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SDHC 山东鸿承

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the"**Board**") of directors (the"**Directors**") of HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED (the"**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the"**Group**") for the six months ended 30 June 2022 (the"**Reporting Period**") together with the comparative figures for the six months ended 30 June 2021.

RESULTS HIGHLIGHTS

For the six months ended 30 June 2022, the Group's total revenue was approximately RMB114.6 million, which was comparable to total revenue of approximately RMB114.5 million for the six months ended 30 June 2021.

For the six months ended 30 June 2022, the Group's gross profit was approximately RMB77.2 million, representing an increase by approximately 10.3% as compared to gross profit of approximately RMB70.0 million for the six months ended 30 June 2021. The overall gross profit margin increased from approximately 61.2% for the six months ended 30 June 2021 to approximately 67.4% for the six months ended 30 June 2022.

For the six months ended 30 June 2022, the Group's net profit was approximately RMB44.9 million, representing an increase by approximately 22.0% as compared to net profit of approximately RMB36.8 million for the six months ended 30 June 2021.

For the six months ended 30 June 2022, basic earnings per share attributable to the owners of the Company were approximately RMB0.04.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**114,577**	114,459
Cost of sales		**(37,351)**	(44,431)
Gross profit		**77,226**	70,028
Other income		**303**	64
Other gains/(losses) — net	*4*	**171**	(418)
(Provision)/reversal of impairment on financial assets		**(47)**	18
Selling expenses		**(1,291)**	(1,303)
Administrative expenses		**(16,946)**	(16,110)
Operating profit	*5*	**59,416**	52,279
Finance income	*6*	**180**	173
Finance costs	*6*	**(1,034)**	(3,066)
Finance costs — net	*6*	**(854)**	(2,893)
Profit before income tax		**58,562**	49,386
Income tax expenses	*7*	**(13,635)**	(12,558)
Profit and total comprehensive income for the period, all attributable to owners of the Company		**44,927**	36,828
Earnings per share for the period attributable to owners of the Company			
Basic and diluted *(expressed in RMB per share)*	*8*	**0.04**	0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022

	Note	**As at 30 June 2022** **RMB'000** **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Right-of-use assets	*10*	**81,233**	25,569
Property, plant and equipment	*11*	**193,219**	138,619
Investment properties		**127,398**	129,591
Intangible assets		**11**	14
Prepayment for non-current assets		**46,563**	1,167
Deferred income tax assets		**265**	99
		448,689	295,059
Current assets			
Inventories	*12*	**25,789**	22,611
Trade receivables	*13*	**64,354**	55,110
Other receivables and prepayments	*14*	**24,672**	7,161
Financial assets measured at fair value through other comprehensive income		**3,600**	7,130
Cash and cash equivalents		**109,844**	235,593
		228,259	327,605
Total assets		**676,948**	622,664
EQUITY			
Equity attributable to owners of the Company			
Share capital		**8,208**	8,208
Share premium		**517,965**	534,097
Other reserves		**(300,552)**	(300,552)
Retained earnings		**191,358**	146,431
Total equity		**416,979**	388,184

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 30 June 2022

	Note	**As at 30 June 2022** ***RMB'000*** **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		**26,800**	37,780
Deferred income tax liabilities		**3,409**	2,966
Lease liabilities	*10*	**162**	320
Other liabilities	*17*	**103,481**	108,509
		133,852	149,575
Current liabilities			
Trade payables	*15*	**9,511**	11,689
Other payables and accruals	*16*	**25,557**	25,030
Dividend payable	*9*	**16,132**	—
Borrowings		**21,980**	2,120
Current income tax liabilities		**25,572**	22,088
Contract liabilities	*3*	**11,598**	8,265
Lease liabilities	*10*	**600**	546
Other liabilities	*17*	**15,167**	15,167
		126,117	84,905
Total liabilities		**259,969**	234,480
Total equity and liabilities		**676,948**	622,664

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 People's Republic of China (the "**PRC**"). The Group's headquarter is in Laizhou, Shandong province of the PRC.

The ultimate controlling party of the Company is Mr. Liu Zeming (the "**Controlling Shareholder**" or "**Mr. Liu**").

The shares of the Company have been listed (the "**Listing**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 12 November 2021 (the "**Listing Date**") by way of its initial public offering.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those of the annual consolidated financial statements for the year ended 31 December 2021 and the corresponding interim financial period, unless otherwise stated.

2. 1 Basis of preparation

The condensed consolidated interim financial statements of the Group has been prepared in accordance with IAS 34 Interim Financial Reporting issued by International Accounting Standards Board.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of the condensed 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.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

2.1.1 New standards and interpretations adopted by the group

A number of new or amended standards became applicable for the current reporting period commencing 1 January 2022. 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
IAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
IAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
IAS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to IFRS Standards 2018–2020		1 January 2022

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 financial year beginning on 1 January 2022 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
IFRS 17	Insurance contracts	1 January 2023
IAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
IAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Management is currently assessing the effects of applying these new standards and amendments on the Group's condensed consolidated financial statements. None of these is expected to have a significant effect on the condensed 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**") has been identified as the executive Directors of the Board and the chief financial controller.

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 condensed consolidated statements of comprehensive income.

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 six months ended 30 June 2022 and 2021

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contract with customers within the scope of IFRS 15		
Revenue from provision of gold mine hazardous waste treatment services	**39,315**	50,045
Revenue from sales of recycled products	**68,009**	57,161
	107,324	107,206
Other Revenue		
Rental income	**7,253**	7,253
	114,577	114,459

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:

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Recognised over time		
Revenue from provision of gold mine hazardous waste treatment services	**39,315**	50,045
Recognised at a point in time		
Revenue from sales of recycled products	**68,009**	57,161
	107,324	107,206

(c) Contract liabilities

The Group recognised the following contract liabilities:

	As at	As at
	30 June	31 December
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contract liabilities related to provision of gold mine hazardous waste treatment services	**118**	3,370
Contract liabilities related to sales of recycled products	**11,480**	4,895
	11,598	8,265

The following table shows how much of the revenue recognised during the six months ended 30 June 2022 and 2021 relates to carried-forward contract liabilities:

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue recognised that was included in the balance of contract liabilities at the beginning of the period		
—Provision of gold mine hazardous waste treatment services	**3,370**	8,151
—Sales of recycled products	**2,730**	1,662
	6,100	9,813

(d) Unsatisfied contracts

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

	As at 30 June 2022 *RMB'000* **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
Expected to be recognised within one year		
Provision of gold mine hazardous waste treatment services	**118**	3,370
Sales of recycled products	**11,480**	4,895
	11,598	8,265

(e) Information about major customers

Revenue from individual customers which individually accounted for 10% or more of the Group's total revenue during the six months ended 30 June 2022 and 2021 is set out below:

	Six months ended 30 June	
	2022 *RMB'000* **(Unaudited)**	2021 *RMB'000* (Unaudited)
Customer A	**30,330**	23,784
Customer B	**18,410**	N/A(i)
Customer C	**15,143**	N/A(i)
Customer D	**N/A(i)**	17,763
Customer E	**N/A(i)**	15,822

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

4 OTHER GAINS/(LOSSES) — NET

	Six months ended 30 June	
	2022 *RMB'000* **(Unaudited)**	2021 *RMB'000* (Unaudited)
Foreign exchange gains	**20**	91
Insurance claim	**75**	30
Net gains/(losses) on disposal of property, plant and equipment and other assets	**76**	(543)
Others	**—**	4
	171	(418)

5 OPERATING PROFIT

An analysis of the amounts presented as operating items in the financial information is given below.

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories	**13,779**	19,798
Employee benefit expenses including directors' emoluments	**9,689**	8,045
Depreciation and amortisation of		
—Right-of-use assets	**1,086**	445
—Property, plant and equipment	**5,119**	4,431
—Investment properties	**2,193**	2,193
—Intangible assets	**3**	3
Transportation expenses	**6,953**	6,576
Electricity and water expenses	**4,876**	6,037
Consultation fee	**3,524**	1,586
Repair and maintenance fee	**1,028**	1,112

6 FINANCE COSTS — NET

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance income		
—Interest income derived from bank balances	**(180)**	(173)
Finance costs		
—Interest expenses on bank borrowings	**1,037**	837
—Interest expenses relating to warehouse lease arrangements	**2,225**	2,126
—Interest expenses on lease liabilities	**18**	19
—Net foreign exchange (gains)/losses	**(2,246)**	84
	1,034	3,066
Finance costs — net	**854**	2,893

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC income tax		
— Current income tax expense	**13,357**	10,833
— Deferred income tax expense	**278**	1,725
	13,635	12,558

8 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 periods.

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**44,927**	36,828
Weighted average number of ordinary shares in issue	**1,000,000,000**	750,000,000
Basic earnings per share *(RMB)*	**0.04**	0.05

(b) Diluted

During the six months ended 30 June 2022 and 2021, 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.

9 DIVIDEND

At the annual general meeting of the Company held on 24 June 2022, a final dividend of HKD0.0189 (equivalent to approximately RMB0.0162) per share was declared, amounting to a total of HKD18.9 million (equivalent to approximately RMB16.1 million) out of the Company's share premium account for the year ended 31 December 2021 (2021: nil).

No interim dividend was declared for the six months ended 30 June 2022 (30 June 2021: nil).

10 LEASES

	As at 30 June 2022 *RMB'000* (Unaudited)	As at 31 December 2021 *RMB'000* (Audited)
Right-of-use assets		
Land use rights	**80,668**	24,742
Leased properties and equipment	**565**	827
	81,233	25,569
Lease liabilities		
Leased properties and equipment		
— Non-current	**(162)**	(320)
— Current	**(600)**	(546)
	(762)	(866)

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machineries *RMB'000*	Furniture fixtures and equipment *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2022 (Unaudited)						
Cost	112,788	42,398	4,214	8,104	—	167,504
Accumulated depreciation	(13,955)	(10,720)	(2,243)	(1,967)	—	(28,885)
Net book amount	98,833	31,678	1,971	6,137	—	138,619
Six months ended 30 June 2022 (Unaudited)						
Opening net book amount	98,833	31,678	1,971	6,137	—	138,619
Additions	495	1,370	59	1,505	58,172	61,601
Disposals	—	—	—	(1,882)	—	(1,882)
Depreciation	(2,410)	(2,144)	(288)	(277)	—	(5,119)
Closing net book amount	96,918	30,904	1,742	5,483	58,172	193,219
As at 30 June 2022 (Unaudited)						
Cost	113,284	43,767	4,273	7,286	58,172	226,782
Accumulated depreciation	(16,366)	(12,863)	(2,531)	(1,803)	—	(33,563)
Net book amount	96,918	30,904	1,742	5,483	58,172	193,219
At 1 January 2021 (Unaudited)						
Cost	111,546	28,790	3,720	5,669	—	149,725
Accumulated depreciation	(9,487)	(6,998)	(1,632)	(1,174)	—	(19,291)
Net book amount	102,059	21,792	2,088	4,495	—	130,434
Six months ended 30 June 2021 (Unaudited)						
Opening net book amount	102,059	21,792	2,088	4,495	—	130,434
Additions	738	1,209	540	2,611	—	5,098
Transfer from right-of-use assets	—	1,380	—	—	—	1,380
Disposals	—	(482)	—	(1,206)	—	(1,688)
Depreciation	(2,237)	(1,527)	(306)	(361)	—	(4,431)
Closing net book amount	100,560	22,372	2,322	5,539	—	130,793
At 30 June 2021 (Unaudited)						
Cost	112,284	31,443	4,260	7,025	—	155,012
Accumulated depreciation	(11,724)	(9,071)	(1,938)	(1,486)	—	(24,219)
Net book amount	100,560	22,372	2,322	5,539	—	130,793

12 INVENTORIES

	As at 30 June 2022 *RMB'000* (Unaudited)	As at 31 December 2021 *RMB'000* (Audited)
Raw materials	**265**	938
Work-in-progress	**723**	2,444
Finished goods, recycled products	**24,801**	19,229
Total	**25,789**	22,611

13 TRADE RECEIVABLES

	As at 30 June 2022 *RMB'000* (Unaudited)	As at 31 December 2021 *RMB'000* (Audited)
Trade receivables		
— related to provision of gold mine hazardous waste treatment services	**47,964**	40,140
— related to sales of recycled products	**17,771**	16,304
	65,735	56,444
Less: provision for impairment	**(1,381)**	(1,334)
	64,354	55,110

(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 30 June 2022 and 31 December 2021, the ageing analysis of the trade receivables based on the invoice date is as follows:

	As at 30 June 2022 *RMB'000* **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
1–30 days	**18,501**	13,953
31–60 days	**8,656**	8,057
61–90 days	**3,241**	11,846
91–180 days	**6,729**	17,641
Over 180 days	**28,608**	4,947
	65,735	56,444

(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 30 June 2022 *RMB'000* **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
As at 1 January	**1,334**	115
Loss allowance recognised in profit or loss during the period/year	**47**	1,219
As at period/year end	**1,381**	1,334

14 OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2022 *RMB'000* (Unaudited)	As at 31 December 2021 *RMB'000* (Audited)
Prepayments for raw materials and transportation expenses	**14,676**	4,960
Value-added tax receivables	**7,260**	196
Others	**2,736**	2,005
	24,672	7,161

15 TRADE PAYABLES

	As at 30 June 2022 *RMB'000* (Unaudited)	As at 31 December 2021 *RMB'000* (Audited)
Trade & bill payables		
— related to transportation costs	**6,980**	6,602
— related to raw materials	**2,531**	5,087
	9,511	11,689

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

	As at 30 June 2022 *RMB'000* (Unaudited)	As at 31 December 2021 *RMB'000* (Audited)
1–30 days	**3,038**	2,804
31–60 days	**2,387**	1,711
61–90 days	**2,033**	1,524
91–180 days	**1,430**	4,069
Over 180 days	**623**	1,581
	9,511	11,689

16 OTHER PAYABLES AND ACCRUALS

	As at 30 June 2022 *RMB'000* **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
Other taxes payable	**18,423**	15,627
Employee benefits payables	**3,546**	3,634
Payables for property, plant and equipment	**1,671**	2,800
Others	**1,917**	2,969
Total	**25,557**	25,030

17 OTHER LIABILITIES

	As at 30 June 2022 *RMB'000* **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
Warehouse lease arrangements (a)		
Advance from lessee		
— Current portion	**15,167**	15,167
— Non-current portion	**4,466**	11,719
Sub-total	**19,633**	26,886
Payable to LZ Assets		
Non-current		
— First warehouse	**44,743**	43,737
— Second warehouse	**54,272**	53,053
Sub-total	**99,015**	96,790
Total	**118,648**	123,676
Grand total	**118,648**	123,676
Presented on the condensed consolidated statement of financial position as:		
Other liabilities — current portion	**15,167**	15,167
Other liabilities — non-current portion	**103,481**	108,509
	118,648	123,676

(a) Warehouse lease arrangements

In October 2018 and December 2018, Laizhou Hongcheng Mining Environmental Protection Development Co., Ltd. (萊州市鴻鋮礦業環保開發有限公司), an indirect wholly owned subsidiary of our Company ("**HC Environmental**") entered into two gold mine hazardous waste storage warehouse lease agreements with Laizhou City State-owned Assets Management Company Limited (萊州市國有資產經營有限公司) ("**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 wins the tender, the lease term will terminate and the future treatment fee will 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 will 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 reorganisation 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 is 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 six months ended 30 June 2022 and 2021 was RMB7,253,000 and RMB7,253,000, 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 six months ended 30 June 2022 and 2021 were RMB2,225,000 and RMB2,126,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group, based in Shandong province, the PRC, 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 of 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 of 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's major operation and business are strategically located in Laizhou city, Shandong province, where the quantity of gold reserves is ranked first among the county-level cities in the PRC.

Due to the regional volatility of the COVID-19 pandemic and gradual emergence of inflationary pressure from monetary easing, there was an increase in average purchase cost of raw materials. The hazardous wastes treatment industry in the PRC is undergoing profound changes. The release of production capacity in some regions has led to intensified competition in the industry and a downward trend of price of hazardous waste treatment. The hazardous waste treatment industry is experiencing severe difficulties and challenges in development. Some of the gold mining companies that were temporarily suspended during the safety inspection period since the beginning of February 2021 are gradually resuming production, the volume of cyanide tailings provided by upstream customers has not increased significantly.

Despite the lingering uncertainties in the economy and the industry brought by various factors, the Group continued to register stellar performance with its revenue and net profit amounted to approximately RMB114.6 million and RMB44.9 million, respectively, for the six months ended 30 June 2022, representing an increase of 0.1% and 22.0% as compared to the same for the six months ended 30 June 2021, respectively. The Group's gross profit and gross profit margin increased from approximately RMB70.0 million and 61.2%, respectively, for the six months ended 30 June 2021 to approximately RMB77.2 million and 67.4%, respectively, for the six months ended 30 June 2022. The increase in gross profit for the six months ended 30 June 2022 was mainly due to the surge in unit sales price of pyrite concentrate as a result of the strong market demand for sulphuric acid (the downstream product of pyrite concentrate) in the market. The growth in gross profit margin for the six months ended 30 June 2022 was primarily due to the increase in sales price of the Group's recycled products which in turn was driven by the rising trend of the market price of sulphuric acid. During the Reporting Period, the Group was widely recognised by various sectors with its good operating results and solid management team, as evidenced by the "Excellent Enterprise in the Solid Waste Industry of Shandong Province 2021" ("2021年度山東省固廢產業優秀企業") awarded by the Shandong Association of Solid Waste Industry (山東固廢產業協會).

In the area of technology research and development, the Group focused on the research of relevant technologies for recycling gold tailings. During the Reporting Period, the Group and Yantai University (煙臺大學) jointly conducted research on low-carbon recycling technologies for high-silica residues, including the analysis of properties of different cyanidation tailings and high-silica residues, and the establishment of a database, which has achieved progressive results for the low-carbon recycling technology roadmap of high-silicon residues. In addition, the Group's research project, namely the "Gold Tailings Sulfur and Iron Resources Recycling Project" ("黃金尾渣硫鐵資源回收利用項目"), was awarded the 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) during the Reporting Period. The above performance in relation to technology research and development demonstrates the Group's persistence in technological innovation.

Regarding new product expansion, during the Reporting Period, the Group endeavoured to facilitate the extension and broadening of its product portfolio. The Group has commenced developing a production line in relation to the manufacturing of sulphuric acid (the "**New Product**") (the "**New Product Line**") to enrich its product portfolio and expand its current business. The primary materials used in the manufacturing of sulphuric acid include pyrite concentrate, which is the main recycled product of the Group. The Group may make use of such advantage to manufacture the New Product with higher value through the re-processing of pyrite concentrate that are self-produced by the Group.

Moreover, the New Product Line is located next to the Group's current manufacturing plant of pyrite concentrate, providing the Group with geographical and cost advantages for operating the New Product Line. The New Product Line is intended to be developed with the land use right owned by the Group in Yinhai Chemical Industrial Park (銀海化工產業園), Laizhou city, Shandong province, the PRC, with a total site area of approximately 533,300 sq.m. (the "**Land**"), and the Group plans to allocate no more than 10% area of the Land for the construction of the New Product Line. For further details of the Land, please refer to the announcement of the Company dated 6 January 2022. The Group believes that it utilises the experience and network of the Group in relevant fields of the manufacturing of recycled products to extend the industry chain of the Group's business, thereby generating a new income source for the Group, as well as creating a more stable and larger demand for the Group's existing recycled products.

The Group expects that the New Product Line will commence production in or around the second quarter of 2023, with a maximum annual production capacity of the New Product of approximately 240,000 tonnes. The Group intends to fund the establishment of the New Product Line through internal resources of the Company or other available external financing arrangements. As at the date of this announcement, the Group has not yet obtained the production licence for the production of sulphuric acid. We will comply with the applicable requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and make necessary announcements when there are further developments in the development of the New Product Line.

FUTURE PROSPECTS

2022 is a key year in the implementation of the Fourteenth Five-Year Plan. It is specified in 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) that green development shall be promoted. Driven by the industrial policies of the sustainable green economy, low-carbon economy and circular economy, continued focus and emphasis will be placed in the environmental industry. The Group will firmly practise the concept of ecological civilisation, and continue to promote safe, green and quality development. 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 "lucid waters and lush mountains are invaluable assets" philosophy.

Enhancing production capacity and capability, and consolidating our position in the industry

The Group will further strengthen its hazardous waste treatment capability, so as to acquire more market shares and maintain its leading position in the industry. 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), the gold industry layout and product structure in Shandong province will be increasingly optimised, further highlighting brand effects and significantly raising the safety and environmental protection standards, with remarkable results in high-end, intelligent and green development. The annual output of gold will be more concentrated in large and medium-sized gold enterprise groups, which will lead to the consolidation of gold resources and drive the consolidation of gold mine hazardous wastes production, and facilitate the centralisation of the demand for hazardous waste treatment. The Group will enhance production capacity and capability to cater for and cope with the structural changes in market demand, thereby maintaining its leading position in the industry.

Diversifying product portfolio and exploring new products, markets and businesses

The efficient utilisation of waste resources is an important part of the circular economy industry. The Group will, by leveraging our experience and network in relevant areas of the production of recycled products, extend the industry chain of our business, expand our product portfolio and actively explore business with high profitability, which include the Group's ongoing production plan of the New Product and the plan to promote low-carbon recycling of high-silica residues. We plan to promote the establishment of 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 portfolio of our recycled products, 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. While consolidating our major business of hazardous wastes treatment, we will grasp market opportunities to expedite the expansion of our resource treatment business.

Strengthening research and development capability with constant technical innovation

The hazardous waste treatment industry in the PRC is undergoing profound changes and is highly competitive. The Group insists on strengthening market competitiveness by leveraging research and development capabilities and technological innovation. Through actively promoting technological research and development, strengthening exchanges with industry peers, enhancing collaboration with research institutes and expanding our research and development team, we are able to optimise our production processes, improve product quality, enhance resource utilisation and the application of harmless treatment and develop new products. The Group plans to build an integrated resources research laboratory which will serve as an incubator for comprehensive resource research and innovation in the future. 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 improve the 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 safe production as our priority; we achieve safe production 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 continue to 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 six months ended 30 June			
	2022		2021	
	RMB'000	*%*	*RMB'000*	*%*
Gold mine hazardous waste treatment	**39,315**	**34.3**	50,045	43.7
Sales of recycled products	**68,009**	**59.4**	57,161	49.9
Hazardous waste storage rental services	**7,253**	**6.3**	7,253	6.4
	114,577	**100.0**	114,459	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 six months ended 30 June 2022, revenue from our gold mine hazardous waste treatment services and sale of recycled products accounted for approximately 93.7% (six months ended 30 June 2021: 93.6%) of our total revenue. The Group also derived revenue from the hazardous waste storage rental services, which accounted for approximately 6.3% (six months ended 30 June 2021: 6.4%) of our total revenue.

For the six months ended 30 June 2022, the Group's total revenue was approximately RMB114.6 million, which was similar to that of approximately RMB114.5 million for the six months ended 30 June 2021. During the Reporting Period, the increase in average selling price per tonne of recycled products compared to the same period of last year has driven an increase in revenue from sales of recycled products. 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 offset by the year-on-year decline of approximately 21.4% in revenue from our gold mine hazardous waste treatment services (decreasing from approximately RMB50.0 million for the six months ended 30 June 2021 to approximately RMB39.3 million for the six months ended 30 June 2022). Such decrease was due to the fewer cyanide tailings provided by upstream customers and a slight decline in average treatment fee per tonne.

Gross profit and gross profit margin

For the six months ended 30 June 2022, the Group's gross profit was approximately RMB77.2 million, representing an increase of approximately 10.3% from approximate RMB70.0 million for the six months ended 30 June 2021. Such increase was primarily due to the significant increase in gross profit of sales of recycled products as the average selling price per tonne of recycled products increased compared to the same period of previous year. The overall gross profit margin increased from approximately 61.2% for the six months ended 30 June 2021 to approximately 67.4% for the six months ended 30 June 2022. Such fluctuation was a combined effect of the increase in gross profit margin of sales of recycled products from approximately 55.0% for the six months ended 30 June 2021 to approximately 68.3% for the six months ended 30 June 2022 and a slight decline in gross profit margin for gold mine hazardous waste treatment services from approximately 67.0% for the six months ended 30 June 2021 to approximately 65.4% for the six months ended 30 June 2022.

Other income

Other income increased from approximately RMB64,000 for the six months ended 30 June 2021 to approximately RMB0.3 million for the six months ended 30 June 2022, which was mainly attributable to the refund of certain tax payments and the handling charges in relation to the individual income tax of employees during the Reporting Period according to relevant preferential policies.

Selling expenses

Our selling expenses mainly consist of (i) entertainment expense; and (ii) employee salary and benefit expenses for our sales team. For the six months ended 30 June 2022, the Group's selling expenses was approximately RMB1.3 million, which was similar to that of approximately RMB1.3 million for the six months ended 30 June 2021. The trend was in line with the Group's revenue.

Administrative expenses

The administrative expenses of the Group 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 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 expense; (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 six months ended 30 June 2022, the Group's administrative expenses was approximately RMB16.9 million, representing an increase of approximately 5.0% as compared to that of approximately

RMB16.1 million for the six months ended 30 June 2021. Such change was mainly attributable to (i) the decrease in Listing expenses for the purpose of the Listing of approximately RMB5.3 million; and (ii) the increase in professional and consultation fee of approximately RMB1.9 million as we engaged consultation companies for advising on and researching into the establishment of the New Product Line and the development of the project to recover recycled products from high silicon tailings; and (iii) the increase in employee benefit expenses, taxes and levies and depreciation and amortisation for administrative facilities of approximately RMB1.4 million, approximately RMB1.5 million and approximately RMB0.8 million, respectively, as a result of our expansion in scale and operation.

Net finance costs

Our net finance costs reflected the sum of interest expenses on bank borrowings, lease liabilities, exchange gain or loss and other liabilities after offsetting interest income we received from bank balances. For the six months ended 30 June 2022, the Group's net finance costs was approximately RMB0.9 million, representing a decrease of approximately 69.0% as compared to that of approximately RMB2.9 million for the six months ended 30 June 2021. The decrease in net finance costs was mainly due to the Group's net foreign exchange gain of approximately RMB2.2 million incurred during the six months ended 30 June 2022, while for the six months ended 30 June 2021, the Group recognised a net foreign exchange loss of approximately RMB84,000.

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 British Virgin Islands (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 six months ended 30 June 2022 and 30 June 2021.

PRC corporate income tax ("CIT")

The tax rate of our subsidiaries established in the PRC is 25%. Laizhou Hongcheng Mining Environmental Protection Development Co., Ltd. (萊州市鴻鋮礦業環保開發有限公司) and Shandong Hongcheng Mining (Group) Co., Ltd. (山東鴻承礦業 (集團) 有限公司), engaging in comprehensive utilisation of resources are also entitled to a reduction of 10% of revenue from sales of recycled products from the taxable income of the companies in the calculation of CIT.

For the six months ended 30 June 2022, the Group's income tax expense was approximately RMB13.6 million, representing an increase of approximately 7.9% as compared to that of approximately RMB12.6 million for the six months ended 30 June 2021, reflecting effective tax rate (equivalent to income tax expense divided by profit before income tax) of approximately 23.3% and 25.4% for the six months ended 30 June 2022 and 30 June 2021, respectively. Our effective tax rate decreased from approximately 25.4% for the six months ended 30 June 2021 to approximately 23.3% for the six months ended 30 June 2022, which was mainly due to (i) the decrease in tax loss incurred by certain of our group companies in Hong Kong and the PRC during the six months ended 30 June 2022 as compared to the same period of previous year. No deferred income tax assets were recognised as it was not probable for the company to generate taxable income in the foreseeable future; and (ii) revenue from sales of recycled products ,entitled to a reduction of 10% from the taxable income in the calculation of CIT, accounted for larger portion of the total revenue during the six months ended 30 June 2022 as compared to the same period of previous year.

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 RMB118.4 million during the six months ended 30 June 2022.

Capital Commitments

As at 30 June 2022, the Group had capital commitments of approximately RMB60.0 million in respect of construction and acquisition of property, plant and equipment (31 December 2021: nil).

Pledge of Assets

As at 30 June 2022, the total net book value of assets pledged to secure the Group's bank borrowings amounted to approximately RMB8.6 million (31 December 2021: approximately RMB5.9 million) for land use rights, approximately RMB18.3 million (31 December 2021: approximately RMB68.7 million) for buildings and approximately RMB127.4 million (31 December 2021: approximately RMB67.8 million) for investment properties.

Contingent Liabilities

As at 30 June 2022, 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 30 June 2022, the Group had net current assets of approximately RMB102.1 million (31 December 2021: approximately RMB242.7 million). As at 30 June 2022, the gearing ratio was approximately 35.6% (31 December 2021: approximately 35.4%). 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 and other liabilities relating to warehouse lease arrangements.

The Group maintained a strong financial position with cash and cash equivalents of approximately RMB109.8 million as at 30 June 2022. 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.

During the Reporting Period, the Company had no material change in its capital structure. The capital of the Company comprised only ordinary shares.

OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 29 October 2021 (the "**Prospectus**") and in this announcement, the Group does not have other future 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 six months ended 30 June 2022** *RMB' million*	**Net proceeds unutilised as at 30 June 2022** *RMB' million*	**Expected timeline for full utilisation of the unutilised proceeds**
Establish the New Production Facility, as defined in the Prospectus, 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	77.8	75.9	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	77.8	99.5	

The unutilised net proceeds have been deposited as short-term deposits in the bank account maintained by the Group.

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 Reporting Period, the Group did not hold any significant investments, nor did it have any material acquisitions or disposals of any subsidiaries, associates or joint ventures.

EVENTS AFTER THE REPORTING PERIOD

There were no other significant events affecting the Group between 30 June 2022 and the date of this announcement.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2022, the Group had 186 employees. For the six months ended 30 June 2022, the staff cost of the Group was approximately RMB9.7million.

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 of the Company 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 during the Reporting Period.

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 of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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 during the Reporting Period.

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 Reporting Period. The Group is committed to maintaining a high standard of corporate governance to safeguard the interests of shareholders of the Company (the "**Shareholders**") and to enhance corporate value and accountability.

REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Board has reviewed the accounting principles and policies adopted by the Company and the Group and the unaudited interim results of the Group for the Reporting Period.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2022 INTERIM REPORT

This interim 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 interim report of the Company for the six months ended 30 June 2022 containing all the information required by the Listing Rules will be published on the aforementioned websites and despatched to Shareholders in due course.

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

Hong Kong, 31 August 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.