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 2023

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 2023 (the "**Reporting Period**") together with the comparative figures for the six months ended 30 June 2022.

RESULTS HIGHLIGHTS

For the six months ended 30 June 2023, the Group's total revenue was approximately RMB49.2 million, representing a decrease by approximately 57.1% as compared to total revenue of approximately RMB114.6 million for the six months ended 30 June 2022.

For the six months ended 30 June 2023, the Group's gross profit was approximately RMB31.1 million, representing a decrease by approximately 59.7% as compared to gross profit of approximately RMB77.2 million for the six months ended 30 June 2022. The overall gross profit margin decreased from approximately 67.4% for the six months ended 30 June 2022 to approximately 63.3% for the six months ended 30 June 2023.

For the six months ended 30 June 2023, the Group's net profit was approximately RMB10.5 million, representing a decrease by approximately 76.6% as compared to net profit of approximately RMB44.9 million for the six months ended 30 June 2022.

For the six months ended 30 June 2023, basic earnings per share attributable to the owners of the Company were approximately RMB0.01.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Note	Six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	3	**49,159**	114,577
Cost of sales		**(18,027)**	(37,351)
Gross profit		**31,132**	77,226
Other income	4	**1,726**	303
Other gains/(losses) — net	5	**(84)**	171
Reversal/(provision) of impairment on financial assets		**1,364**	(47)
Selling expenses		**(652)**	(1,291)
Administrative expenses		**(16,605)**	(16,946)
Operating profit	6	**16,881**	59,416
Finance income	7	**89**	180
Finance costs	7	**(3,350)**	(1,034)
Finance costs — net	7	**(3,261)**	(854)
Profit before income tax		**13,620**	58,562
Income tax expenses	8	**(3,095)**	(13,635)
Profit for the period, all attributable to owners of the Company		**10,525**	44,927
Other comprehensive income:			
Item that may be reclassified to profit or loss			
Currency translation differences		**34**	–
Total comprehensive income for the period, all attributable to owners of the Company		**10,559**	44,927
Earnings per share for the period attributable to owners of the Company			
Basic and diluted (expressed in RMB per share)	9	**0.01**	0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Note	**As at 30 June 2023** *RMB'000* **(Unaudited)**	As at 31 December 2022 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Right-of-use assets	*11*	**78,644**	79,942
Property, plant and equipment	*12*	**344,549**	321,755
Investment properties		**123,012**	125,205
Intangible assets		**38**	7
Prepayment for non-current assets		**8,805**	6,401
Deferred income tax assets		**2,248**	1,733
		557,296	535,043
Current assets			
Inventories	*13*	**28,531**	18,482
Trade receivables	*14*	**53,780**	71,473
Other receivables and prepayments	*15*	**71,663**	71,279
Financial assets measured at fair value through other comprehensive income		**7,010**	2,350
Cash and cash equivalents		**39,065**	59,160
		200,049	222,744
Total assets		**757,345**	757,787
EQUITY			
Equity attributable to owners of the Company			
Share capital		**8,208**	8,208
Share premium		**517,965**	517,965
Other reserves		**(299,169)**	(299,203)
Retained earnings		**237,172**	226,647
Total equity		**464,176**	453,617

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		**13,519**	–
Deferred income tax liabilities		**4,020**	3,913
Other liabilities	*18*	**87,838**	85,453
		105,377	89,366
Current liabilities			
Trade payables	*16*	**6,323**	9,088
Other payables and accruals	*17*	**69,426**	77,858
Borrowings		**70,891**	55,740
Current income tax liabilities		**12,898**	35,076
Contract liabilities	*3*	**980**	2,577
Lease liabilities	*11*	**176**	608
Other liabilities	*18*	**27,098**	33,857
		187,792	214,804
Total liabilities		**293,169**	304,170
Total equity and liabilities		**757,345**	757,787

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 is 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 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 2022 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 ("**IASB**").

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 International Financial Reporting Standards ("**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 2023. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

New standards and amendments		**Effective for annual financial periods beginning on or after**
IFRS 17	Insurance Contracts	1 January 2023
IAS 1 and IFRS Practise Statement 2 (Amendments)	Disclosure of Accounting Policies	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

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 2023 and have not been early adopted by the Group. These new standards and interpretations are:

Standards and amendments		**Effective for annual financial periods beginning on or after**
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
IAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
IFRS 16 (Amendments)	Lease liability in sale and leaseback	1 January 2024
IAS 7 and IFRS 7 (Amendments)	Supplier finance arrangements	1 January 2024
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, and the CODM assesses the performance of treatment services and sales of recycled product as a whole. Since 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 as follows:

	Provision of gold mine hazardous waste treatment services and sales of recycled products	Production of sulfuric acid and others	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2023				
Segment revenue	**49,159**	**–**	**–**	**49,159**
Segment profit/(loss)	**21,899**	**(3,695)**	**(1,323)**	**16,881**
Finance costs — net	**(3,255)**	**1**	**(7)**	**(3,261)**
Profit before income tax				**13,620**
Income tax expense				**(3,095)**
Profit for the period				**10,525**
Depreciation and amortisation	**7,565**	**1,389**	**178**	**9,132**
Additions to non-current assets	**337**	**28,614**	**–**	**28,951**
As at 30 June 2023				
Total assets	**426,200**	**331,145**	**–**	**757,345**
Total liabilities	**224,480**	**65,350**	**3,339**	**293,169**

	Provision of gold mine hazardous waste treatment services and sales of recycled products *RMB'000*	Production of sulfuric acid and others *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2022				
Segment revenue	114,577	–	–	114,577
Segment profit/(loss)	60,589	–	(1,173)	59,416
Finance costs — net	(2,051)	–	1,197	(854)
Profit before income tax				58,562
Income tax expense				(13,635)
Profit for the year				44,927
Depreciation and amortisation	8,219	–	182	8,401
Additions to non-current assets	118,351	–	–	118,351
As at 31 December 2022				
Total assets	488,239	269,016	532	757,787
Total liabilities	266,415	35,178	2,577	304,170

(b) Revenue during the six months ended 30 June 2023 and 2022

	Six months ended 30 June	
	2023	2022
	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	**31,161**	39,315
Revenue from sales of recycled products	**10,745**	68,009
	41,906	107,324
Other Revenue		
Rental income	**7,253**	7,253
	49,159	114,577

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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Recognised over time		
Revenue from provision of gold mine hazardous waste treatment services	**31,161**	39,315
Recognised at a point in time		
Revenue from sales of recycled products	**10,745**	68,009
	41,906	107,324

(c) Contract liabilities

The Group recognised the following contract liabilities:

	As at 30 June 2023 *RMB'000* **(Unaudited)**	As at 31 December 2022 *RMB'000* (Audited)
Contract liabilities related to provision of gold mine hazardous waste treatment services	**447**	740
Contract liabilities related to sales of recycled products	**533**	1,837
	980	2,577

The following table shows how much of the revenue recognised during the six months ended 30 June 2023 and 2022 relates to carried-forward contract liabilities:

	Six months ended 30 June	
	2023 *RMB'000* **(Unaudited)**	2022 *RMB'000* (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	**773**	3,370
— Sales of recycled products	**–**	2,730
	773	6,100

(d) Unsatisfied contracts

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

	As at 30 June 2023 *RMB'000* **(Unaudited)**	As at 31 December 2022 *RMB'000* (Audited)
Expected to be recognised within one year		
— Provision of gold mine hazardous waste treatment services	**447**	740
— Sales of recycled products	**533**	1,837
	980	2,577

(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 2023 and 2022 is set out below:

	Six months ended 30 June	
	2023 *RMB'000* **(Unaudited)**	2022 *RMB'000* (Unaudited)
Customer A	**25,221**	30,330
Customer B	**7,253**	N/A(i)
Customer C	**N/A(i)**	18,410
Customer D	**N/A(i)**	15,143

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

4 OTHER INCOME

	Six months ended 30 June	
	2023 *RMB'000* **(Unaudited)**	2022 *RMB'000* (Unaudited)
Government grants	**–**	102
Agency service income	**1,670**	–
Personal income tax refund	**56**	201
	1,726	303

During the current period, the Group's subsidiary, Shandong Hongcheng Resources Comprehensive Utilization Co., Ltd. ("**HC Resources**") acted effectively as an agent that facilitate the trading of magnesite materials 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 recognises income from these transactions on net basis. 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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Foreign exchange gains	**–**	20
Insurance claim	**–**	75
Net (losses)/gains on disposal of property, plant and equipment and other assets	**(84)**	76
Others	**–**	–
	(84)	171

6 OPERATING PROFIT

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories	**7,435**	13,779
Employee benefit expenses including directors' emoluments	**10,480**	9,689
Depreciation and amortisation of		
— Right-of-use assets	**1,232**	1,086
— Property, plant and equipment	**5,701**	5,119
— Investment properties	**2,193**	2,193
— Intangible assets	**6**	3
Transportation expenses	**3,941**	6,953
Electricity and water expenses	**4,146**	4,876
Consultation fee	**984**	3,524
Repair and maintenance fee	**703**	1,028

7 FINANCE COSTS — NET

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance income		
— Interest income derived from bank balances	**(89)**	(180)
Finance costs		
— Interest expenses on bank borrowings	**1,018**	1,037
— Interest expenses relating to warehouse lease arrangements	**2,327**	2,225
— Interest expenses on lease liabilities	**7**	18
— Net foreign exchange gains	**(2)**	(2,246)
	3,350	1,034
Finance costs — net	**3,261**	854

8 INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC income tax		
— Current income tax expense	**3,503**	13,357
— Deferred income tax expense	**(408)**	278
	3,095	13,635

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 periods.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**10,525**	44,927
Weighted average number of ordinary shares in issue	**1,000,000,000**	1,000,000,000
Basic earnings per share *(RMB)*	**0.01**	0.04

(b) Diluted

During the six months ended 30 June 2023 and 2022, 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

No interim dividend was declared for the six months ended 30 June 2023 (30 June 2022: nil).

11 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Right-of-use assets		
Land use rights	**78,494**	79,582
Leased properties and equipment	**150**	360
	78,644	79,942
Lease liabilities		
Leased properties and equipment		
— Current	**(176)**	(608)

12 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*
As at 1 January 2023 (Unaudited)						
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)
Net book amount	118,627	26,728	1,599	4,814	169,987	321,755
Six months ended 30 June 2023 (Unaudited)						
Opening net book amount	118,627	26,728	1,599	4,814	169,987	321,755
Additions	–	334	76	8	28,496	28,914
Transfer upon completion	–	28,900	–	493	(29,393)	–
Disposals	–	(213)	–	(44)	–	(257)
Depreciation	(3,136)	(1,976)	(338)	(413)	–	(5,863)
Closing net book amount	115,491	53,773	1,337	4,858	169,090	344,549
As at 30 June 2023 (Unaudited)						
Cost	137,820	70,098	4,504	7,245	169,090	388,757
Accumulated depreciation	(22,329)	(16,325)	(3,167)	(2,387)	–	(44,208)
Net book amount	115,491	53,773	1,337	4,858	169,090	344,549
As 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

13 INVENTORIES

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Raw materials	**428**	382
Work-in-progress	**305**	527
Finished goods, recycled products	**27,798**	17,573
Total	**28,531**	18,482

14 Trade receivables

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Trade receivables		
— related to provision of gold mine hazardous waste treatment services	**49,962**	57,508
— related to sales of recycled products	**5,310**	16,821
	55,272	74,329
Less: provision for impairment	**(1,492)**	(2,856)
	53,780	71,473

(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 2023 and 31 December 2022, the ageing analysis of the trade receivables based on the invoice date is as follows:

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
1-90 days	**18,060**	22,076
91-180 days	**10,714**	23,651
181-270 days	**12,425**	14,127
271-360 days	**6,608**	807
over 360 days	**7,465**	13,668
	55,272	74,329

(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 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
As at 1 January	**2,856**	1,334
Loss allowance (reversed)/recognised in profit or loss during the period/year	**(1,364)**	1,522
As at period/year end	**1,492**	2,856

15 OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Other receivable from a third party	**26,903**	28,025
Prepayments for purchase of raw materials, transportation cost and other expenses	**20,224**	21,629
Value-added tax receivables	**19,592**	15,912
Performance bonds and deposits for bidding	**3,830**	4,402
Others	**1,114**	1,311
	71,663	71,279

16 TRADE PAYABLES

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Trade and bill payables		
— related to transportation costs	**4,597**	6,547
— related to raw materials	**1,726**	2,541
	6,323	9,088

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

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
1-30 days	**1,392**	8,994
31-60 days	**701**	69
61-90 days	**861**	–
91-180 days	**772**	12
Over 180 days	**2,597**	13
	6,323	9,088

17 OTHER PAYABLES AND ACCRUALS

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Payables for purchase of property, plant and equipment	**29,695**	30,796
Other payables to third parties	**20,269**	23,224
Other taxes payable	**9,585**	16,869
Employee benefits payables	**4,773**	4,018
Amount due to related parties	**4,393**	205
Others	**711**	2,746
Total	**69,426**	77,858

18 OTHER LIABILITIES

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Retention payable for construction projects (a)		
Non-current	**6,191**	5,639
Warehouse lease arrangements (b)		
(i) Advances from lessee		
— Current portion	**5,126**	12,379
(ii) Payables to LZ Assets		
Current		
— First warehouse	**9,929**	9,705
— Second warehouse	**12,043**	11,773
Non-current		
— First warehouse	**36,893**	36,066
— Second warehouse	**44,754**	43,748
Sub-total	**103,619**	101,292
Total	**108,745**	113,671
Grand total	**114,936**	119,310

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Presented on the statement of financial position as:		
Other liabilities — current portion	**27,098**	33,857
Other liabilities — non-current portion	**87,838**	85,453
	114,936	119,310

(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, 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 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 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 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 recognized as "**Advances from lessee**" at initial recognition of the two warehouse lease arrangements, respectively. The advances from lessee of RMB75.8 million is amortized 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 six months ended 30 June 2023 and 2022 were RMB2,327,000 and RMB2,225,000, 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, RMB5,127,000 of other liabilities — payables to LZ Assets was reclassed to current liabilities as at 30 June 2023.

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 production facilities 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.

In 2023, due to complex international environment, the impact of unexpected domestic and international factors, and unprecedented challenges, China's economic growth was constrained to certain extent. Coupled with increasingly fierce competition in the hazardous waste industry and structural imbalance between supply and demand, the hazardous waste market was sluggish in general. The hazardous waste industry was undergoing more severe competition and challenges. 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 is engaged were affected to varying degrees. During the Reporting Period, the Company's results of operations were also adversely affected by competition in the industry and market.

The Group's revenue and net profit for the six months ended 30 June 2023 amounted to approximately RMB49.2 million and RMB10.5 million, representing a decrease of 57.1% and 76.6% as compared to the same for the six months ended 30 June 2022, respectively.

Meanwhile, the Group's gross profit and gross profit margin decreased from approximately RMB77.2 million and 67.4% for the six months ended 30 June 2022 to approximately RMB31.1 million and 63.3% for the six months ended 30 June 2023, respectively.

Despite facing multiple challenges in 2023, including complex macroeconomic environment and industry adjustment cycles, the Group stayed enterprising and was determined to overcome these obstacles. We aimed to make all-out efforts to reverse the adversity by leveraging our own industry edges. We strode towards sustainable high-quality development by reinforcing our services in regional lower-tier markets and accurately grasping the opportunities from the market and industry.

FUTURE PROSPECTS

In 2023, as the implementation of 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》) progressed, continuous efforts were made to develop green development policies. These policies aimed at further advancing the comprehensive ecological transformation of economic and social development, and focused on promoting the growth of the circular economy and industries related to environmental protection. Based on the advantages of local resources, the Group will uphold the sustainable development philosophy of "lucid waters and lush mountains are invaluable assets". While adapting to market demands, the Group is committed to pursuing the general development strategy for the waste disposal and treatment industrial chain. It aims to build a unique circular industrial model by enriching its product portfolio and devoting efforts to technology development, innovation and upgrading, through which it strives to become a leading and competitive enterprise in the field of circular economy. In the second half of 2023, the Group will focus on the following points:

Focusing on projects and steadily promoting product extension and expansion

The Group will continue to initiate and develop waste resource recovery projects, facilitate the extension of the industrial chain, and guide the development of solid waste comprehensive utilisation projects. During the Reporting Period, a production line for sulfuric acid ("**New Product**") ("**New Product Line**") was constructed and put in trial production as scheduled and it is expected to be launched into operation in the third quarter of 2023. The New Product Line will further expand and diversify the Group's product portfolio to enable the Group to achieve stable profitability, effectively combine ecological and economic benefits, and accelerate the generation of new growth momentum. The Group believes that, by capitalising on its strengths in the production of recycled products, the Group will be able to extend its business industrial chain, and continue to increase its revenue and profit, with a focus on long-term and more sustainable business development.

Enabling sustainable high-quality development through technological innovation

The Group adheres to the concept of innovation-driven development. Following the core principle of "recycling and regeneration of resources", and with industry upgrading empowered by technology innovation, the Group will actively promote the comprehensive utilisation of recovered solid waste resources towards high-value and in-depth development. Through the exploration of new technologies, prioritising research and development, reinforcing patents, and fostering technological innovation, the Group aims to enhance its long-term competitiveness and further advance the development of the circular economy. At the same time, driven by technology and innovation, the Group will vigorously promote the research of core technologies, explore the development of high value-added products, advance the integration of business and technology, and strengthen its core competitiveness to enhance its development effectiveness.

Vigorously developing new markets and businesses, and prioritising projects with a focus on their fine-grained management

The Group will firmly capitalise on the major strategic opportunities and adopt diversified strategies to drive continuous sales growth. It will focus on market demands, thoroughly utilise its existing resources, vigorously develop markets, expand distribution channels of new products, make breakthroughs in lead generation, and fully raise market share and capacity utilisation. Meanwhile, the Group will enhance its dynamic management capabilities through refined management. It will prioritise digital transformation to fully improve its operating effectiveness, corporate management efficiency and profitability. Also, the Group will ensure efficient management as well as smooth and orderly business operations. The Group will steadfastly pursue the in-depth development of the circular economy. It will extensively promote the comprehensive utilisation of solid wastes, keep abreast of the market dynamics, actively make planning, ensure comprehensive development and focus on priorities, to maintain its leading position in the industry.

Continuously promoting green growth, and facilitating comprehensive utilisation of resources towards high-value and in-depth development

By combination of government guidance and market-oriented approaches, the Group aims to fully improve resource utilisation efficiency. It vigorously promotes the overall shift from the "inefficient and low-value" model to the "efficient and high-value" model in hazardous waste disposal and recycling, turning comprehensive utilisation of solid wastes into its intrinsic growth momentum towards cost reduction, efficiency improvement and sustainable development. It further advances the progress of the circular economy, and carries out comprehensive planning based on the current development stage. Simultaneously, the Group will bolster resource sharing and encourage the formation of industrial chain clusters where enterprises mutually supply raw materials and exchange products. It is committed to promoting collective utilisation of various solid wastes, fostering integration and concerted growth of industries, and facilitating coordinated regional development. The Group tackles prominent environmental problems at source based on sustainable utilisation of resources so as to enhance resource utilisation efficiency and propel new development of the resource comprehensive utilisation industry.

FINANCIAL REVIEW

Revenue

	For the six months ended 30 June			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Gold mine hazardous waste treatment services	**31,161**	**63.4**	39,315	34.3
Sales of recycled products	**10,745**	**21.9**	68,009	59.4
Hazardous waste storage rental services	**7,253**	**14.7**	7,253	6.3
	49,159	**100.0**	114,577	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 2023, revenue from our gold mine hazardous waste treatment services and sale of recycled products accounted for approximately 85.3% (six months ended 30 June 2022: 93.7%) of our total revenue. The Group also derived revenue from the hazardous waste storage rental services, which accounted for approximately 14.7% (six months ended 30 June 2022: 6.3%) of our total revenue.

For the six months ended 30 June 2023, the Group's total revenue was approximately RMB49.2 million, representing a decrease by approximately 57.1% as compared to that of approximately RMB114.6 million for the six months ended 30 June 2022. The decrease was mainly due to a 84.2% and a 20.7% decrease in revenue from sales of recycled products and gold mine hazardous waste treatment services, respectively, compared to the previous period.

The sharp decrease in amounts of revenue is mainly attributable to: (i) the Group intends to commence production of the sulfuric acid production line in the third quarter of 2023 in order to enrich the product portfolio and expend current business of the Group. As such, the Group has reserved ample supply of pyrite concentrate for the commencement of production of the sulfuric acid production line as pyrite concentrate is the main raw material for sulfuric acid production; (ii) a decrease in both the sales volume and unit price of pyrite concentrate due to the downturn in the manufacturing industry which requires pyrite concentrate as a main raw material in manufacturing process; and (iii) a reduction in the quantity of cyanide tailings provided by upstream customers, resulting in a decline in revenue of gold mine hazardous waste treatment services compared to the same period last year.

Gross profit and gross profit margin

For the six months ended 30 June 2023, the Group's gross profit was approximately RMB31.1 million, representing a decrease by approximately 59.7% as compared to gross profit of approximately RMB77.2 million for the six months ended 30 June 2022. The decrease was broadly in line with the decrease in the total revenue of the Group.

The overall gross profit margin decreased from approximately 67.4% for the six months ended 30 June 2022 to approximately 63.3% for the six months ended 30 June 2023. Such fluctuation was a combined effect of decrease in gross profit margin of sales of recycled products from approximately 68.3 % for the six months ended 30 June 2022 to approximately 50.0% for the six months ended 30 June 2023, even though gross profit margin for gold mine hazardous waste treatment services slightly increased from approximately 65.4% for the six months ended 30 June 2022 to approximately 66.4% for the six months ended 30 June 2023.

Other income

Other income increased significantly from approximately RMB0.3 million for the six months ended 30 June 2022 to approximately RMB1.7 million for the six months ended 30 June 2023. The increase was mainly due to income of approximately RMB1.7 million for acting as an agent from sales of magnesite. 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 six months ended 30 June 2023, the Group's selling expenses was approximately RMB0.7 million, representing a decrease of approximately 46.2% as compared to that of approximately RMB1.3 million for the six months ended 30 June 2022. The decrease was mainly due to the decrease of approximately RMB0.6 million in entertainment expenses for the six months ended 30 June 2023.

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) 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; (iii) depreciation and amortisation of right-of-use assets, administrative facilities and technology research and development related facilities; (iv) office expenses; (v) entertainment expenses; (vi) professional and consultation fee; (vii) transportation and related expenses, including those incurred in business travels of administrative and management staff and business use of vehicles expenses; and (viii) other expenses of similar nature.

For the six months ended 30 June 2023, the Group's administrative expenses was approximately RMB16.6 million which was comparable to the amount of administrative expenses of approximately RMB16.9 million for the six months ended 30 June 2022.

It was the combined effect of (i) the increase in the employee benefit expenses of approximately RMB1.3 million due to the preparation of the commencement of the New Production Line; (ii) the decrease in taxes and levies of approximately RMB0.8 million due to the decrease in the revenue; (iii) the increase in the depreciation and amortisation of approximately RMB1.2 million; and (iv) the decrease in the professional and consultation fee of approximately RMB2.5 million.

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 2023, the Group's net finance costs was approximately RMB3.3 million, representing an increase of approximately 267% as compared to that of approximately RMB0.9 million for the six months ended 30 June 2022. The increase in net finance costs was mainly due to that the Group's net foreign exchange gain decreased from approximately RMB2.2 million for the six months ended 30 June 2022 to approximately RMB2,000 for the six months ended 30 June 2023.

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 2023 and 30 June 2022.

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 2023, the Group's income tax expense was approximately RMB3.1 million, representing a decrease of approximately 77.2% as compared to that of approximately RMB13.6 million for the six months ended 30 June 2022, reflecting effective tax rate (equivalent to income tax expense divided by profit before income tax) of approximately 22.7% and 23.3% for the six months ended 30 June 2023 and 30 June 2022, respectively. The decrease in effective tax rate was mainly due to the decrease in tax loss incurred by certain of our group companies in Hong Kong and the PRC which no deferred income tax assets were recognised as it was not probable for the such group companies in Hong Kong and the PRC to generate taxable income in the foreseeable future.

Capital Expenditures

Our capital expenditure mainly comprised of the acquisition of items of property, plant and equipment, right-of-use assets and intangible assets. During the six months ended 30 June 2023, we incurred capital expenditure of approximately RMB29.0 million (31 December 2022: approximately RMB252.3 million).

Capital Commitments

As at 30 June 2023, the Group had capital commitments of approximately RMB12.2 million (31 December 2022: RMB9.3 million).

Pledge of Assets

As at 30 June 2023, the total net book value of assets pledged to secure the Group's bank and other borrowings amounted to approximately RMB29.5 million (31 December 2022: approximately RMB21.9 million) for land use rights, approximately RMB53.4 million (31 December 2022: approximately RMB54.4 million) for buildings, approximately RMB28.7 million (31 December 2022: nil) for machineries and approximately RMB122.4 million (31 December 2022: approximately RMB124.7 million) for investment properties.

As at 30 June 2023, land use rights with a total net book value of approximately RMB12.9 million (31 December 2022: approximately 15.6 million) and buildings with a total net book value of approximately RMB35.8 million (31 December 2022: approximately 40.8 million) of the Group were pledged as security for short-term bank borrowings of RMB10.0 million (31 December 2022: 16.0 million), in aggregate granted to one third party (31 December 2022: two third parties).

Contingent Liabilities

As at 30 June 2023, a subsidiary of the Group provided guarantee to the banking facilities of a third party amounting to RMB10 million repayable by October 2023. The guarantee was supported by the pledge of the Group's property and land use rights to the bank. As at 30 June 2023, the Group assessed the provision based on the credit history of the third party 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 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 2023, the Group had net current assets of approximately RMB12.3 million (31 December 2022: approximately RMB7.9 million). As at 30 June 2023, the gearing ratio was approximately 35.8% (31 December 2022: approximately 30.0%). The gearing ratio is calculated by dividing total debt by total equity at the end of the relevant year and multiplying by 100%. Debt is defined as amounts payable that are not incurred in the ordinary course of business and includes bank and other borrowings, lease liabilities and other liabilities relating to warehouse lease arrangements.

As at 30 June 2023, the Group maintained a strong financial position with cash and cash equivalents of approximately RMB39.1 million (31 December 2022: approximately RMB59.2 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

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2023.

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**"), "**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 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 *HKD' million*	Planned use of net proceeds *HKD' million*	Planned use of net proceeds *RMB' million*	Net proceeds utilised as at 30 June 2023 *RMB' million*	Net proceeds unutilised as at 30 June 2023	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	118.6	35.1	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
	100%	217.3	177.3	142.2	35.1	

As at 30 June 2023, the unutilised net proceeds of approximately RMB35.1 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

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 2023 and the date of this announcement.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2023, the Group had 264 employees. For the six months ended 30 June 2023, the staff cost of the Group was approximately RMB10.5 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 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 2023 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 2023 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 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.