

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 2022**

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2022 together with the comparative figures for the year ended 31 December 2021.

**RESULTS HIGHLIGHTS**

For the year ended 31 December 2022, the Group's total revenue was approximately RMB222.8 million, representing a decrease by approximately 13.3% as compared to total revenue of approximately RMB257.0 million for the year ended 31 December 2021.

For the year ended 31 December 2022, the Group's gross profit was approximately RMB144.0 million, representing a decrease by approximately 13.6% as compared to gross profit of approximately RMB166.6 million for the year ended 31 December 2021. The overall gross profit margin for the year ended 31 December 2022 was approximately 64.6% which was similar to approximately 64.8% for the year ended 31 December 2021.

For the year ended 31 December 2022, the Group's net profit was approximately RMB80.2 million, representing a decrease by approximately 6.3% as compared to net profit of approximately RMB85.6 million for the year ended 31 December 2021.

For the year ended 31 December 2022, basic earnings per share attributable to the owners of the Company were approximately RMB0.08 (31 December 2021: approximately RMB0.11).

No final dividend for the year ended 31 December 2022 was recommended. For the year ended 31 December 2021, a final dividend of HKD0.0189 per share was declared.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022	2021
		RMB'000	RMB'000
Revenue	3	222,801	257,043
Cost of sales	6	<u>(78,786)</u>	<u>(90,429)</u>
<b>Gross profit</b>		<b>144,015</b>	166,614
Other income	4	1,759	78
Other gains/(losses) — net	5	37	(156)
Provision of impairment on financial assets		(1,522)	(1,219)
Selling expenses	6	(2,880)	(2,369)
Administrative expenses	6	<u>(32,609)</u>	<u>(39,783)</u>
<b>Operating profit</b>		<b>108,800</b>	123,165
Finance income	7	400	412
Finance costs	7	<u>(5,437)</u>	<u>(6,433)</u>
<b>Finance costs — net</b>	7	<b><u>(5,037)</u></b>	<u>(6,021)</u>
<b>Profit before income tax</b>		<b>103,763</b>	117,144
Income tax expense	8	<u>(23,547)</u>	<u>(31,531)</u>
<b>Profit for the year, all attributable to owners of the Company</b>		<b><u>80,216</u></b>	<u>85,613</u>
<b>Other comprehensive income:</b>			
Item that may be reclassified to profit or loss			
Currency translation differences		<u>1,349</u>	<u>—</u>
<b>Total comprehensive income for the year, all attributable to owners of the Company</b>		<b><u>81,565</u></b>	<u>85,613</u>
<b>Earnings per share for the year attributable to owners of the Company</b>			
Basic and diluted (expressed in RMB per share)	9	<u>0.08</u>	<u>0.11</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2022

		As at 31 December	
		2022	2021
	Note	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Right-of-use assets	11	79,942	25,569
Property, plant and equipment	12	321,755	138,619
Investment properties		125,205	129,591
Intangible assets		7	14
Prepayment for non-current assets		6,401	1,167
Deferred income tax assets		1,733	99
		<u>535,043</u>	<u>295,059</u>
<b>Current assets</b>			
Inventories	13	18,482	22,611
Trade receivables	14	71,473	55,110
Other receivables and prepayments	15	71,279	7,161
Financial assets at fair value through other comprehensive income		2,350	7,130
Cash and cash equivalents		59,160	235,593
		<u>222,744</u>	<u>327,605</u>
<b>Total assets</b>		<u><u>757,787</u></u>	<u><u>622,664</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		8,208	8,208
Share premium		517,965	534,097
Other reserves		(299,203)	(300,552)
Retained earnings		226,647	146,431
		<u>453,617</u>	<u>388,184</u>
<b>Total equity</b>		<u><u>453,617</u></u>	<u><u>388,184</u></u>

		<b>As at 31 December</b>	
		<b>2022</b>	2021
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		–	37,780
Deferred income tax liabilities		<b>3,913</b>	2,966
Lease liabilities	<i>11</i>	–	320
Other liabilities	<i>18</i>	<b>85,453</b>	108,509
		<u><b>89,366</b></u>	<u>149,575</u>
<b>Current liabilities</b>			
Trade payables	<i>16</i>	<b>9,088</b>	11,689
Other payables and accruals	<i>17</i>	<b>77,858</b>	25,030
Borrowings		<b>55,740</b>	2,120
Current income tax liabilities		<b>35,076</b>	22,088
Contract liabilities	<i>3</i>	<b>2,577</b>	8,265
Lease liabilities	<i>11</i>	<b>608</b>	546
Other liabilities	<i>18</i>	<b>33,857</b>	15,167
		<u><b>214,804</b></u>	<u>84,905</u>
<b>Total liabilities</b>		<u><b>304,170</b></u>	<u>234,480</u>
<b>Total equity and liabilities</b>		<u><b>757,787</b></u>	<u>622,664</u>

## 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 “**Companies Act**”). 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. The Group’s headquarter is in Laizhou city, Shandong province of the PRC.

The ultimate controlling party 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 the 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 RMB (“**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 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.

<b>New standards and amendments</b>		<b>Effective for annual financial periods beginning on or after</b>
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 year ended 31 December 2022 and have not been early adopted by the Group. These new standards and interpretations are:

<b>Standards and amendments</b>		<b>Effective for annual periods beginning on or after</b>
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 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") 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, and the CODM assesses the performance of treatment services and sales of recycled product as a whole. During the year ended 31 December 2022, the Group commenced the construction of sulfuric acid production plant on the new land lot acquired. From a product perspective, the CODM assesses the performance of provision of gold mine hazardous waste treatment services and sales of recycled product, production of sulfuric acid and others and unallocated. Others mainly includes other recycled products and the construction in progress. Unallocated cost mainly includes administrative expenses incurred by the Company and intermediate holding companies of the Group. Management of the Group assesses the performance of operating segments based on segment profit or loss and assets.

Assets grouped under unallocated category comprise cash and bank balances and other receivables held by the Company and intermediate holding companies of the Group.

Liabilities grouped under unallocated category comprise other payables and accruals of the Company and intermediate holding companies of the Group.

Additions to non-current assets comprise additions to property, plant and equipment, right-of-use assets and intangible assets.

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

The segment information for the year ended 31 December 2022 and 2021 is as follows:

	<b>Provision of gold mine hazardous waste treatment services and sales of recycled products RMB'000</b>	<b>Production of sulfuric acid and others RMB'000</b>	<b>Unallocated RMB'000</b>	<b>Total RMB'000</b>
<b>For the year ended 31 December 2022</b>				
Segment revenue	<u>222,801</u>	<u>–</u>	<u>–</u>	<u>222,801</u>
Segment profit/(loss)	115,619	(3,756)	(3,063)	108,800
Finance costs — net	(6,234)	1,221	(24)	<u>(5,037)</u>
Profit before income tax				103,763
Income tax expense				<u>(23,547)</u>
Profit for the year				<u><u>80,216</u></u>
Depreciation and amortisation	<u>15,138</u>	<u>1,269</u>	<u>351</u>	<u>16,758</u>
Additions to non-current assets	<u>5,964</u>	<u>246,313</u>	<u>–</u>	<u>252,277</u>
<b>As at 31 December 2022</b>				
Total assets	<u>488,239</u>	<u>269,016</u>	<u>532</u>	<u>757,787</u>
Total liabilities	<u>266,415</u>	<u>35,178</u>	<u>2,577</u>	<u>304,170</u>



	Provision of gold mine hazardous waste treatment services and sales of recycled products <i>RMB'000</i>	Production of sulfuric acid and others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<b>For the year ended 31 December 2021</b>				
Segment revenue	<u>257,043</u>	<u>–</u>	<u>–</u>	<u>257,043</u>
Segment profit/(loss)	140,870	(93)	(17,612)	123,165
Finance costs — net	<u>(5,596)</u>	<u>(215)</u>	<u>(210)</u>	<u>(6,021)</u>
Profit before income tax				117,144
Income tax expense				<u>(31,531)</u>
Profit for the year				<u><u>85,613</u></u>
Depreciation and amortisation	<u>14,512</u>	<u>–</u>	<u>13</u>	<u>14,525</u>
Additions to non-current assets	<u>17,892</u>	<u>–</u>	<u>639</u>	<u>18,531</u>
<b>As at 31 December 2021</b>				
Total assets	<u>431,422</u>	<u>97,316</u>	<u>93,926</u>	<u>622,664</u>
Total liabilities	<u>231,535</u>	<u>28</u>	<u>2,917</u>	<u>234,480</u>

(b) Revenue during the years ended 31 December 2022 and 2021

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue from contract with customers within the scope of IFRS 15</b>		
Revenue from provision of gold mine hazardous waste treatment services	76,439	96,581
Revenue from sales of recycled products	<u>131,855</u>	<u>145,955</u>
	208,294	242,536
<b>Other revenue</b>		
Rental income	<u>14,507</u>	<u>14,507</u>
	<u>222,801</u>	<u>257,043</u>

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Recognised over time</b>		
Revenue from provision of gold mine hazardous waste treatment services	76,439	96,581
<b>Recognised at a point in time</b>		
Revenue from sales of recycled products	<u>131,855</u>	<u>145,955</u>
	<u>208,294</u>	<u>242,536</u>

(c) **Contract liabilities**

The Group recognised the following contract liabilities:

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Contract liabilities related to provision of gold mine hazardous waste treatment services	<b>740</b>	3,370
Contract liabilities related to sales of recycled products	<b>1,837</b>	4,895
	<b><u>2,577</u></b>	<u>8,265</u>

The following table shows how much of the revenue recognised during the years ended 31 December 2022 and 2021 relates to carried-forward contract liabilities:

	<b>Year ended 31 December</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
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	<b>3,370</b>	8,676
Sales of recycled products	<b>3,173</b>	2,151
	<b><u>6,543</u></b>	<u>10,827</u>

(d) **Unsatisfied contracts**

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

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Expected to be recognised within one year		
Provision of gold mine hazardous waste treatment services	<b>740</b>	3,370
Sales of recycled products	<b>1,837</b>	4,895
	<b><u>2,577</u></b>	<u>8,265</u>

(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 2022 and 2021 is set out below:

	<b>Year ended 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Customer A	<b>51,368</b>	40,301
Customer B	<b>23,186</b>	N/A(i)
Customer C	<b>N/A(i)</b>	37,615

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

**4 OTHER INCOME**

	<b>Year ended 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Government grants	<b>986</b>	–
Agency service income	<b>572</b>	–
Personal income tax refund	<b>201</b>	47
Others	<b>–</b>	31
	<b><u>1,759</u></b>	<b><u>78</u></b>

During the year ended 31 December 2022, the Group's subsidiary, HC Resources acted effectively as an agent that facilitate the trading of magnesite between a third party State-owned enterprise supplier of the magnesite and the customers that purchase the magnesite. HC Resources bought the magnesite from the supplier and sold to the customers. The Group recognised income from these transactions on net basis. As at 31 December 2022, the other receivable from the supplier and the other payables to the customers amounted to RMB28,025,000 (Note 15) and RMB23,224,000 (Note 17), respectively. The Directors confirm that the agency service income was one-off transaction and the Group is not actively pursuing business opportunities in such agency business.

## 5 OTHER GAINS/(LOSSES) — NET

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange gains	–	249
Net losses on disposal of property, plant and equipment and other assets	(38)	(500)
Others	75	95
	<u>37</u>	<u>(156)</u>

## 6 EXPENSES BY NATURE

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

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and consumables used	29,084	41,772
Changes in inventories of finished goods and work-in-progress	3,572	(263)
Employee benefit expenses	17,473	16,658
Transportation expenses	13,143	11,947
Electricity and water expenses	10,499	11,754
Amortisation of right-of-use assets	2,300	833
Depreciation of property, plant and equipment	10,065	9,299
Depreciation of investment properties	4,386	4,386
Amortisation of intangible assets	7	7
Taxes and levies	6,018	4,250
Consultation and professional fees	3,880	3,796
Repair and maintenance fee	1,542	3,482
Auditor's remuneration — audit services	2,083	1,627
Production safety cost	1,457	1,560
Listing expenses	–	14,206
Donations	52	310
Others	8,714	6,957
Total	<u>114,275</u>	<u>132,581</u>

## 7 FINANCE COSTS — NET

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Finance income</b>		
— Interest income derived from bank balances	<u>(400)</u>	<u>(412)</u>
<b>Finance costs</b>		
— Interest expenses on bank borrowings	2,123	1,680
— Interest expenses relating to warehouse lease arrangements	4,502	4,301
— Interest expenses on lease liabilities	28	26
— Other losses	<u>(1,216)</u>	<u>426</u>
	<u>5,437</u>	<u>6,433</u>
<b>Finance costs — net</b>	<u><u>5,037</u></u>	<u><u>6,021</u></u>

## 8 INCOME TAX EXPENSE

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
PRC income tax		
— Current income tax expense	24,234	28,025
— Deferred income tax expense	<u>(687)</u>	<u>3,506</u>
	<u><u>23,547</u></u>	<u><u>31,531</u></u>

## 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	
	2022	2021
Profit attributable to owners of the Company ( <i>RMB'000</i> )	<b>80,216</b>	85,613
Weighted average number of ordinary shares in issue	<b>1,000,000,000</b>	784,246,575
Basic earnings per share ( <i>RMB</i> )	<b>0.08</b>	0.11

### (b) Diluted

During the years ended 31 December 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.

## 10 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.

No final dividend was recommended for the year ended 31 December 2022.

## 11 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Right-of-use assets</b>		
Land use rights	<b>79,582</b>	24,742
Leased properties	<b>360</b>	827
	<b>79,942</b>	25,569
<b>Lease liabilities</b>		
Leased properties		
— Non-current	—	(320)
— Current	<b>(608)</b>	(546)
	<b>(608)</b>	(866)

## 12 PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Machineries <i>RMB'000</i>	Furniture fixtures and equipment <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 1 January 2021</b>						
Cost	111,546	28,790	3,720	5,669	–	149,725
Accumulated depreciation	(9,487)	(6,998)	(1,632)	(1,174)	–	(19,291)
<b>Net book amount</b>	<u>102,059</u>	<u>21,792</u>	<u>2,088</u>	<u>4,495</u>	<u>–</u>	<u>130,434</u>
<b>Year ended 31 December 2021</b>						
Opening net book amount	102,059	21,792	2,088	4,495	–	130,434
Additions	1,242	1,440	494	3,690	11,026	17,892
Transfer upon completion	–	11,026	–	–	(11,026)	–
Transfer from right-of-use assets	–	1,380	–	–	–	1,380
Disposals	–	(574)	–	(1,214)	–	(1,788)
Depreciation	(4,468)	(3,386)	(611)	(834)	–	(9,299)
<b>Closing net book amount</b>	<u>98,833</u>	<u>31,678</u>	<u>1,971</u>	<u>6,137</u>	<u>–</u>	<u>138,619</u>
<b>As at 31 December 2021</b>						
Cost	112,788	42,398	4,214	8,104	–	167,504
Accumulated depreciation	(13,955)	(10,720)	(2,243)	(1,967)	–	(28,885)
<b>Net book amount</b>	<u>98,833</u>	<u>31,678</u>	<u>1,971</u>	<u>6,137</u>	<u>–</u>	<u>138,619</u>
<b>Year ended 31 December 2022</b>						
Opening net book amount	98,833	31,678	1,971	6,137	–	138,619
Additions	1,334	47	214	1,505	192,427	195,527
Transfer upon completion	22,440	–	–	–	(22,440)	–
Disposals	–	–	–	(2,151)	–	(2,151)
Depreciation	(5,238)	(3,739)	(586)	(677)	–	(10,240)
Others	1,258	(1,258)	–	–	–	–
<b>Closing net book amount</b>	<u>118,627</u>	<u>26,728</u>	<u>1,599</u>	<u>4,814</u>	<u>169,987</u>	<u>321,755</u>
<b>As at 31 December 2022</b>						
Cost	137,820	41,187	4,428	6,816	169,987	360,238
Accumulated depreciation	(19,193)	(14,459)	(2,829)	(2,002)	–	(38,483)
<b>Net book amount</b>	<u>118,627</u>	<u>26,728</u>	<u>1,599</u>	<u>4,814</u>	<u>169,987</u>	<u>321,755</u>



### 13 INVENTORIES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	382	938
Work-in-progress	527	2,444
Finished goods, recycled products	<u>17,573</u>	<u>19,229</u>
Total	<u><u>18,482</u></u>	<u><u>22,611</u></u>

During the years ended 31 December 2022 and 2021, the cost of inventories recognised in “cost of sales” amounted to RMB32,656,000 and RMB41,509,000, respectively.

### 14 TRADE RECEIVABLES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
— related to provision of gold mine hazardous waste treatment services	57,508	40,140
— related to sales of recycled products	<u>16,821</u>	<u>16,304</u>
	74,329	56,444
Less: provision for impairment	<u>(2,856)</u>	<u>(1,334)</u>
	<u><u>71,473</u></u>	<u><u>55,110</u></u>

**(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 2022 and 2021, the ageing analysis of the trade receivables based on the invoice date is as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
1–90 days	22,076	33,856
91–180 days	23,651	17,641
181–270 days	14,127	4,947
271–360 days	807	–
Over 360 days	13,668	–
	<u>74,329</u>	<u>56,444</u>

**(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 as prescribed by IFRS 9.

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

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	1,334	115
Loss allowance recognised in profit or loss during the year	<u>1,522</u>	<u>1,219</u>
As at year end	<u>2,856</u>	<u>1,334</u>

The carrying amounts of trade receivables approximated their fair values as at the statement of financial position dates and were dominated in RMB.

## 15 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Other receivable from a third party ( <i>Note 4</i> )	28,025	–
Prepayments for purchase of raw materials, transportation cost and other expenses	21,629	4,960
Value-added tax receivables	15,912	196
Performance bonds and deposits for bidding	4,402	925
Others	1,311	1,080
	<u>71,279</u>	<u>7,161</u>

The carrying amounts of other receivables approximated their fair values as at the statement of financial position dates and were dominated in RMB.

## 16 TRADE PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade and bill payables		
— related to transportation costs	6,547	6,602
— related to raw materials	2,541	5,087
	<u>9,088</u>	<u>11,689</u>

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
1–30 days	8,994	2,804
31–60 days	69	1,711
61–90 days	–	1,524
91–180 days	12	4,069
Over 180 days	13	1,581
	<u>9,088</u>	<u>11,689</u>

The carrying amounts of trade payables approximated their fair values as at the statement of financial position dates and were dominated in RMB.

## 17 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Payables for purchase of property, plant and equipment	30,796	2,800
Other payables to third parties ( <i>Note 4</i> )	23,224	–
Other taxes payable	16,869	15,627
Employee benefits payables	4,018	3,634
Amount due to a related party	205	–
Others	2,746	2,969
	<hr/>	<hr/>
Total	<b>77,858</b>	25,030
	<hr/> <hr/>	<hr/> <hr/>

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

## 18 OTHER LIABILITIES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Retention payable for construction projects (a)		
Non-current	<u>5,639</u>	<u>–</u>
Warehouse lease arrangements (b)		
Advances from lessee		
— Current portion	12,379	15,167
— Non-current portion	<u>–</u>	<u>11,719</u>
Sub-total	<u>12,379</u>	<u>26,886</u>
Payables to LZ Assets		
Current		
— First warehouse	9,705	–
— Second warehouse	11,773	–
Non-current		
— First warehouse	36,066	43,737
— Second warehouse	<u>43,748</u>	<u>53,053</u>
Sub-total	<u>101,292</u>	<u>96,790</u>
Total	<u>113,671</u>	<u>123,676</u>
Grand total	<u><u>119,310</u></u>	<u><u>123,676</u></u>
Presented on the statement of financial position as:		
Other liabilities — current portion	33,857	15,167
Other liabilities — non-current portion	<u>85,453</u>	<u>108,509</u>
	<u><u>119,310</u></u>	<u><u>123,676</u></u>

**(a) Retention payable for construction projects**

According to the construction contracts with the contractors of the Group's buildings under property, plant and equipment, 5% or 10% of the total payables for construction cost was set aside as retention fund with a warranty period of 1 or 2 years from the date of inspection for certification of completion of the buildings.

**(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 during the five year 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 by instalments as mentioned above, 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 and by instalments as mentioned above, 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 advances received 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 recognition of the two warehouse lease arrangements, respectively. The advances from lessee of RMB75.8 million is amortised and recognised as revenue — rental income evenly over the five years committed lease period, being RMB14,507,000 per annum, net of relevant taxes.

Interest expenses from other liabilities — payables to LZ Assets are recognised using the aforementioned discount rate. The amount of interest expenses relating to the two warehouse lease arrangements during the years ended 31 December 2022 and 2021 were RMB4,502,000 and RMB4,301,000, respectively.

The five-year lease term for the first and second warehouses will expire in October 2023 and December 2023, respectively. Accordingly, 20% of the other liabilities — payables to LZ Assets will be required to repay to LZ Assets upon expiry of the five-year lease term within year 2023, according to terms of the lease agreements. Accordingly, RMB12,379,000 of other liabilities — payables to LZ Assets was reclassified to current liabilities as at 31 December 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### **Consolidating Industry Position Through Robust Management**

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 has 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.

In 2022, the average procurement cost of raw materials increased in the face of the resurgence of the COVID-19 pandemic, high inflation and interest rates, and international geopolitical tensions. Meanwhile, the hazardous waste treatment industry in the PRC was undergoing an accelerated transformation. The increase 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 global economy was still facing a contraction in demand and supply shock, and the upstream and downstream players along the value chain where the Company operates were affected to varying degrees. During the Reporting Period, the Company's principal activities were also impacted by industry and market competition.

Revenue and net profit of the Group for the year ended 31 December 2022 amounted to approximately RMB222.8 million and RMB80.2 million, respectively, representing a decrease of 13.3% and 6.3% as compared to the same during the year ended 31 December 2021, respectively.



Meanwhile, the Group's gross profit decreased from approximately RMB166.6 million for the year ended 31 December 2021 to approximately RMB144.0 million for the year ended 31 December 2022. The decrease in gross profit was mainly due to the decrease in revenue. The Group's gross profit margin for the year ended 31 December 2022 was 64.6%, which was comparable to the gross profit margin of 64.8% for the year ended 31 December 2021.

During the Reporting Period, the Group was widely recognised by various sectors with its solid operating results, excellent management team and hands-on management style, as evidenced by the "Excellent Enterprise in the Solid Waste Industry of Shandong Province 2021" (二零二一年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 addition, in November 2022, the Group was selected as one of the 2021 Top 100 Enterprises of Shandong Province in Ecological and Environmental Protection Industry" (二零二一年年度山東省生態環保產業百強企業) by the Shandong Department of Ecology and Environment for its technological capability and comprehensive strength in integrated utilisation of resources.

### **Promoting the Expansion of Product Portfolio to Enhance the Overall Competitiveness of the Group**

The Group actively explored the integrated utilisation of resources and the extension of value chain. To optimise resource utilisation, the Group is devoted to diversifying product offering in its sale of recycled products business and strengthening the recycling efficiency of resources to enhance its core competitiveness.

Currently, the Group's main recycled product is pyrite concentrate. To further leverage on the Group's technological advantage in resource utilisation and recycling, the Group intends to use pyrite concentrate as raw materials to produce more diversified recycled products and extend the recycling cycle of resource utilisation. During the Reporting Period, the Group was actively developing a production line in relation to the production of sulphuric acid (the "**New Product**") (the "**New Product Line**") to enrich its product portfolio and expand its current business. Pyrite concentrate is the main raw materials used in the production of the New Products, and the New Product Line is located next to the Group's current manufacturing plant of pyrite concentrate, therefore providing the Group with geographical and cost advantages for operating the New Product Line.

The New Product Line will be developed with the land use right owned by the Group in Yin Hai Chemical Industrial Park, Laizhou city, Shandong province, the PRC, with a total site area of approximately 533,300 sq.m. (the "**Land**"), and the Group had allocated 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 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. As of the date of this announcement, the Group is in the process of obtaining the licence for the production of sulphuric acid. We will comply with the applicable requirements of the Listing Rules and make necessary announcements when there are further developments in the operation of the New Product Line.

### **Committing to Technological Innovation to Accelerate the Sustainable and High-quality Development of the Group**

The Group is deeply committed to the concept of innovation, harmonisation and eco-friendliness. During the Reporting Period, 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專案), was awarded the Second Prize of Science and Technology Progress Award of All-China Environment Federation (中華環保聯合會科技進步獎二等獎) by the All-China Environment Federation. With this project, the Group had achieved a new substantial breakthrough in the research and development of gold tailings disposal and resource recycling technology, leveraging on technological innovation to actively promote the integrated utilisation of solid waste resources recovered towards high-value and in-depth development, and contributing to the Group's patent and technological innovation base.

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 respect of the research and development of gold tailings disposal and resource recycling, the Group has cooperated with various institutions and academies in recent years, including the All-China Environment Federation, Shandong Association of Solid Waste Industry and Yantai University, to provide strong technical research and development support for the sustainable and high-quality development of the Group.

## **Completing New Research and Development Pilot Line to Promote Development of Demonstration Projects**

The Group was actively pursuing the strategy of green and sustainability, giving full play to promote the development of the local gold industry, accelerating the construction of environmental protection industries and enhancing the ecologicalisation of local industries. During the Reporting Period, the launch of the Group's new research and development pilot line enabled the further development of "high-silica flotation tailings resource recovery technology" ("高矽浮選尾礦資源化回收技術"), the application of which will help realise the nationwide utilisation of water slag prepared through high-silica flotation tailings in building aggregates. The technology breakthrough achieved three significant results: firstly, it created a new method of utilising high-silica flotation tailings; secondly, it achieved the comprehensive utilisation of all cyanide tailings, solved the problems of low content of valuable components in high-silica flotation tailings, poor engineering mechanism and low resource recovery rate, and also offered a new perspective to the industry; thirdly, it promoted the green development of the gold industry. The breakthrough of this technology was conducive to the sustainable development of the gold industry. By breaking through the technical challenge of the large-scale utilisation of high-silica flotation tailings, the launch of the project contributed to the efficient use of high-silica flotation tailings.

## **OUTLOOK**

Looking ahead to 2023, as the Pandemic is brought under control and the situation gradually improves, China has largely returned to normal and the domestic economy is gradually recovering, albeit with some challenges remaining. The Chinese government will further implement the sustainability strategy from its 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), green development, comprehensive ecological transformation of economic and social development, and the development of circular economy and environment protection industries. In addition, in response to the increasing global focus on environmental, social and corporate governance, companies will need to give more consideration to their social responsibility and environmental protection. Leveraging its advantage in local resources, the Group will continue to strengthen, optimise and expand its circular economy activities, build a strong circular economy value chain of hazardous and waste gold resources, construct a unique circular industry model, and become a leader in the China's comprehensive utilisation industry. In 2023, the Group will focus on the following areas:

## **Continuously Promoting the Comprehensive Utilisation of Solid Waste Resources Recovered towards High-value and In-depth Development**

Under the guidance of national policies and leveraging its resources, the Group will increase its focus on improving resource utilisation efficiency, vigorously promote the overall shift from the “low efficiency and low value” model to the “high efficiency and high value” model in hazardous waste disposal and recycling, further advance the progress of the circular economy, realise the green and high-quality development of hazardous waste disposal and recycling industry, and carry out global planning based on the current development stage.

## **Continuing to Invest in Research and Development and Seek New Breakthroughs**

As China increasingly places emphasis on research and development of solid waste resource recovery technology, the Group will intensify its efforts in research and development, increase its support for technological innovation, actively promote the research and development of comprehensive utilisation of solid waste resources recovered, accelerate the transformation of results, optimise existing products, diversify our product offerings, and expand the reach of the industry. At the same time, we will cooperate and exchange with relevant institutions, academies and businesses. With a focus on reuse and resource recovery, we will continue to push forward product optimisation, upgrade product quality comprehensively, increase resource recycling level, vigorously enhance resource utilisation efficiency, and further the development of circular economy by adhering to scientific research and innovation in order to strengthen the ability to secure resources for economic and social development and establish a sound economic system of green, low-carbon and circular development.

## **Focusing on Projects and Keeping Promoting Their Refined Management**

The Group will continue to roll out solid waste resource recovery projects to explore sustainability-related business opportunities. The Group will further implement key circular economy technologies and focus on key projects, refine project management to improve the cost-effectiveness of production, guide the development of solid waste comprehensive utilisation projects, strengthen support for the implementation of circular economy projects, continue to extend the reach of the value chain of the Group’s business, expand and enrich its product offerings, and realise the organic combination of ecological and economic benefits, so as to promote the development of comprehensive utilisation of solid waste to a broader and deeper extent. The Group will carry out systematic planning, achieve key breakthroughs, push forward as a whole and make precise efforts. At the same time, the Group will put safe production first, strictly control and tighten safety management, enhance safety management efforts and capacity, and ensure the safety of project production and construction. The Group will closely follow the market and actively plan in order to speed up the expansion of the resource recovery business and continue to maintain its leadership in the industry.

## FINANCIAL REVIEW

### Revenue

	For the year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Gold mine hazardous waste treatment services	76,439	34.3	96,581	37.6
Sales of recycled products	131,855	59.2	145,955	56.8
Hazardous waste storage rental services	14,507	6.5	14,507	5.6
	<u>222,801</u>	<u>100.0</u>	<u>257,043</u>	<u>100.0</u>

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 2022, revenue from our gold mine hazardous waste treatment services and sale of recycled products accounted for approximately 93.5% (31 December 2021: 94.4%) of our total revenue. The Group also derived revenue from the hazardous waste storage rental services, which accounted for approximately 6.5% (31 December 2021: 5.6%) of our total revenue.

For the year ended 31 December 2022, the Group's total revenue was approximately RMB222.8 million, representing a decrease by approximately 13.3% as compared to that of approximately RMB257.0 million for the year ended 31 December 2021. The decrease was mainly due to a 9.7% and a 20.9% decrease in revenue from sales of recycled products and gold mine hazardous waste treatment services, respectively, compared to the previous year. While the market price of pyrite concentrate for 2022 remained high compared to the previous year, our downstream customers had been more conservative in their purchase of pyrite concentrate, resulting in the decrease in the sale volume of pyrite concentrate for the year ended 31 December 2022. Gold mine hazardous waste treatment services for the year ended 31 December 2022 recorded decrease in both treatment volumes and average treatment fees compared to the previous year. The decrease was due to the fewer cyanide tailings provided by upstream customers.

## **Gross profit and gross profit margin**

For the year ended 31 December 2022, the Group's gross profit was approximately RMB144.0 million, representing a decrease by approximately 13.6% as compared to gross profit of approximately RMB166.6 million for the year ended 31 December 2021. The decrease was broadly in line with the decrease in the total revenue of the Group.

The Group's gross profit margin for the year ended 31 December 2022 was 64.6%, which was comparable to the gross profit margin of 64.8% for the year ended 31 December 2021.

## **Other income**

Other income increased significantly from approximately RMB78,000 for the year ended 31 December 2021 to approximately RMB1.8 million for the year ended 31 December 2022. The increase was mainly due to (i) income of approximately RMB0.6 million for acting as an agent from sales of magnesite; and (ii) certain tax refund and employee personal income tax related handling fees of approximately RMB1.2 million during the Reporting Period in accordance with the relevant preferential policies. The agency service income was an one-off transaction and the Group is not actively pursuing business opportunities in such agency business.

## **Selling expenses**

Our selling expenses mainly consist of (i) entertainment expense; and (ii) employee salary and benefit expenses for our sales team. For the year ended 31 December 2022, the Group's selling expenses was approximately RMB2.9 million, representing an increase of approximately 20.8% as compared to that of approximately RMB2.4 million for the year ended 31 December 2021. The increase was mainly due to the increase of approximately RMB0.5 million in entertainment expenses for the year ended 31 December 2022.

## **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 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 of right-of-use assets, administrative facilities and technology research and development related facilities; (v) office expenses; (vi) entertainment expenses; (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 2022, the Group's administrative expenses was approximately RMB32.6 million, representing a decrease of approximately



18.1% as compared to administrative expenses of approximately RMB39.8 million for the year ended 31 December 2021. The decrease was mainly due to (i) the decrease of listing expenses in connection with the Listing of approximately RMB14.2 million; (ii) the new land use rights, resulting in an increase of approximately RMB1.8 million in taxes and levies; (iii) the new research and development pilot line equipment and new land use rights, resulting in an increase of approximately RMB2.1 million in total in depreciation and amortisation expenses; (iv) the new research and development pilot line , which was put into operation during the year, resulting in an increase of approximately RMB1.4 million in costs incurred during the related research and development process; and (v) the increase in other administrative expenses as a result of operational development.

### **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 and foreign exchange gain or loss we received from bank balances. For the year ended 31 December 2022, the Group's net finance costs were approximately RMB5.0 million, representing a decrease of approximately 16.7% as compared to the net finance costs of approximately RMB6.0 million for the year ended 31 December 2021. The decrease in net finance costs was mainly due to the net foreign exchange gain of approximately RMB1.2 million incurred by the Group for the year ended 31 December 2022. For the year ended 31 December 2021, the Group recognised a net foreign exchange loss of approximately RMB0.4 million.

### **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 years ended 31 December 2022 and 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 for the calculation of CIT.

For the year ended 31 December 2022, the Group’s income tax expense was approximately RMB23.5 million, representing a decrease by approximately 25.4% as compared to income tax expenses of approximately RMB31.5 million for the year ended 31 December 2021, reflecting effective tax rates (equivalent to income tax expense divided by profit before income tax) of approximately 22.7% and 26.9% for the year ended 31 December 2022 and the year ended 31 December 2021, respectively.

The decrease in the effective tax rate from approximately 26.9% for the year ended 31 December 2021 to approximately 22.7% for the year ended 31 December 2022 was mainly due to (i) the decrease in tax losses incurred by certain of our Group companies in Hong Kong and the PRC for the year ended 31 December 2022 as compared to the 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; (ii) the PRC withholding tax of RMB1.8 million on the earnings remitted by the PRC subsidiaries recognised by the Group for the year ended 31 December 2021, but with no recognition of such PRC withholding tax by the Group during the Reporting Period; and (iii) revenue from sales of recycled products, entitled to a reduction of 10% from the taxable income in the calculation of CIT, accounting for a larger portion of the total revenue during the year ended 31 December 2022 as compared to the previous year.

## **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.

## **Capital Expenditures**

Our capital expenditure mainly comprised of the acquisition of items of property, plant and equipment and right-of-use assets. During the year ended 31 December 2022, we incurred capital expenditure of approximately RMB252.3 million (31 December 2021: approximately RMB18.5 million).



## **Capital Commitments**

As at 31 December 2022, the Group had capital commitments of approximately RMB9.3 million (31 December 2021: nil).

## **Pledge of Assets**

As at 31 December 2022, the total net book value of assets pledged to secure the Group's bank borrowings amounted to approximately RMB21.9 million (31 December 2021: approximately RMB5.9 million) for land use rights, approximately RMB54.4 million (31 December 2021: approximately RMB68.7 million) for buildings and approximately RMB124.7 million (31 December 2021: approximately RMB67.8 million) for investment properties.

As at 31 December 2022, land use rights with a total net book value of approximately RMB15.6 million (31 December 2021: nil) and buildings with a total net book value of approximately RMB40.8 million (31 December 2021: nil) of the Group were pledged as security for short-term bank borrowings of RMB16.0 million, in aggregate granted to two third parties.

## **Contingent Liabilities**

During the year ended 31 December 2022, a subsidiary of the Group provided guarantees to the banking facilities of two third parties amounting to RMB6 million, which was repaid to the bank in March 2023, and RMB10 million repayable by October 2023, respectively. The guarantees were supported by the pledge of the Group's property and land use rights to the banks. As at 31 December 2022, the Group assessed the provisions based on the credit history of the third parties and the current market condition and no significant provision is noted.

## **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 fulfilment 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 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 2022, the Group had net current assets of approximately RMB7.9 million (31 December 2021: approximately RMB242.7 million). As at 31 December 2022, the gearing ratio was approximately 30.0% (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 significant decrease in the Group's net current assets was mainly due to the decrease of the Group's cash and cash equivalents as a result of the capital expenditure of approximately RMB252.3 million incurred by the Group for land acquisition, and purchase of equipment and construction during the Reporting Period.

As at 31 December 2022, the Group maintained a strong financial position with cash and cash equivalents of approximately RMB59.2 million (31 December 2021: approximately RMB235.6 million). The Group met and expects to continue meeting its operating capital, capital expenditure and other capital needs with cash generated 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**

### **CLOSURE OF REGISTER OF MEMBERS**

The AGM is expected to be held on Monday, 26 June 2023. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 20 June 2023 to Monday, 26 June 2023, 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, on 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Monday, 19 June 2023.

### **FINAL DIVIDEND**

No final dividend for the year ended 31 December 2022 was recommended by the Board.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed “Future plans and use of proceeds” in the Prospectus, “Management Discussion and Analysis” section of this announcement and the Transactions 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 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 <i>HKD' million</i>	Planned use of net proceeds <i>RMB' million</i>	Net proceeds utilised during the year ended 31 December 2022 <i>RMB' million</i>	Net proceeds unutilised as at 31 December 2022 <i>RMB' million</i>	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	98.6	55.1	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	–	N/A
General working capital purpose	9.4%	20.4	16.7	16.7	–	N/A
	<u>100%</u>	<u>217.3</u>	<u>177.3</u>	<u>122.2</u>	<u>55.1</u>	

As at 31 December 2022, the unutilised net proceeds of approximately RMB55.1 million have been deposited as short-term deposits in the bank account maintained by the Group. It is currently expected that the unutilised net proceeds will continue to be used according to the purpose and allocations as set out in the Prospectus.

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.

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

On 6 January 2022, the Group successfully won the bid for the land use rights of three parcels of industrial land in the Yin Hai 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 with total cost of the approximately RMB86.5 million. Please refer to the announcement of the Company dated 6 January 2022 for further information. Except for this transaction, during the year ended 31 December 2022, the Group did not hold any significant investments, nor did it have any material acquisitions or disposals of any subsidiaries, associates or joint ventures that would constitute a discloseable transaction under Chapter 14 of the Listing Rules.

## **SUBSEQUENT EVENTS**

Except for the matters disclosed under the “Management Discussion and Analysis” section of this announcement, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2022 and up to the date of this announcement.

## **CONNECTED TRANSACTIONS**

The Group has not conducted any non-exempt continuing connected transaction for the year ended 31 December 2022. 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 2022, the Group had 195 employees. For the year ended 31 December 2022, the staff cost of the Group was approximately RMB17.5 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 for the year ended 31 December 2022.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding transactions of securities of the Company by the 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 for the year ended 31 December 2022.

## **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 during the year ended 31 December 2022. 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 2022.

## **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 2022. The Audit Committee also recommended and submitted the annual results and the consolidated financial statements for the year ended 31 December 2022 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 2022 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](http://www.hkexnews.hk)) as well as the website of the Company ([www.sdhcgroup.cn](http://www.sdhcgroup.cn)). The annual report of the Company for the year ended 31 December 2022 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. (萊州市鴻鉞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. (山東鴻鉞礦業有限公司) 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
“HC Resources”	Shandong Hongcheng Resources Comprehensive Utilisation Co., Ltd. (山東鴻承資源綜合利用有限公司), a limited liability company established under the laws of the PRC on 10 January 2019 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 2022
“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
“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 2023

*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.*