HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED
鴻承環保科技有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2265)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2021 together with the comparative figures for the year ended 31 December 2020.

RESULTS HIGHLIGHTS

For the year ended 31 December 2021, the Group's total revenue was approximately RMB257.0 million, representing an increase by approximately 25.1% as compared to total revenue of approximately RMB205.4 million for the year ended 31 December 2020.

For the year ended 31 December 2021, the Group's gross profit was approximately RMB166.6 million, representing an increase by approximately 34.5% as compared to gross profit of approximately RMB123.9 million for the year ended 31 December 2020. The overall gross profit margin increased from approximately 60.3% for the year ended 31 December 2020 to approximately 64.8% for the year ended 31 December 2021.

For the year ended 31 December 2021, the Group's net profit was approximately RMB85.6 million, representing an increase by approximately 17.4% as compared to net profit of approximately RMB72.9 million for the year ended 31 December 2020. By excluding the effect of non-recurring Listing expenses, the adjusted net profit for the year was approximately RMB99.8 million, representing an increase by approximately 29.0% as compared to last year.

Basic earnings per share attributable to the owners of the Company were approximately RMB0.11.

A final dividend of HKD0.0189 per share for the year ended 31 December 2021 was recommended by the Board and payable subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue	3	**257,043**	205,392
Cost of sales	6	**(90,429)**	(81,498)
Gross profit		**166,614**	123,894
Other income	4	**78**	5,187
Other (losses)/gains — net	5	**(156)**	412
Provision of impairment on financial assets		**(1,219)**	(113)
Selling expenses	6	**(2,369)**	(2,886)
Administrative expenses	6	**(39,783)**	(23,962)
Operating profit		**123,165**	102,532
Finance income	7	**412**	40
Finance costs	7	**(6,433)**	(6,083)
Finance costs — net	7	**(6,021)**	(6,043)
Profit before income tax		**117,144**	96,489
Income tax expenses	8	**(31,531)**	(23,624)
Profit and total comprehensive income for the year, all attributable to owners of the Company		**85,613**	72,865
Earnings per share for the year attributable to owners of the Company			
Basic and diluted *(expressed in RMB per share)*	9	**0.11**	0.10

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2021

		As at 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Right-of-use assets		**25,569**	28,299
Property, plant and equipment		**138,619**	130,434
Investment properties		**129,591**	133,977
Intangible assets		**14**	21
Prepayment for non-current assets		**1,167**	2,996
Deferred income tax assets		**99**	743
		295,059	296,470
Current assets			
Inventories	*11*	**22,611**	23,996
Trade receivables	*12*	**55,110**	22,833
Other receivables and prepayments	*13*	**7,161**	9,997
Amounts due from related parties		**—**	33,887
Financial assets measured at fair value through other comprehensive income		**7,130**	1,960
Cash and cash equivalents		**235,593**	45,363
		327,605	138,036
Total assets		**622,664**	434,506
EQUITY			
Equity attributable to owners of the Company			
Share capital		**8,208**	—
Share premium		**534,097**	—
Other reserves		**(300,552)**	42,920
Retained earnings		**146,431**	63,204
Total equity		**388,184**	106,124

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**37,780**	39,880
Dividend payable		**—**	40,600
Deferred income tax liabilities		**2,966**	104
Lease liabilities		**320**	823
Other liabilities	*16*	**108,509**	118,714
		149,575	200,121
Current liabilities			
Trade payables	*14*	**11,689**	20,147
Other payables and accruals	*15*	**25,030**	23,726
Dividend payable		**—**	11,600
Amount due to the Controlling Shareholder		**—**	8,217
Borrowings		**2,120**	2,120
Current income tax liabilities		**22,088**	17,803
Contract liabilities	*3*	**8,265**	10,827
Lease liabilities		**546**	762
Other liabilities	*16*	**15,167**	33,059
		84,905	128,261
Total liabilities		**234,480**	328,382
Total equity and liabilities		**622,664**	434,506

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 12 January 2021 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Group are engaged in the provision of gold mine hazardous waste treatment services and recycling and extracting therefrom resources with economic value for sale, such as pyrite concentrate in Shandong province of the PRC. The Group's headquarter is in Laizhou, Shandong province of the PRC.

The ultimate controlling shareholder of the Company is Mr. Liu Zeming.

To prepare for the Listing, the Group has undertaken a reorganisation (the "Reorganisation") pursuant to which the Company became the holdings company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the Prospectus of the Company dated 29 October 2021.

The shares of the Company have been listed on Stock Exchange since 12 November 2021 by way of its initial public offering.

The consolidated financial statements are presented in RMB and rounded to the nearest thousand yuan ("**RMB'000**"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standards Board ("**IASB**").

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

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

2.1.1 New standards and interpretations not yet adopted

A number of new or amended standards became applicable for the current reporting period commencing 1 January 2021. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

New standards and amendments		Effective for annual financial periods beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform	1 January 2021

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2021 and have not been early adopted by the Group. These new standards and interpretations are:

Standards and amendments	Effective for annual periods beginning on or after
Property, Plant and Equipment: Proceeds before intended use — Amendments to IAS 16	1 January 2022
Onerous Contracts — Cost of Fulfilling a Contract Amendments to IAS 37	1 January 2022
Reference to the Conceptual Framework — Amendments to IFRS 3	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
Classification of Liabilities as Current or Non-current — Amendments to IAS 1	1 January 2023
IFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies — Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates — Amendments to IAS 8	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to IAS 12	1 January 2023
Sale or contribution of assets between an investor and its associate or joint venture — Amendments to IFRS 10 and IAS 28	To be determined
Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG 5)	1 January 2022

The Group is currently assessing the effects of applying these new standards and amendments on the Group's consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group does not expect to adopt these new standards and amendments until their effective dates.

3 SEGMENT INFORMATION

(a) Description of segments and principal activities

The Group's chief operating decision-maker (the "**CODM**") are the executive directors and the chief financial controller of the Company.

The Group is principally engaged in the provision of gold mine hazardous waste treatment services and sales of recycled products such as pyrite concentrate in the PRC. The process of the treatment services and production of the resultant recycled products are in one integral process. Also, for the purpose of resource allocation and performance assessment, the CODM reviews and assesses the overall results and financial position of the Group as a whole. Accordingly, the CODM determines that the Group has only one single reportable segment. Management of the Group assesses the performance of the reportable segment based on the revenue and gross profit for the years of the Group as presented in the consolidated statements of comprehensive income.

Geographical information

The Group's principal market, majority of revenue and operating profit and all operations and non-current assets are in Shandong province of the PRC. Accordingly, no geographical segment information is presented.

(b) Revenue during the years ended 31 December 2021 and 2020

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Revenue from contract with customers within the scope of IFRS 15		
Revenue from provision of gold mine hazardous waste treatment services	**96,581**	107,958
Revenue from sales of recycled products	**145,955**	82,514
Others	**—**	413
	242,536	190,885
Other Revenue		
Rental income	**14,507**	14,507
	257,043	205,392

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Rental Income		
Warehouse leasing rental	**14,507**	14,507

The analysis of revenue from contract with customers within the scope of IFRS15 recognised over time and at a point in time as required by IFRS15 is set out below:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Recognised over time		
Revenue from provision of gold mine hazardous waste treatment services	**96,581**	107,958
Recognised at a point in time		
Revenue from sales of recycled products	**145,955**	82,514
Others	**—**	413
	242,536	190,885

(c) Contract liabilities

The Group recognised the following contract liabilities:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Contract liabilities related to provision of gold mine hazardous waste treatment services	**3,370**	8,676
Contract liabilities related to sales of recycled products	**4,895**	2,151
	8,265	10,827

The following table shows how much of the revenue recognised during the years ended 31 December 2021 and 2020 relates to carried-forward contract liabilities:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year		
— Provision of gold mine hazardous waste treatment services	**8,676**	11,279
— Sales of recycled products	**2,151**	3,962
	10,827	15,241

(d) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from contracts with customers:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Expected to be recognised within one year		
Provision of gold mine hazardous waste treatment services	**3,370**	8,676
Sales of recycled products	**4,895**	2,151
	8,265	10,827

(e) Information about major customers

Revenue from individual customers which individually accounted for 10% or more of the Group's total revenue during the years ended 31 December 2021 and 2020 is set out below:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Customer A	**40,301**	56,074
Customer B	**37,615**	34,822
Customer C	**N/A**(i)	20,852

(i) Contributed less than 10% of the Group's total revenue for the relevant year.

4 OTHER INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Interest income from a related party	**—**	5,144
Others	**78**	43
	78	5,187

During the year ended 31 December 2020, the Group's subsidiary, HC Environmental, provided short-term loans to its related party, Zhonglian Cement, and recognised interest income. The loan had been fully settled during the year ended 31 December 2021.

5 OTHER (LOSSES)/GAINS — NET

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Foreign exchange gains	**249**	154
Insurance claim	**91**	175
Net (losses)/gains on disposal of property, plant and equipment and other assets	**(500)**	50
Others	**4**	33
	(156)	412

6 EXPENSES BY NATURE

The analysis of cost of sales, selling expenses and administrative expenses is as follow:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Raw materials and consumables used	**41,772**	41,328
Changes in inventories of finished goods and work-in-progress	**(263)**	(6,141)
Employee benefit expenses	**16,658**	12,615
Transportation expenses	**11,947**	12,451
Electricity and water expenses	**11,754**	13,015
Amortisation of right-of-use assets	**833**	1,129
Depreciation of property, plant and equipment	**9,299**	8,035
Depreciation of investment properties	**4,386**	4,386
Amortisation of intangible assets	**7**	7
Taxes and levies	**4,250**	3,717
Consultation and professional fees	**3,796**	1,018
Repair and maintenance fee	**3,482**	3,127
Entertainment expenses	**3,090**	3,563
Auditor's remuneration — audit services	**1,627**	20
Production safety cost	**1,560**	1,621
Listing expenses	**14,206**	4,539
Donations	**310**	781
Others	**3,867**	3,135
Total	**132,581**	108,346

7 FINANCE COSTS — NET

	Year ended 31 December 2021 RMB'000	2020 RMB'000
Finance income		
— Interest income derived from bank balances	**(412)**	(40)
Finance costs		
— Interest expenses on bank borrowings	**1,680**	1,846
— Interest expenses relating to warehouse lease arrangements	**4,301**	4,109
— Interest expenses on lease liabilities	**26**	70
— Other losses	**426**	58
	6,433	6,083
Less: borrowing costs capitalised in property, plant and equipment	**—**	—
	6,433	6,083
Finance costs — net	**6,021**	6,043

8 INCOME TAX EXPENSE

	Year ended 31 December 2021 RMB'000	2020 RMB'000
PRC income tax		
— Current income tax expense	**28,025**	23,464
— Deferred income tax expense	**3,506**	160
	31,531	23,624

9 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 December 2021	2020
Profit attributable to owners of the Company *(RMB'000)*	**85,613**	72,865
Weighted average number of ordinary shares in issue	**784,246,575**	750,000,000
Basic earnings per share *(RMB)*	**0.11**	0.10

(b) Diluted

During the years ended 31 December 2021 and 2020, the diluted earnings per share presented is the same as the basic earnings per share as there were no instruments outstanding that could have a dilutive effect on the Company's ordinary shares.

10 DIVIDENDS

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Proposed final dividend of HKD0.0189 (equivalent to approximately RMB0.0154) per ordinary share	**15,400**	—

A final dividend in respect of the year ended 31 December 2021 of HKD0.0189 (equivalent to approximately RMB0.0154) (2020: nil) per ordinary share of the Company, amounting to a total of HKD 18.9 million (equivalent to approximately RMB15.4 million) (2020: nil), was proposed by the Board on 31 March 2022, and is subject to approval by the Company's shareholders in the forthcoming annual general meeting of the Company where the number of shares used for dividend calculation is the balance of the issued ordinary shares as at 31 December 2021. The proposed dividend will be distributed out of the share premium account of the Company. These financial statements do not reflect this as dividend payable.

No dividends has been paid or declared by the Company since its incorporation and during the year ended 31 December 2021. During the year ended 31 December 2020, HC Environmental, a subsidiary of the Group, declared dividends of RMB58 million to its then shareholders prior to the Listing.

11 INVENTORIES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Raw materials	**938**	2,586
Work-in-progress	**2,444**	1,304
Finished goods, recycled products	**19,229**	20,106
Total	**22,611**	23,996

During the years ended 31 December 2021 and 2020, the cost of inventories recognised in "cost of sales" amounted to RMB41,509,000 and RMB35,187,000, respectively.

12 TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables		
— related to provision of gold mine hazardous waste treatment services	**40,140**	1,781
— related to sales of recycled products	**16,304**	21,167
	56,444	22,948
Less: provision for impairment	**(1,334)**	(115)
	55,110	22,833

(i) Ageing analysis of the trade receivables

The trade receivables represent receivable relating to provision of gold mine hazardous waste treatment services and receivable relating to sales of recycled products. The credit terms grant to customers are generally from 30 to 60 days.

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
1–30 days	**13,953**	9,243
31–60 days	**8,057**	10,673
61–90 days	**11,846**	1,890
91–180 days	**17,641**	1,142
Over 180 days	**4,947**	—
	56,444	22,948

(ii) Impairment of the trade receivables

The Group applies the simplified approach to provide for expected credit loss which was a lifetime expected loss allowance for all trade receivables and retention receivables as prescribed by IFRS 9.

The movements in provision for impairment of trade receivables were as follows:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
As at 1 January	**115**	2
Loss allowance recognised in profit or loss during the year	**1,219**	113
As at year end	**1,334**	115

The carrying amounts of trade receivables approximated their fair values as at the balance sheet dates and were denominated in RMB.

13 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Amounts due from third parties	**—**	491
Prepayments for purchases of raw materials and expenses	**4,960**	5,424
Prepayments for listing expenses	**—**	1,552
Value-added tax receivables	**196**	1,164
Others	**2,005**	1,366
	7,161	9,997

The amounts due from third parties represented advances to third parties during the year ended 31 December 2020, and had been fully settled as at 31 December 2021.

The carrying amounts of other receivables and prepayments approximated their fair values as at the balance sheet dates and were denominated in RMB.

14 TRADE PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade & bill payables		
— related to transportation costs	**6,602**	17,308
— related to raw materials	**5,087**	2,839
	11,689	20,147

As at 31 December 2021 and 2020, the ageing analysis of trade payables based on the invoice date is as follows:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
1–30 days	**2,804**	5,898
31–60 days	**1,711**	8,908
61–90 days	**1,524**	2,337
91–180 days	**4,069**	2,611
Over 180 days	**1,581**	393
	11,689	20,147

The carrying amounts of trade payables approximated their fair values as at the balance sheet dates and were denominated in RMB.

15 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Other taxes payable	**15,627**	11,506
Employee benefits payables	**3,634**	3,048
Payables for property, plant and equipment	**2,800**	6,347
Payables for listing expenses	**—**	1,547
Others	**2,969**	1,278
Total	**25,030**	23,726

The carrying amounts of other payables and accruals approximated their fair values as at the balance sheet dates and were denominated in RMB.

16 OTHER LIABILITIES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Retention payable for construction projects (a)		
Current	—	17,892
Warehouse lease arrangements (b)		
Advance from lessee		
— Current portion	**15,167**	15,167
— Non-current portion	**11,719**	26,225
Sub-total	**26,886**	41,392
Payable to LZ Assets		
Non-current		
— First warehouse	**43,737**	41,794
— Second warehouse	**53,053**	50,695
Sub-total	**96,790**	92,489
Total	**123,676**	133,881
Grand total	**123,676**	151,773
Presented on the balance sheet as:		
Other liabilities — current portion	**15,167**	33,059
Other liabilities — non-current portion	**108,509**	118,714
	123,676	151,773

(a) Retention payable for construction projects

According to the construction contracts with the contractors of the Group for the Group's buildings under property, plant and equipment and investment properties, 10% of the total payables for construction cost was set aside as retention fund with a warranty period of two years from the date of inspection for certification of completion of the buildings. The amounts had been fully settled in 2021.

(b) Warehouse lease arrangements

In October 2018 and December 2018, HC Environmental entered into two gold mine hazardous waste storage warehouse lease agreements with LZ Assets, a state-owned enterprise, for the storage of cyanide tailings hazardous waste from a state-owned enterprise. Pursuant to the lease agreements, LZ Assets advanced RMB72 million in the fourth quarter of 2018 and RMB88 million in the first half year of 2019, totalling RMB160 million, to HC Environmental for leases of two warehouses at an annual rental of RMB3.6 million from 1 November 2018 for the first warehouse, and RMB4.4 million from 1 January 2019 for the second warehouse, totalling RMB8 million per annum (inclusive of value added tax on rental income), for a twenty years term.

Pursuant to the lease agreements, (i) the minimum term of the lease period shall be five years from the respective lease commencement dates, unless the cyanide tailings hazardous waste in the warehouses is put for tender for detoxing treatment through public bidding during the five years term, and in the event that HC Environment won the tender, the lease term would terminate and the future treatment fee would then be deducted from the remaining amount of the advanced payments made by LZ Assets after deduction of rental income up to the date of termination; (ii) from the sixth year, either LZ Assets or HC Environmental has the right to terminate the lease arrangement by paying an amount equivalent to one year rental, being RMB8 million, as compensation to the other party, and HC Environmental will be required to repay the remaining balance of the advances to LZ Assets within three years, being 20% for the first year, 30% for the second year and full repayment in the third year, from the receipt of the notice of termination of the lease agreements.

The Group considers that there is a likelihood that LZ Assets will exercise the right to terminate the lease agreements upon the expiry of the five years committed lease term, by then the Group would have an obligation to pay back LZ Assets the remaining balances of the advanced payments from LZ Assets, being RMB50.4 million and RMB61.6 million, totalling RMB112 million, representing the total advances of RMB160 million less five years' rental income of RMB40 million and compensation of RMB8 million upon the expiry of the five years lease terms in October and December 2023 for the two warehouses, respectively. Accordingly, on initial recognition of the two warehouse lease arrangements, the Group recorded "Other liabilities" — payables to LZ Assets of RMB37.9 million and RMB46.3 million, respectively, totalling RMB84.2 million, being the present value by discounting the obligations to pay back LZ Assets of RMB50.4 million and RMB61.6 million, totalling RMB112 million, by October and December 2023, respectively. The discount rate applied in deriving the present value of the amounts payable to LZ Assets was the current market rate available to the Group for similar financial instruments.

The difference between the received advances of RMB72 million for the first warehouse and RMB88 million for the second warehouse, totalling RMB160 million, and the recorded other liabilities — payables to LZ Assets of RMB37.9 million and RMB46.3 million, totalling RMB84.2 million, amounted to RMB34.1 million and RMB41.7 million, totalling RMB75.8 million, were recognised as "Advances from lessee" at initial recognisation of the two warehouse lease arrangements, respectively. The advances from lessee of RMB75.8 million comprised i) five years rental income of RMB40 million, ii) one year compensation rental income of RMB8 million, and iii) discounting impact of RMB112 million obligation to pay back LZ Assets upon expiry of the five years rental period of RMB27.8 million. The discounting impact of RMB27.8 million is regarded as part of the lease payments in accordance with IFRS 16 Appendix A, and is accounted for as part of the lease payments to be amortised as revenue together with the one year compensation rental income of RMB8 million over the five years committed lease period in accordance with IFRS 16 paragraph 81. The advances from lessee of RMB75.8 million was amortised and credited to rental income evenly over five years since the respective lease commencement date of the two warehouses. Accordingly, rental income recognised for the years ended 31 December 2021 and 2020 was RMB14,507,000 and RMB14,507,000, respectively.

Interest expenses are recognised on other liabilities — payables to LZ Assets using the aforementioned discount rate. The amount of interest expenses relating to the two warehouse lease arrangements during the years ended 31 December 2021 and 2020 were RMB4,301,000 and RMB4,109,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Achieving Business Growth and Consolidating our Position in the Industry

As the largest province in the PRC in terms of gold production, Shandong province, China, is rich in gold mineral resources and has a long history of mining and the highest geological reserves in the PRC. It has been ranked first for the 46th consecutive year for its gold production in the PRC since 1975 according to the information of Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳).

The Group, based in Shandong province, China, has been focusing on gold mine hazardous waste treatment and resource recovery, and comprehensive utilisation of gold mine hazardous wastes. We collect cyanide tailings, which is a kind of gold mine hazardous waste resulting from smelting of gold, from the Group's upstream customers, mainly comprised gold smelting companies under gold mining companies with mine operations in Shandong province and in particular, in Yantai city, which we, leveraging on our experience and expertise, detoxify the cyanide tailings and recover therefrom resources with economic value such as pyrite concentrate and gold-bearing pyrite concentrate. We then sell the recycled products to our downstream customers, mainly comprised chemical manufacturing companies and trading companies of chemicals in the PRC to attain comprehensive utilisation of gold mine hazardous wastes. The Group is the only company in Laizhou city, Shandong province that has obtained the Hazardous Waste Business Licence issued by Yantai Municipal Ecology and Environment Bureau.

Currently, the Group has two production facilities strategically located in Laizhou city, Shandong province, where the quantity of gold reserves is ranked first among the county-level cities in the PRC.

Revenue and net profit of the Group for the year ended 31 December 2021 amounted to approximately RMB257.0 million and RMB85.6 million, respectively, representing an increase of 25.1% and 17.4% as compared to the same during the year ended 31 December 2020, respectively. The adjusted net profit (which is calculated by adding back the Listing expenses to the net profit for the year) for the year ended 31 December 2021 amounted to approximately RMB99.8 million, representing an increase of approximately 29.0% as compared to that of for the year ended 31 December 2020. The increase in revenue was attributable to the development of industry, active business expansion and continuous improvement of the relationships with customers and potential customers by the Group while keeping abreast of relevant development trend of the industry.

In addition, gross profit and gross profit margin of the Group for the year ended 31 December 2020 amounted to approximately RMB123.9 million and 60.3%, respectively, increased to approximately RMB166.6 million and 64.8%, respectively for the year ended 31 December 2021. The increase in gross profit during the year ended 31 December 2021 was mainly attributable to the increase in revenue, which was in turn due to the continual provision of high quality products and services, the stickiness of customers, and the strong market demand for downstream products of pyrite concentrate, mainly sulphuric acid. The increase in gross profit margin during the year ended 31 December 2021 was mainly attributable to the increase in selling price of the Group's recycled products, which was in turn driven by the increasing trend of market price of sulphuric acid.

During the year ended 31 December 2021, with satisfactory operation result and solid management team, the Group won recognition from various sectors, where it was jointly recognised by the Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳), Local Financial Supervision and Administration of Shandong Province (山東省地方金融監督管理局) and the People's Bank of China, Jinan Branch as Shandong Province Gazelle Enterprise (山東省瞪羚企業) while the Group was also awarded 2021 Shandong Province "Specialised and Innovative" Small and Medium-sized Enterprises (2021年度山東省"專精特新"中小企業) by the Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳).

Strengthening the Company's Development Foundation

In accordance with the "Reply on the Transfer and Disposal of Hazardous Wastes" ("關於危險廢物轉移和處置問題的覆函") issued by the State Environmental Protection Agency (國家環境保護總局), the principle of "close-by disposal" ("就近處置"原則), that is, the principle of gold mines which produce hazardous waste being close to the hazardous waste treatment plants, is adopted. As a result, we have been identifying suitable land in the proximity for the Group's expansion. On 6 January 2022, the Group successfully won the bid for the land use rights of three parcels of industrial land in the Yinhai Chemical Industrial Park (銀海化工產業園) in Laizhou city, Shandong province, the PRC with a total site area of approximately 533,300 sq.m., the premises (including properties and warehouses) built thereon with a gross floor area of approximately 89,300 sq.m. and other infrastructure and machinery. The Yinhai Chemical Industrial Park is strategically located in Laizhou city of Shandong province, China and hence, being in close proximity to the Group's headquarter and the largest gold producing region in China, it enjoys a rich geographical advantage. This acquisition provides room for the Group to enhance its production capacity, strengthen its research and development capabilities and expand its product and service portfolio in the future.

Up to the date of this announcement, total cost of the Transaction amounted to approximately RMB86.5 million, including consideration of the bid, related tax and administration costs, funded by the net proceeds from the global offering earmarked for establishment of the New Production Facility and the internal resource of the Group, has been fully settled. The procedures of transfer of legal title including obtaining the land use right certificates and real estate title certificates were completed.

For details of the Transaction, please refer to the announcement of the Company dated 6 January 2022.

Technological Innovation Achievements

In terms of technological research and development, the Group's research project "Gold Tailings Sulfur and Iron Resources Recycling Project" ("黃金尾渣硫鐵資源回收利用項目") was recognised as a scientific and technological achievement by the China High-tech Industrialisation Research Association (中國高科技產業化研究會) during the Reporting Period, and was further awarded Second Prize of Science and Technology Progress Award (科技進步獎二等獎) by the All-China Environmental Protection Federation (中華環保聯合會) up to the date of this announcement. Such honour represents the high recognition of the Company's exploration of development of circular economy and realisation of economic, environmental and social benefits, and also reflects the result of unity and concerted efforts of the Company as well as diligent and hard work.

In terms of tailings treatment technology, we have made a breakthrough in disposal technology by carrying out deep processing of sulphur and iron resources. During the Reporting Period, with a view to accelerate the technology development in solid waste resource utilisation and promote the development of circular economy, the Group signed the collaboration agreement with Shandong Association of Solid Waste Industry (山東省固廢產業協會) and Yantai University (煙臺大學) for the establishment of the "Solid Waste Resource Utilisation Engineering Research Centre (固廢資源化工程研究中心)". Meanwhile, we also carried out numerous in-house technical research on hazardous waste and solid waste disposal and resource utilisation.

During the Reporting Period, we successfully obtained five additional patents, including invention model, for the technologies or devices for expanding our product offerings, upgrading our technologies on comprehensive utilisation and harmless treatment of gold mine hazardous wastes and developing new processing methods, thereby enhancing technical support for our operation and expansion.

INDUSTRY TREND

The Fourteenth Five-Year Plan and the Outline of the Vision 2035 (第十四個五年規劃和2035年遠景目標綱要) continues to, and placed emphasis on promoting green development, to adhere to the concept of "clean water and green mountain equal to wealth", to implement the sustainable development strategy, through continuous improvement of environmental quality to enhance the quality and stability of the ecosystem, and to promote the comprehensive green transformation of economic and social development, and hence continue to build and transform China to be a more beautiful place. They also provide for strict prevention and control of environmental risks, and comprehensive rectification of illegal storage of solid wastes, with a view to enhancing the supervision of hazardous waste and risk prevention capabilities. Therefore, it is apparent that hazardous waste disposal is a key part of the future development of China.

FUTURE PROSPECTS

The Group will firmly practice the concept of ecological civilisation, and continue to promote safe, green and quality development under the new era of "14th Five-Year Plan". Taking the initiative to shoulder the mission and responsibility as a gold mine hazardous wastes treatment service provider in this new era, we will strive for new breakthrough and development in the evolving industry, and clarify our target development path, while following the "clean water and green mountain equal to wealth" philosophy. We will also take on the pioneering role of a benchmark gold mine hazardous wastes treatment service provider in China, and actively seize the industry potential, with the aim of strengthening, improving and expanding our core business.

Driven by the national support for circular economy and green mining, the value of utilising hazardous wastes generated during the mining process has also been promoted. Therefore, we have developed the following strategies to seize market opportunities and maintain our leading position in the gold mine hazardous wastes treatment service industry.

Increasing production capacity and capabilities, continuing to enhance our core hazardous wastes business

According to the development plan issued by the Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳), Shandong province will build a new industry landscape focusing on gold and incorporating multi-metal, diversified and upstream-to-downstream integrated development, with the industrial layout and product structure optimised, further highlighting brand effects and significantly raising the safety and environmental protection standards. Remarkable results are recorded in aspects of high-end, intelligent and green development, while the annual output of gold is more concentrated in large and medium-sized gold enterprise groups. We expect that this plan will lead to the consolidation of gold resources and drive the consolidation of gold mine hazardous wastes production, leading to a concentralised hazardous waste treatment demand, which is expected to increase reliance on hazardous waste treatment companies. Therefore, the leading hazardous waste treatment companies with strong treatment capacity are expected to capture more market shares. The Group will spare no effort in planning the construction of new plants to meet the future growth of the market by increasing the treatment capacity of gold mine hazardous wastes.

Diversifying product portfolio and exploring new products, markets and businesses

By deepening the efficient utilisation of resources from the wastes, the Group is seeking new breakthrough and development in the evolving industry. We plan to establish a waste resource utilisation production area. Based on our expertise and experience in the comprehensive utilisation of gold mine hazardous wastes and recovery of recycled products, we will further enrich the product range of our recycled products sales business, while continuously enhancing our research and development capabilities and technical skills to achieve high utilisation of gold mine hazardous wastes so as to extract more economically valuable resources. This optimisation and diversification will further enhance the Group's industry advantage by continuously expanding our product range and product portfolio.

Strengthening research and development capability with constant technical innovation

With improving industry standards and the increasingly fierce competition in the industry, we will continue to focus on technological innovation for the purpose of strengthening competitiveness in the market, and plan to build an integrated resources research laboratory in the future. We believe that, with the integrated resources research laboratory as the main carrier, we can optimise our production process, improve product quality and enhance the application of resource utilisation and non-hazardous treatment by actively promoting technological research and development, increasing exchanges with industry peers, enhancing collaboration with research institutes and strengthening our research and development team. We believe that, driven by technological innovation, we can effectively promote the expansion of our product portfolio, enhance the quality of our products and services, and research and development of high-value resource products, so that the Group is able to grow bigger, better and stronger.

Maintaining safe production, improving management standards and promoting green development

Safe production has always been our primary objective. We place safety production as our priority through staff training in relation to compliance operation awareness, optimisation of production process, and strengthening of pollutant control facilities management, so as to comprehensively improve the safety protection ability and maximise the development of safe production. Meanwhile, we will continue to vigorously implement standardised production processes and standardised production cost control to improve production cost efficiency through refined management. We will place increasing emphasis on the concept of energy saving and emission reduction on the production, improving resource utilisation rate, reducing waste emission, and promoting green development.

FINANCIAL REVIEW

Revenue

	For the year ended 31 December			
	2021		2020	
	RMB'000	*%*	*RMB'000*	*%*
Gold mine hazardous waste treatment	**96,581**	**37.6**	107,958	52.6
Sale of recycled products	**145,955**	**56.8**	82,514	40.2
Hazardous waste storage rental services	**14,507**	**5.6**	14,507	7.1
Others	—	—	413	0.1
	257,043	**100.0**	205,392	100.0

The Group principally collects cyanide tailings, which is a kind of gold mine hazardous waste, from the Group's upstream customers and applied our technical know-how to (i) detoxify those wastes to meet the required safety standards; and (ii) recover and recycle therefrom resources with economic value for sale, such as pyrite concentrate and gold-bearing pyrite concentrate. Therefore, revenue of the Group is mainly derived from (i) gold mine hazardous waste treatment services; and (ii) sale of recycled products.

For the year ended 31 December 2021, revenue from our gold mine hazardous waste treatment services and sale of recycled products accounted for approximately 94.4% (31 December 2020: 92.8%) of our total revenue. The Group also derived revenue from the hazardous waste storage rental services, which accounted for approximately 5.6% (31 December 2020: 7.1%) of our total revenue.

For the year ended 31 December 2021, the Group's total revenue was approximately RMB257.0 million, representing an increase by approximately 25.1% as compared to that of approximately RMB205.4 million for the year ended 31 December 2020. The year on year increase was mainly attributable to the increased sale of recycled products which in turn due to the increase in number of downstream customers, and also increased sale volume and average selling price per tonne for the year ended 31 December 2021 as compared to the corresponding period last year of 2020. As pyrite concentrate is the raw material for the production of sulphuric acid, the increase in average selling price of recycled products was in line with the increase in market price of sulphuric acid in the PRC which was influenced by various factors, mainly including the price of raw material, demand from downstream industries and the imported from oversea market. Such increase was partially offset by approximately 10.5% year-on-year decline in revenue from our gold mine hazardous waste treatment services, from approximately RMB108.0 million for the year ended 31 December 2020 to approximately RMB96.6 million for the year ended 31 December 2021. Such decrease was due to the less cyanide tailings provided by upstream customers with the stable average treatment fee per tonne for the year ended 31 December 2021.

Gross profit and gross profit margin

For the year ended 31 December 2021, the Group's gross profit was approximately RMB166.6 million, representing an increase by approximately 34.5% as compared to gross profit of approximately RMB123.9 million for the year ended 31 December 2020. Such increase was generally in line with the increase in revenue of the Group.

The overall gross profit margin increased from approximately 60.3% for the year ended 31 December 2020 to approximately 64.8% for the year ended 31 December 2021. Such fluctuation was a combining effect of the increase in gross profit margin of sales of recycled products from approximately 45.4% for the year ended 31 December 2020 to approximately 60.9% for the year ended 31 December 2021 and the stable gross profit margin for gold mine hazardous waste treatment services of approximately 70.7% for the year ended 31 December 2020 and approximately 70.0% for the year ended 31 December 2021.

Other income

Other income decreased from approximately RMB5.2 million for the year ended 31 December 2020 to approximately RMB78,000 for the year ended 31 December 2021, which was mainly attributable to the decrease in interest income from our loan offered to Zhonglian Cement. Our loan to Zhonglian Cement was unsecured and non-interest bearing from 1 January 2021 and during the year ended 31 December 2021 while such loan was bearing interest of 6.86% per annum from 1 January 2020 and during the year ended 31 December 2020. The balance of loan to Zhonglian Cement was fully settled during the year ended 31 December 2021.

Selling expenses

Our selling expenses mainly consist of (i) entertainment; (ii) promotion expenses; (iii) employee salary and benefit expenses for our sales team. For the year ended 31 December 2021, the Group's selling expenses was approximately RMB2.4 million, representing a decrease by approximately 17.2% as compared to that of selling expenses of approximately RMB2.9 million for the year ended 31 December 2020. The decrease in selling expenses for the year was mainly due to the decrease in our entertainment expenses for the year.

Administrative expenses

Our administrative expenses mainly represent (i) employee benefit expenses, including salaries and wages and staff welfare for administrative and management staff; (ii) Listing expenses incurred in connection with the proposed Listing; (iii) taxes and levies which primarily represented various kinds of government levies or taxes such as real estate tax, urban construction tax, tenure tax and stamp duty; (iv) depreciation and amortisation for administrative facilities; (v) office expenses; (vi) entertainment; (vii) professional and consultation fee; (viii) transportation and related expenses, including those incurred in business travels of administrative and management staff and business use of vehicles expenses; and (ix) other expenses of similar nature. For the year ended 31 December 2021, the Group's administrative expenses was approximately RMB39.8 million, representing an increase by approximately 65.8% as compared to administrative expenses of approximately RMB24.0 million for the year ended 31 December 2020. Such increase was mainly attributable to (i) the increase of Listing expenses in connection with the Listing of approximately RMB9.7 million; and (ii) increase of professional and consultation fee by approximately RMB2.8 million as we have engaged consultation companies for conducting feasibility studies with respect to the design and proposed construction of the New Production Facility and technological studies for the recovery of recycled products, mainly construction aggregate, from high silicon tailings; and (iii) the increase in other administrative expenses as a result of our expanded scale and operations.

Net finance costs

Our net finance costs reflected the sum of interest expenses on bank borrowings, lease liabilities and other liabilities after offsetting interest income we received from bank balances. For the year ended 31 December 2021, the Group's net finance costs was approximately RMB6.0 million which was comparable to the amount of a net finance costs of approximately RMB6.0 million for the year ended 31 December 2020.

Income Tax Expense

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act and accordingly is exempted from Cayman Islands income tax. Our Company's direct wholly owned subsidiary was incorporated in the BVI as a business company with limited liability under the BVI Companies Act 2004 and accordingly is exempted from BVI income tax.

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group did not generate any assessable profit in Hong Kong for the two years ended 31 December 2021.

PRC corporate income tax ("CIT")

The tax rate of our subsidiaries established in the PRC is 25%. HC Environmental and HC Mining, engaging in comprehensive utilisation of resources are also entitled to a reduction of 10% revenue from sales of recycled products from the taxable income of the companies in the calculation of CIT.

For the year ended 31 December 2021, the Group's income tax expense was approximately RMB31.5 million, representing an increase by approximately 33.5% as compared to income tax expenses of approximately RMB23.6 million for the year ended 31 December 2020, reflecting effective tax rate (equivalent to income tax expense divided by profit before income tax) of approximately 26.9% and 24.5% for the year ended 31 December 2021 and the year ended 31 December 2020, respectively.

Our effective tax rate increased from approximately 24.5% for the year ended 31 December 2020 to approximately 26.9% for the year ended 31 December 2021, mainly due to (i) certain tax losses for which no deferred income tax assets were recognised; and (ii) the recognition of PRC withholding tax of RMB1.8 million that would be payable on remitted earnings of PRC subsidiaries of the Group. For the year ended 31 December 2021, our certain group companies in Hong Kong and the PRC had incurred tax losses which is not likely to generate taxable income in the foreseeable future and therefore no deferred income tax assets were recognised.

PRC withholding income tax

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies' immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies and simultaneously certain conditions are satisfied.

PRC withholding income tax has been provided for based on the amounts the Group expect Mainland China subsidiaries to distribute these profits in the foreseeable future. As at 31 December 2021, deferred income tax liabilities of RMB1,800,000 (2020: nil) have been recognised for the withholding tax that would be payable on remitted earnings of PRC subsidiaries of the Group amounting to RMB18,000,000 (2020: nil).

No PRC withholding income tax has been provided for the remaining earnings which will be retained in Mainland China for expansion of the Group's operation. As at 31 December 2021, deferred income tax liabilities of RMB14,732,000 (2020: RMB6,320,000) have not been recognised for the withholding tax that would be payable on unremitted earnings of PRC subsidiaries of the Group amounting to RMB147,320,000 (2020: RMB63,204,000).

Adjusted Net Profit and Adjusted Net Profit Margin

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also presented adjusted net profit and adjusted net profit margin as non-IFRSs financial measures which are not required by, or presented in accordance with, IFRSs. We believe that the presentation of non-IFRSs financial measures when shown in conjunction with the corresponding IFRSs financial measures provides useful information to potential investors and management in understanding and evaluating our operating performance from period to period by eliminating potential impact of non-recurring item that does not affect our ongoing operating performance.

However, these non-IFRSs measures should not be considered individually nor construed as an alternative for net income or operating income, or as indicators of the Group's operating performance or other consolidated operating information prepared in accordance with IFRSs. The use of non-IFRSs measures as an analytical tool has significant limitations as it does not include all items that affect the underlying net profit for the year.

The following table sets forth the adjusted net profit and adjusted net profit margin for the two years ended 31 December 2021:

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Profit for the year	**85,613**	72,865
Add: Listing expenses	**14,206**	4,539
Adjusted net profit for the year (unaudited)(1)	**99,819**	77,404
Adjusted net profit margin (unaudited)(2)	**38.8%**	37.7%

Notes:

(1) We calculated the adjusted net profit for the year by adding back the Listing expenses to the profit for the year as presented in accordance with IFRSs.

(2) We calculated the adjusted net profit margin by dividing adjusted net profit for the year by revenue for the year and multiplied by 100%.

Capital Expenditures

Our capital expenditure mainly comprised of the acquisition of items of property, plant and equipment and right-of-use assets. We incurred capital expenditure of approximately RMB18.5 million during the year ended 31 December 2021.

Capital Commitments

As at 31 December 2021, the Group had no capital commitments (31 December 2020: approximately RMB3.4 million).

Pledge of Assets

As at 31 December 2021, the total net book value of assets pledged to secure the Group's bank borrowings amounted to RMB5.9 million (31 December 2020: approximately RMB6.0 million) for land use rights, RMB68.7 million (31 December 2020: approximately RMB71.4 million) for buildings and RMB67.8 million (31 December 2020: approximately RMB70.3 million) for investment properties.

Contingent Liabilities

As at 31 December 2021, we did not have any material contingent liabilities. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings, to the knowledge of the Board, threatened against the Group and could have a material adverse effect on our business or operations.

Treasury Policy

The Group adopts a prudent approach towards its treasury policies. To manage the liquidity risk, the Group closely monitors its liquidity position to ensure the liquidity structure of the Group's assets, liabilities and commitments and to ensure the fulfillment of its funding requirements for business development.

Foreign Exchange Risk Management

The Group carries out its business operations in the PRC with most of the transactions denominated and settled in RMB save for certain fees payable to professional parties and miscellaneous administrative expenses that are denominated in Hong Kong dollars. Hence the Group does not currently have a hedging policy on foreign exchange risk as the Board does not consider the Group's exposure to foreign exchange fluctuations (primarily in the HKD) to be significant, and that any fluctuation thereof will not have any material impact on the Group's business operations or its financial results. The management will, however, closely monitor its foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

LIQUIDITY, FINANCE RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, the Group had net current assets of approximately RMB242.7 million (31 December 2020: approximately RMB9.8 million). As at 31 December 2021, the gearing ratio was approximately 35.4% (31 December 2020: approximately 136.0%). The gearing ratio is calculated by dividing total debt by total equity at the end of the relevant year and multiplying by 100%. Debt is defined as amounts payable that are not incurred in the ordinary course of business and includes bank borrowings, lease liabilities, amounts due to controlling shareholders and other liabilities relating to warehouse lease arrangements.

The Group maintained a strong financial position with cash and cash equivalents of approximately RMB235.6 million as at 31 December 2021. The Group met and expects to continue meeting its operating capital, capital expenditure and other capital needs with cash general from operations and proceeds from the Listing.

There is no material change in the capital structure of the Company since the date of the Listing. The capital of the Company comprises only ordinary shares.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote in the AGM

The AGM is expected to be held on Friday, 24 June 2022. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre,183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 June 2022.

(b) For determining the entitlement to the proposed final dividend

Upon obtaining approval of the Shareholders at the forthcoming AGM, for the purpose of determining the Shareholders' entitlement to the final dividend for the year ended 31 December 2021, the register of members of the Company will be closed from Wednesday, 6 July 2022 to Friday, 8 July 2022 (both days inclusive), during which period no transfer of shares of the Company will be registered. For the purpose of determining the entitlement to the final dividend for the year ended 31 December 2021, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre,183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m on Tuesday, 5 July 2022.

FINAL DIVIDEND

The Board recommended a final dividend of HKD0.0189 per ordinary share totalling approximately HKD18.9 million for the year ended 31 December 2021 out of the Company's share premium account. The proposed final dividend will be payable to shareholders whose names appear on the register of members of the Company on Friday, 8 July 2022. The proposed final dividend is subject to the approval of the Shareholders at the AGM, and is expected to be paid by cash on or around Friday, 22 July 2022. Further details of the dividend payment will be announced after conclusion of the AGM.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed "Future plans and use of proceeds" in the Prospectus and the Transaction disclosed in the announcement of the Company dated 6 January 2022, the Group does not have any other plans for material investments or capital assets.

USE OF NET PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on the Listing Date by way of global offering, 250,000,000 shares were issued, raising the total net proceeds (after deducting underwriting commissions and other related listing expenses) of approximately RMB177.3 million (equivalent to approximately HKD217.3 million).

	Percentage to total amount	Planned use of net proceeds *HKD' million*	Planned use of net proceeds *RMB' million*	Net proceeds utilised during the year ended 31 December 2021 *RMB' million*	Net proceeds unutilised as at 31 December 2021 *RMB' million*	Expected timeline for full utilisation of the unutilised proceeds
Establish the New Production Facility, comprising two production compartments, with a permitted annual treatment capacity of 600,000 tonnes, and diversification of our product offerings	86.7%	188.4	153.7	—	153.7	Will be fully utilised by 2024
Strengthen our research and development capabilities to enhance existing products and diversify our product offering	3.9%	8.5	6.9	—	6.9	Will be fully utilised by 2022
General working capital purpose	9.4%	20.4	16.7	—	16.7	N/A
	100%	217.3	177.3	—	177.3	177.3

As at 31 December 2021, none of the net proceeds from the Listing had been utilised by the Company.

Further details of the breakdown and description of the proceeds are set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at the date of this announcement, the Directors were not aware of any material change to the planned use of proceeds. It is currently expected that the unutilised net proceeds will be applied according to the purposes, allocations and timetable mentioned in the Prospectus.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year ended 31 December 2021, the Group did not hold any significant investments, nor did it have any material acquisitions or disposals of any subsidiaries, associates or joint ventures.

SUBSEQUENT EVENTS

On 6 January 2022, the Group acquired the land use rights of three parcels of industrial land with a gross site area of approximately 533,300 sq.m., premises (including properties and warehouses) with a gross floor area of approximately 89,300 sq.m. and other infrastructure and machinery in Yinhai Chemical Industrial Park in Laizhou City, Shandong province, the PRC through successful bidding. The Yinhai Chemical Industrial Park in Laizhou City, Shandong province, the PRC, is strategically located in Laizhou City, a county-level city in Yantai prefecture-level city in Shandong province, and enjoys an advantageous geographical location, being in close proximity to the Group's headquarters and the largest gold production area in the PRC. This acquisition provides room for the Group to enhance its production capacity, strengthen its research and development capabilities and expand its product and service portfolio in the future.

Up to the date of this announcement, total cost of the Transaction amounted to approximately RMB86.5 million, including consideration of the bid, related tax and administration costs, funded by the net proceeds from the global offering earmarked for establishment of the New Production Facility, and the internal resource of the Group has been fully settled. The procedures of transfer of legal title including obtaining the land use right certificates and real estate title certificates were completed.

For details of the Transaction, please refer to the announcement of the Company dated 6 January 2022 and refer to "Business — Business Strategies" in the Prospectus for a detailed discussion of the Group's future plans.

CONNECTED TRANSACTIONS

The Group has not conducted any non-exempt continuing connected transaction for the year ended 31 December 2021. There were no connected transaction or continuing connected transaction that is subject to, among other things, the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and the Company has complied with the requirements under Chapter 14A of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2021, the Group had 184 employees. For the year ended 31 December 2021, the staff cost of the Group was approximately RMB16.7 million.

The remuneration packages for our employees include salary, bonuses and allowances. The Group participate in social insurance schemes operated by the relevant local government authorities and maintain mandatory pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance, housing accumulation funds and maternity insurance for some of our employees. The Group has also participated in the mandatory provident fund retirement benefit scheme in Hong Kong.

The Group's employee remuneration policy is determined by reference to factors such as remuneration standard of the local market, the overall remuneration standard in the industry, market condition, operating efficiency and employee performance. The Group provides sufficient training to our employees depending on their roles.

The emoluments of the Directors are first reviewed by the Remuneration Committee and then approved by the Board, with regard to the Directors' skill, knowledge, involvement in the Group's affairs and the performance of each Director, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions.

The Company has adopted a share option scheme (the "**Share Option Scheme**") as an incentive to the Directors and eligible employees, details of the Share Option Scheme are set out in the Prospectus. No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption and up to the date of this announcement.

During the Reporting Period, the Group has not experienced any significant problems with its employees due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities throughout the period from the Listing Date up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding transactions of securities of the Company by Directors on terms no less exacting than the required standard set out in the Model Code.

Having made specific enquiry with each of the Directors, and they confirmed that they have complied with the required standards as set out in the Model Code and its code of conduct from the Listing Date up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules for the period from the Listing Date to the date of this announcement. The Group is committed to maintaining a high standard of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions set out in code provision D.3.1 of the Corporate Governance Code. The Board has reviewed and monitored: (i) the Company's corporate governance policies and practices; (ii) training and continuous professional development of directors and senior management; (iii) the Company's policies and practices on compliance with legal and regulatory requirements; (iv) the Company's code of conduct; and (v) the Company's compliance with the Corporate Governance Code disclosures requirements. The Company's corporate governance practices have complied with the Corporate Governance Code for the year ended 31 December 2021.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

AUDIT COMMITTEE

We established the Audit Committee with written terms of reference in compliance with Rule 3.21 and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on 23 October 2021. The primary duties of the Audit Committee include ensuring that an effective financial reporting, internal control and risk management systems are in place and compliance of the Listing Rules, controlling the completeness of our Company's financial statements, selecting external auditors and assessing their independence and qualifications, and ensuring the effective communication between our internal and external auditors.

The Audit Committee comprises three members, namely Mr. Lau Chung Wai, Mr. Zhang Shijun and Ms. Liu Ye. Mr. Lau Chung Wai is the chairman of the Audit Committee who holds the appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

The Audit Committee has reviewed together with the management and the Board the accounting principles and practices adopted by the Group and discussed matters concerning the audit, internal control and risk management and financial reporting, including reviewing the Group's annual results and the audited consolidated financial statements for the year ended 31 December 2021. The Audit Committee also recommended and submitted the annual results and the consolidated financial statements for the year ended 31 December 2021 to the Board for approval.

AUDITOR'S SCOPE OF WORK FOR THE ANNUAL RESULTS ANNOUNCEMENT

The financial information in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position, and the related notes thereto for the year ended 31 December 2021 as set out in this results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements 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.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.sdhcgroup.cn). The annual report of the Company for the year ended 31 December 2021 along with the AGM circular, the notice of AGM, the proxy form and such documents will be published on the aforementioned websites and despatched to Shareholders in due course.

APPRECIATION

The Group's continued success depends on all its staff's commitment, dedication and professionalism. The Board would like to thank every member of staff for their diligence and dedication and to express its sincere appreciation to the Group's shareholders, clients and suppliers for their continuous and valuable support.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings set out below, and words in plural shall include the singular and vice versa, as applicable:

"AGM"	the forthcoming annual general meeting of the Company
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CIT Law"	PRC Corporate Income Tax Law (《中華人民共和國企業所得稅法》) issued by the NPC on 16 March 2007, and subsequently amended on 24 February 2017 and 29 December 2018
"Companies Act"	the Companies Act (As Revised) of the Cayman Islands
"Company" or "our Company"	HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED (鴻承環保科技有限公司), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2265)
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Director(s)"	the director(s) of the Company
"Hazardous Waste Business License'"	the permit for operation of hazardous wastes within the territory of the PRC under the Measures for the Administration of Permit for Operation of Hazardous Wastes "危險廢物經營許可證管理辦法"

"HC Environmental"	Laizhou Hongcheng Mining Environmental Protection Development Co., Ltd. (萊州市鴻鋮礦業環保開發有限公司), a limited liability company established under the laws of the PRC on 12 February 2014 and an indirect wholly owned subsidiary of our Company
"HC Mining"	Shandong Hongcheng Mining (Group) Co., Ltd. (山東鴻承礦業（集團）有限公司) (formerly known as Shandong Hongcheng Mining Co., Ltd. (山東鴻鋮礦業有限公司) and Shandong Hongcheng Mining Co., Ltd. (山東鴻承礦業有限公司)), a limited liability company established under the laws of the PRC on 28 April 2011 and an indirect wholly owned subsidiary of our Company
"HKD"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKICPA"	the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of our Company
"IFRSs"	International Financial Reporting Standards
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	12 November 2021, on which the Shares are listed and from which dealings therein are permitted to take place on the Main Board
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"LZ Assets"	Laizhou City State-owned Assets Management Company Limited (萊州市國有資產經營有限公司)
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
"Model Code"	the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
"New Production Facility"	has the meaning ascribed to it in the Prospectus

"PRC" and "China"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated 29 October 2021
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the year ended 31 December 2021
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) in the share capital of our Company with a nominal value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Transaction"	the acquisition of the land use rights of three parcels of lands located in Yinhai Chemical Industrial Park with an aggregate gross site area of approximately 533,300 sq.m, properties including premises and warehouses with building area of approximately 89,273 sq.m, and other infrastructures and machines through an auction
"VAT"	value-added tax
"we", "us", "our", "Group" and "our Group"	the Company and its subsidiaries
"Yinhai Chemical Industrial Park"	an industrial park of the Yinhai Chemical Industrial Park (銀海化工產業園) project, a property development project in Laizhou City, Shandong province, the PRC, which was the Laizhou government's plan in integrating various companies engaging in chemical manufacturing, new energy and other related industrial businesses
"Zhonglian Cement"	Yantai Zhonghong Cement Co., Ltd (煙臺中鴻水泥有限公司), a limited liability company established under the laws of the PRC on 17 May 2012 indirectly controlled by Mr. Liu, our Controlling Shareholder

"sq.m"	square metre(s)
"%"	per cent

By order of the Board
HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED
Liu Zeming
Chairman and Executive Director

Hong Kong, 31 March 2022

As at the date of this announcement, the Board comprises Mr. Liu Zeming, Mr. Zhan Yirong and Mr. Sheng Haiyan as the executive Directors; and Mr. Zhang Shijun, Ms. Liu Ye and Mr. Lau Chung Wai as the independent non-executive Directors.