficult conditions within the sector. Added to the fact that the recycling market is being hit by a steady decline in scrap prices, press coverage of the exit of TTC and the difficult financial situation at Scholz Holding GmbH had a negative impact. For the first half year 2016 these two developments in particular led to a consolidated net loss for the year of EUR 64.8m and are thus the main reason for the decline in consolidated equity to negative EUR 533.2m.

2. Restructuring of the Scholz Group

The fact that most of the balance sheet and financial restructuring, which commenced in September 2015, was successfully completed in August 2016 is of central importance for the Scholz Group.

A subsidiary of Chiho Tiande Group Ltd. purchased the majority of Scholz Holding GmbH’s existing loans from the respective creditors. The ownership of the following loans was transferred with effect from 22 July 2016. The loans transferred include an existing syndicated loan (in two tranches with a total credit facility of EUR 494m; EUR 471m was outstanding at the time the ownership of the loan was transferred to Chiho Tiande Group Ltd.), promissory notes of EUR 43.2m and a further bilateral loan of EUR 10.0m. Overall, loans with a nominal amount value of EUR 524.2m (including interest accrued but not yet paid out) were therefore purchased by Chiho Tiande Group Ltd.

A key component for the financial restructuring of the Scholz Group is the restructuring agreement signed on 20 July 2016 and closed on 31 August 2016. Per 31 August 2016 the subsidiary of Chiho Tiande Group Ltd. released loans of EUR 224.2m (plus interest accrued but not yet paid out). This means that, from the perspective of the Scholz Group, only EUR 300m of the original EUR 524.2m (including interest) remain as liabilities, which have been split between Scholz Holding GmbH (EUR 100m) and Scholz Recycling GmbH (EUR 200m).

Aside from the abovementioned purchases of loans, the following measures were carried out in connection with balance sheet restructuring:

a) A bond with a nominal value of EUR 182.5m (including interest accrued but not yet paid out of EUR 201.9m) issued by Scholz Holding GmbH and traded on the Vienna and Frankfurt am Main stock exchanges was repaid on 31 August 2016 in full by means of a non-recurring settlement payment of approx. EUR 16.0m. The agreement provides for a potential additional payment of EUR 5.8m if the Scholz Group's EBITDA (excluding minority interests) exceeds EUR 100m either in 2016 or 2017.

b) Various interest rate swaps with negative market values of EUR 21.9m as of 31 December 2015, whose underlying transactions ceased to exist, were settled under two agreements dated 22 July 2016 by means of a non-recurring payment of EUR 5.8m.

c) A loan obligation of Scholz Holding GmbH of EUR 6.9m was repaid by means of an exchange transaction. In this connection, a building complex located in Romania valued at around EUR 2.5m (estimated by Scholz Holding GmbH) toghether with a cash settlement served as repayment of a significant portion of the principal.

d) In addition, under the restructuring agreement a subsidiary of Chiho Tiande Group Ltd. acquired shareholder loans of EUR 60m (plus interest of EUR 6m accrued but not yet paid out as of 30 June 2016), which were originally granted by TTC and had in the meantime been transferred to a trustee, from the trustee. Such loan has been released by the subsidiary of Chiho Tiande Group Ltd. with effect as of 31 August 2016. Please refer to the explanations in B 1. "Significant events during the course of the year to date".

Chiho Tiande Group Ltd. also contributed to the further stabilization of the Group by making available an additional credit facility of EUR 80m to Scholz Recycling GmbH, Essingen. The credit facility was granted on 21 July 2016 of which EUR 56m has been utilized to date. The utilization of the remaining EUR 24m is tied to certain conditions (in particular evidence of liquidity requirement). In addition, this loan is planned to be either converted to a deeply subordinated shareholder loan or capitalized.be converted into book equity at a later stage. The focus on the Scholz Group's core business was also strengthened further in 2016. Especially Scholz Alu Stockach GmbH, Stockach, as well as Battle Tank Dismantling GmbH, Mühlhausen, were sold within the first five months of fiscal year 2016.

The majority of the financial liabilities of the US subsidiaries included in the consolidated financial statements of the Scholz Group were acquired by Chiho Tiande Group Ltd. in the first half of 2016. Currently negotiations on the acquisition of the shares of the minority shareholders by the Scholz Group are proceeding. Taking into account the likely options at present for the Scholz Group to acquire the minority interests, management assumes, given the requirements already met, that it is likely that the US companies will continue to operate as a going concern.

3. Sales development

In the first half year 2016, the total output of the Scholz Group amounted to c. EUR 0.9 billion. The decline in comparison to the corresponding prior year period (first half year 2015: EUR 1.3 billion) by EUR 0.4 billion or 31% is furthermore mainly affected by the difficult market situation in the first quarter and the ongoing restructuring process.

4. Development of Profitability

In the first half year 2016 the Scholz Group realised earnings before interest, tax, depreciation and amortization (EBITDA) and extraordinary items of EUR 35.6m (first half year 2015: EUR 56.0m).

Despite the deviations of the first half year of 2015, the operating results of the Group for the first six months are only slightly below budget due to the rising scrap prices in April and May (expressed in the form of a normalized EBITDA).

Despite the negative effect on sales and the related effect on the total gross profit, the gross margin could be compensated. This was mainly influenced by the realized measures in Germany generating a reduction of the material expense ratio of 2.8 percentage points to a ratio of 77.5%.

Furthermore the divestments, further cost reduction measures and decrease of volume driven expenses led to a reduction in other operating expenses and personnel cost.

The positive effects of the ongoing restructuring process initiated in 2013 were not sufficient on an overall basis to offset the mainly market-related sales shortfall. At

EUR -22.2m, the result from ordinary activities (EBT excluding extraordinary effects) were therefore negative (first half year 2015: EUR -4.2m loss).

As at June 2016 the Group shows an extraordinary result of EUR -41.9m. This is essentially caused by a write-down of individual shares of non-consolidated companies and bad debt as well as the costs for the financial restructuring and the proceeded investor process.

For the six months ending 30 June 2016, the Group shows a loss after tax (EAT) of EUR 64.8m (first half year 2015: EUR -14.4m).

5. Investments

In the first half year 2016, investments in tangible fixed assets amounted to EUR 8.4m (first semester 2015: EUR 21.0m) thereby being significantly lower than the depreciation on tangible fixed assets in an amount of EUR 20.7 million (first semester 2015: EUR 25.9m). Additional divestitures as well as other asset disposals and currency effects in the Group resulted in a reduction of tangible fixed assets of EUR 17.8m.

Apart from individual modernisation measures, investments essentially are asset replacements.

6. Financing

Credit facilities available to the Scholz Group as at 30 June 2016 for its ongoing financing requirements individually comprise three tranches of the syndicated loan (totaling EUR 542.0m plus interest accrued but not yet paid out), a syndicated real estate loan (EUR 38.8m), an Austrian bond(EUR 182.5m plus interest accrued but not yet paid out), various promissory notes (EUR 43.3m plus interest accrued but not yet paid out), bilateral loans (EUR 50.3m) and bilateral credit lines (EUR 75.4m) as well as a subordinated shareholder loan from TTC granted in the amount of EUR 60.0m (plus interest accrued but not yet paid out). The latter shareholder loan, the promissory notes and a EUR 10m bilateral credit line as well as part of the syndicated loan have been extinguished by releases dated 31 August 2016. Further, the Austrian bond has been settled by a one-off payment on 31 August 2016.

In order to limit risks from the abovementioned financial instruments, mostly being subject to variable rates, the Scholz Group has concluded corresponding interest rate hedges (generally interest rate swaps).

The maximum volume of the existing asset-backed securities program (ABS program), which has been in existence since 2001, came to EUR 121.2m as of 30 June 2016 (prior year: EUR 181.8m), of which EUR 87.9m had been utilized.

In addition, the factoring agreement that has been in place since 2007 was continued. On the basis of this agreement, receivables of up to a total of EUR 20.0m (EUR 8.8m of which had been utilized as of 30 June 2016) can be sold. Furthermore, a reverse factoring financing volume totaling to EUR 55.0m is available to the Group (EUR 55.0m of which had been utilized as of 30 June 2016).

In addition to the components of the financing described above, similar to prior years, lease financing of movable fixed assets was an important additional component secured in the long-term for the subsidiaries as part of the corporate financing arrangement.

As of 30 June 2016, Scholz Holding GmbH had freely available, i.e., approved but unused financing facilities of EUR 51.6m (excluding ABS, factoring and reverse factoring).

In addition to these explanations per 30 June 2016 please also refer to B 2 Restructuring of the Scholz Group and the coherent development in the financing structure.

7. Personnel and Social Matters

The average number of staff members of Scholz Group employed during the first half of 2016 amounted to 4,632 (average first half 2015: 5,263). Staff costs for the first half year 2016 amounted to EUR79.6m (first semester 2015: EUR 86.2m).

8. Environmental Matters

All the scrap processing facilities of the Scholz Group located in Germany have the status of an approved specialised disposal business in accordance with the relevant legislation (“Kreislaufwirtschaftsgesetz”) and have been granted the relevant licenses in accordance with the relevant specialised disposal business regulations

("Entsorgungsfachbetriebeverordnung" or EFBV). Larger units are moreover certified in accordance with ISO 9001:2008.

C. Comments on Significant Risks for Future Business Development

1. Restructuring, Realignment and Opportunities

The release of the loans and the planned conversion of debt into equity by Chiho Tiande Group Ltd. as well as its declaration of subordination of the remaining shareholder loans to the extent necessary and any further required loan waivers should help to significantly reduce the Group's interest burden and will also improve the Group's profitability. As a result, one of the greatest problems the Scholz Group was facing in recent years, i.e., the Group using almost all its cash flows from operating activities for interest payments alone, will be largely resolved.

We assume that the Group will be able to better serve existing customer relationships and also generate new business in the future. Opportunities lie in particular in regaining volumes which were reduced in the past due to the Group's financial situation.

In addition, we assume that new opportunities will arise in particular in Asia due to the fact that the future majority investor (Chiho Tiande Group Ltd.) in the Scholz Group has excellent connections in Asia.

Aside from balance sheet restructuring, changes to improve control are also being made within the Group on an ongoing basis. An important factor in this connection is the fact that the shares in Kovosrot Group CZ, a. s., Prague, Czech Republic, were separated from the Austria/Czech Republic region and Scholz Recycling GmbH is now indirectly the sole shareholder of this company. Furthermore there are currently discussions with the US minority shareholder to take over the shares and incorporate the companies completely into Scholz Group. In addition, the focus on the Scholz Group's core business was strengthened, with Scholz Alu Stockach GmbH and Battle Tank Dismantling GmbH in particular having been sold.

2. Risks

Risk management is implemented on a group-wide basis. Risk reporting is subdivided into high, middle and low risks. It is supported by corresponding IT systems, making it highly flexible.

The main high risks concern strategic risks, risks to business development and the organization, external risks (country-related risks and political influences), risks relating to processes and value added, risks from property and liability damage, risks from manipulation, criminal activity and misconduct as well as financial risks. The developments of the global economy and financial markets as a whole as well as the future development of the steel industry and primary raw materials sector are also considered to constitute fundamental risks. With respect to risks relating to the overall economic environment reference is also made to our discussion of the development of the industry and the economy as a whole, which includes a commentary on general economic and sector-specific risks.

Medium risks are considered to include the implementation of the Group’s organizational restructuring. Furthermore, the high risk matters listed above may also constitute medium risks to the extent that, from a group perspective, overall effects are not material or where offsetting effects arise, for instance if the profitability of individual regions is adversely or positively affected by currency fluctuations.

In addition to general economic and sector-specific risks, we highlight the following risks relating directly to the business:

- Implementation risks with respect to the planned disposals of non-core business activities.

- Significant dependence on price developments for scrap and secondary metals, which we are not in a position to influence. Furthermore, risks result from foreign exchange rates and price volatilities on exchanges.

- Approval and authorization risks, regulatory risks concerning the recycling of used materials and environmental risks.

- The Scholz Group is subject to certain uninsured or uninsurable risks.

- A further intensification of the currently already significant competitive pressure, e.g., due to continuing overcapacity.

- Intensification of political, legal and economic risks in the core markets of the Scholz Group.

- Risks arising as a result of possible litigation as well as other proceedings before courts, public sector institutions and public authorities.

- General management risks such as dependence on key personnel.
- Further adaptation of the risk management system to the organizational structure of the Group.

The ongoing monitoring of these business risks by management, the internal audit function, operational management as well as the controlling/accounting/treasury functions enables the identification of relevant issues on a timely basis, so that appropriate prevention or counter-measures can be implemented in the short term.

Possible liquidity risks inherent in the underlying volatility of the iron and metal prices are countered by monitoring the liquidity situation closely and carrying out supplementary scenario analyses as well as liquidity forecast calculations on a rolling basis.

Anticipatory hedging is only used in exceptional cases and if there is evidence to support the likelihood of the hedged transaction occurring and the hedge being effective.

In addition, there are indications of soil contamination on land in Denmark, the Czech Republic and Buffalo, USA. Provisions were recognized in this connection to the extent that an external obligation exists. Further costs exceeding the provisions may be incurred by the Scholz Group in the future.

The successful conclusion of the investor and restructuring measures that have been initiated is of key significance for the Scholz Group to achieve the planned improvements in the net assets, financial position and results of operations of the group led by Scholz Holding GmbH and its group entities, including but not limited to the projected relief from the debt burden to improve the composition of the balance sheet and book equity and to improve the liquidity of the group led by Scholz Holding and its group entities. Given the fact that Chiho Tiande Group Ltd. (or a subsidiary thereof) has already acquired significant loans of Scholz Holding GmbH, initiated specific measures to secure the Group’s liquidity and will implement the Scholz Group’s realignment in the short term, management considers it more likely than not that the Group will be able to continue as a going concern.

3. Expected Business Development in 2016

The Group’s business development depends in particular on the successful implementation of the investor and financial restructuring process.

For the second half of 2016, management anticipates that the Group's operating business will develop in line with 2015. Given the overall low prices in the scrap market (in particular in the first three months of 2016), revenue is expected to fall short (down by just under 25%) of the prior-year level again, with normalized EBITDA (i.e., adjusted for one-time effects) expected to increase slightly to around EUR 72m due to margin improvements. However, this assumption does not yet reflect the fact that the new investor intends to provide the Group with an improved level of capital.

The market for secondary materials is on the path to recovery and normalization due to the stronger price discipline of Chinese steel exporters. Management also assumes that this positive trend will stabilize over the course of fiscal year 2016 and that we will see a return to less demanding market conditions.

The assessment of the suitability and feasibility of restructuring the Scholz Group has been examined by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, since fall 2015 and has been positively confirmed in the final assessment per 30. August 2016.

In addition, we assume that the expected entry of Chiho Tiande Group Ltd. and the restructuring measures planned and to a wide extent already implemented create the prerequisites for a positive and profitable development of net assets, financial position and results of operations in the long term and that the balance sheet and economic and financial restructuring will ensure the Scholz Group's solvency in the medium term.

London, 30 September 2016

The Management Board