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**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 2023**

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2023 together with the comparative figures for the year ended 31 December 2022.

**RESULTS HIGHLIGHTS**

For the year ended 31 December 2023, the Group's total revenue was approximately RMB108.0 million, representing a decrease by approximately 51.5% as compared to total revenue of approximately RMB222.8 million for the year ended 31 December 2022.

For the year ended 31 December 2023, the Group's gross profit was approximately RMB59.6 million, representing a decrease by approximately 58.6% as compared to gross profit of approximately RMB144.0 million for the year ended 31 December 2022. The overall gross profit margin decreased from approximately 64.6% for the year ended 31 December 2022 to approximately 55.2% for the year ended 31 December 2023.

For the year ended 31 December 2023, the Group's net profit was approximately RMB17.5 million, representing a decrease by approximately 78.2% as compared to net profit of approximately RMB80.2 million for the year ended 31 December 2022.

For the year ended 31 December 2023, basic earnings per share attributable to the owners of the Company were approximately RMB0.017 (31 December 2022: approximately RMB0.080).

No final dividend for the year ended 31 December 2023 was recommended.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Revenue	3	107,988	222,801
Cost of sales	6	<u>(48,354)</u>	<u>(78,786)</u>
<b>Gross profit</b>		<b>59,634</b>	144,015
Other income	4	5,358	1,759
Other (losses)/gains — net	5	(454)	37
Reversal of provision/(provision of impairment) on financial assets		2,439	(1,522)
Selling expenses	6	(1,496)	(2,880)
Administrative expenses	6	<u>(36,712)</u>	<u>(32,609)</u>
<b>Operating profit</b>		<b>28,769</b>	108,800
Finance income	7	128	400
Finance costs	7	<u>(7,751)</u>	<u>(5,437)</u>
<b>Finance costs — net</b>	7	<u><b>(7,623)</b></u>	<u>(5,037)</u>
<b>Profit before income tax</b>		<b>21,146</b>	103,763
Income tax expense	8	<u>(3,653)</u>	<u>(23,547)</u>
<b>Profit for the year, all attributable to owners of the Company</b>		<u><b>17,493</b></u>	<u>80,216</u>
<b>Other comprehensive income:</b>			
Item that may be reclassified to profit or loss			
Currency translation differences		<u>80</u>	<u>1,349</u>
<b>Total comprehensive income for the year, all attributable to owners of the Company</b>		<u><b>17,573</b></u>	<u>81,565</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><b>0.017</b></u>	<u>0.080</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

		As at 31 December	
	Note	2023	2022
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Right-of-use assets	11	77,406	79,942
Property, plant and equipment	12	384,860	321,755
Investment properties		120,819	125,205
Intangible assets		30	7
Prepayment for non-current assets		5,779	6,401
Deferred income tax assets		4,207	1,733
		<u>593,101</u>	<u>535,043</u>
<b>Current assets</b>			
Inventories	13	34,348	18,482
Trade receivables	14	40,642	71,473
Other receivables and prepayments	15	49,103	71,279
Financial assets at fair value through other comprehensive income		3,342	2,350
Cash and cash equivalents		76,119	59,160
		<u>203,554</u>	<u>222,744</u>
<b>Total assets</b>		<u><u>796,655</u></u>	<u><u>757,787</u></u>

		<b>As at 31 December</b>	
	<i>Note</i>	<b>2023</b>	2022
		<b>RMB'000</b>	<b>RMB'000</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		8,208	8,208
Share premium		517,965	517,965
Other reserves		(299,119)	(299,203)
Retained earnings		244,136	226,647
		<u>471,190</u>	<u>453,617</u>
<b>Total equity</b>		<b><u>471,190</u></b>	<b><u>453,617</u></b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		49,827	–
Deferred income tax liabilities		5,039	3,913
Other liabilities	18	92,902	85,453
		<u>147,768</u>	<u>89,366</u>
<b>Current liabilities</b>			
Trade payables	16	3,882	9,088
Other payables and accruals	17	76,845	77,858
Borrowings		67,352	55,740
Current income tax liabilities		13,197	35,076
Contract liabilities	3	6,863	2,577
Lease liabilities	11	–	608
Other liabilities	18	9,558	33,857
		<u>177,697</u>	<u>214,804</u>
<b>Total liabilities</b>		<b><u>325,465</u></b>	<b><u>304,170</u></b>
<b>Total equity and liabilities</b>		<b><u>796,655</u></b>	<b><u>757,787</u></b>

## 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 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 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

#### *2.1.1 Compliance with IFRS Accounting Standards and HKCO (as defined below)*

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) Accounting Standards and requirements of the Hong Kong Companies Ordinance (“**HKCO**”) Cap. 622.

#### *2.1.2 Historical cost convention*

The consolidated financial statements have been prepared on the historical cost convention, except for Financial assets at fair value through other comprehensive income (FVOCI), which are carried out at fair value.

### **2.1.3 New and amended standards adopted by the Group**

The following new and amended accounting standards and interpretations become applicable for annual reporting periods commencing on or after 1 January 2023, and have been adopted by the Group in current period:

Amendments to IAS 1 and IFRS Accounting Standards Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	Pillar Two Model Rules
IFRS Accounting Standards 17	Insurance Contracts

### **2.1.4 New standards and amendments of IFRS Accounting Standards issued effective for the financial periods beginning on and after 1 January 2024 and have not been early adopted by the Group**

		<b>Effective for financial periods beginning on or after</b>
Amendments to IAS 1	Classification of Liabilities as current or non-current	1 January 2024
Amendments to IAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to IFRS Accounting Standards 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 7 and IFRS Accounting Standards 7	Supplier finance arrangements	1 January 2024
Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (Int 5 (2020))	Interpretation 5 (2020) Presentation of Financial Statements	1 January 2024
Amendments to IAS 21	Lack of Exchangeability	1 January 2025
Amendments to IFRS Accounting Standards 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of assessing the impact of the new standards, amendments to standards and conceptual framework on its results of operations and financial position. The Group expects to adopt the relevant new standards, amendments to standards and conceptual framework when they become effective.

### 3 REVENUE AND SEGMENT INFORMATION

#### (a) Description of segments and principal activities

The executive directors of the Board and the chief financial controller have been identified as the Group's chief operating decision-maker (the "CODM").

The Group is principally engaged in the provision of gold mine hazardous waste treatment services and sales of pyrite concentrate in the PRC. The process of the treatment services and production of pyrite concentrate are in one integral process, and the CODM assesses the performance of treatment services and sales of pyrite concentrate as a whole. During the year ended 31 December 2023, the Group commenced the production and sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity). The CODM assesses the performance of the Group now from two segments: hazardous waste treatment and recycling and reprocessing of pyrite concentrate and others. Unallocated cost mainly includes administrative expenses incurred by the Company and inter-mediate 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 2023 and 2022 is as follows:

	<b>Hazardous waste treatment and recycling <i>RMB'000</i></b>	<b>Reprocessing of pyrite concentrate and others <i>RMB'000</i></b>	<b>Unallocated <i>RMB'000</i></b>	<b>Total <i>RMB'000</i></b>
<b>For the year ended 31 December 2023</b>				
Segment revenue	<u>97,667</u>	<u>10,321</u>	–	<u>107,988</u>
Segment profit/(loss)	39,505	(7,999)	(2,737)	28,769
Finance costs — net	(6,743)	(873)	(7)	<u>(7,623)</u>
Profit before income tax				21,146
Income tax expense				<u>(3,653)</u>
Profit for the year				<u><u>17,493</u></u>
<b>Other information</b>				
Depreciation and amortisation	<u>15,658</u>	<u>3,958</u>	<u>323</u>	<u>19,939</u>
Additions to non-current assets	<u>3,645</u>	<u>74,561</u>	–	<u>78,206</u>
<b>As at 31 December 2023</b>				
Segment assets	<u>398,732</u>	<u>395,738</u>	<u>2,185</u>	<u>796,655</u>
Segment liabilities	<u>191,299</u>	<u>104,624</u>	<u>29,542</u>	<u>325,465</u>

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

(b) Revenue during the years

	Year ended 31 December	
	2023	2022
	<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	49,373	76,439
Revenue from sales of pyrite concentrate	34,775	131,855
Revenue from sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	10,321	–
	<u>94,469</u>	<u>208,294</u>
<b>Other revenue</b>		
Rental income	13,519	14,507
	<u>107,988</u>	<u>222,801</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Recognised over time</b>		
Revenue from provision of gold mine hazardous waste treatment services	49,373	76,439
<b>Recognised at a point in time</b>		
Revenue from sales of pyrite concentrate	34,775	131,855
Revenue from sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	10,321	–
	<u>94,469</u>	<u>208,294</u>

(c) **Contract liabilities**

The Group recognised the following contract liabilities:

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Contract liabilities related to provision of gold mine hazardous waste treatment services	–	740
Contract liabilities related to sales of pyrite concentrate	<b>558</b>	1,837
Contract liabilities related to sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	<b>6,305</b>	–
	<b><u>6,863</u></b>	<b><u>2,577</u></b>

The following table shows how much of the revenue recognised during the years ended 31 December 2023 and 2022 relates to carried-forward contract liabilities:

	<b>Year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
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>740</b>	3,370
Sales of pyrite concentrate	–	3,173
	<b><u>740</u></b>	<b><u>6,543</u></b>

**(d) Unsatisfied contracts**

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Expected to be recognised within one year		
Provision of gold mine hazardous waste treatment services	–	740
Sales of pyrite concentrate	558	1,837
Sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	6,305	–
	<u>6,863</u>	<u>2,577</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 2023 and 2022 is set out below:

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	40,867	51,368
Customer B	15,210	N/A*
Customer C	13,519	N/A*
Customer D	N/A*	23,186

\* Contributed less than 10% of the Group's total revenue for the relevant year.

**4 OTHER INCOME**

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	300	986
Agency service income	5,001	572
Others	57	201
	<u>5,358</u>	<u>1,759</u>

During the year ended 31 December 2023, the Group's subsidiary, 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. As at 31 December 2023, other receivable from the supplier and other payables to the customers amounted to RMB5,380,000 (Note 15) (2022: RMB28,025,000) and RMB16,004,000 (Note 17) (2022: RMB23,224,000), 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 (LOSSES)/GAINS — NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net losses on disposal of property, plant and equipment and other assets	(454)	(38)
Others	—	75
	<u>(454)</u>	<u>37</u>

## 6 EXPENSES BY NATURE

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Raw materials and consumables used	17,455	29,084
Changes in inventories of finished goods and work-in-progress	(10,679)	3,572
Employee benefit expenses	21,823	17,473
Transportation expenses	6,219	13,143
Electricity and water expenses	10,787	10,499
Amortisation of right-of-use assets	2,258	2,300
Depreciation of property, plant and equipment	13,282	10,065
Depreciation of investment properties	4,386	4,386
Amortisation of intangible assets	13	7
Taxes and levies	5,688	6,018
Consultation and professional fees	3,682	3,880
Repair and maintenance fee	1,632	1,542
Auditor's remuneration — audit services	1,887	2,083
Production safety cost	1,072	1,457
Donations	110	52
Others	6,947	8,714
Total	<u>86,562</u>	<u>114,275</u>

## 7 FINANCE COSTS — NET

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Finance income</b>		
— Interest income derived from bank balances	<u>(128)</u>	<u>(400)</u>
<b>Finance costs</b>		
— Interest expenses on bank borrowings	2,296	2,123
— Interest expenses relating to warehouse lease arrangements	4,571	4,502
— Interest expenses on lease liabilities	10	28
— Interest expenses on borrowings under finance lease arrangement	1,294	—
— Other losses	<u>(35)</u>	<u>(1,216)</u>
	8,136	5,437
Less: borrowing costs capitalised in property, plant and equipment	<u>(385)</u>	<u>—</u>
	7,751	5,437
<b>Finance costs — net</b>	<u><u>7,623</u></u>	<u><u>5,037</u></u>

## 8 INCOME TAX EXPENSE

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
PRC income tax		
— Current income tax expense	5,001	24,234
— Deferred income tax expense	<u>(1,348)</u>	<u>(687)</u>
	<u><u>3,653</u></u>	<u><u>23,547</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	
	2023	2022
Profit attributable to owners of the Company ( <i>RMB'000</i> )	17,493	80,216
Weighted average number of ordinary shares in issue	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Basic earnings per share ( <i>RMB</i> )	<u>0.017</u>	<u>0.080</u>

### (b) Diluted

During the years ended 31 December 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 final dividend was recommended for the year ended 31 December 2023 and 31 December 2022.

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Right-of-use assets</b>		
Land use rights	77,406	79,582
Leased properties	<u>—</u>	<u>360</u>
	<u>77,406</u>	<u>79,942</u>
<b>Lease liabilities</b>		
Leased properties		
— Current	<u>—</u>	<u>(608)</u>

## 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 2022</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>
<b>Year ended 31 December 2023</b>						
Opening net book amount	118,627	26,728	1,599	4,814	169,987	321,755
Additions	171	729	527	2,354	74,389	78,170
Transfer upon completion	64,499	121,084	3,779	493	(189,855)	–
Disposals	–	(200)	–	(1,294)	–	(1,494)
Depreciation	(6,059)	(6,009)	(740)	(763)	–	(13,571)
<b>Closing net book amount</b>	<u>177,238</u>	<u>142,332</u>	<u>5,165</u>	<u>5,604</u>	<u>54,521</u>	<u>384,860</u>
<b>As at 31 December 2023</b>						
Cost	202,490	162,678	8,734	7,869	54,521	436,292
Accumulated depreciation	(25,252)	(20,346)	(3,569)	(2,265)	–	(51,432)
<b>Net book amount</b>	<u>177,238</u>	<u>142,332</u>	<u>5,165</u>	<u>5,604</u>	<u>54,521</u>	<u>384,860</u>

### 13 INVENTORIES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	5,569	382
Work-in-progress	248	527
Finished goods	<u>28,531</u>	<u>17,573</u>
Total	<u><u>34,348</u></u>	<u><u>18,482</u></u>

During the years ended 31 December 2023 and 2022, the cost of inventories recognised in “cost of sales” amounted to RMB6,776,000 and RMB32,656,000, respectively.

### 14 TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
— related to provision of gold mine hazardous waste treatment services	40,234	57,508
— related to sales of pyrite concentrate	—	16,821
— related to sales of sulfuric acid and electricity	<u>825</u>	<u>—</u>
	41,059	74,329
Less: provision for impairment	<u>(417)</u>	<u>(2,856)</u>
	<u><u>40,642</u></u>	<u><u>71,473</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 pyrite concentrate. The credit terms grant to customers are generally from 30 to 60 days.

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

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
1–90 days	<b>10,088</b>	22,076
91–180 days	<b>7,612</b>	23,651
181–270 days	<b>16,149</b>	14,127
271–360 days	<b>7,210</b>	807
over 360 days	<b>–</b>	13,668
	<b><u>41,059</u></b>	<b><u>74,329</u></b>

(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:

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
As at 1 January	<b>2,856</b>	1,334
Loss allowance recognised in profit or loss during the year	<b><u>(2,439)</u></b>	<u>1,522</u>
As at year end	<b><u>417</u></b>	<b><u>2,856</u></b>

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

## 15 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Other receivable in relation to trading of magnesite materials ( <i>Note 4</i> )	5,380	28,025
Prepayments for purchase of raw materials, transportation cost and other expenses	11,847	21,629
Value-added tax receivables	23,714	15,912
Performance bonds and deposits for bidding	2,875	4,402
Amount due from a related party	620	–
Deposits with financial institutions	3,500	–
Others	1,167	1,311
	<u>49,103</u>	<u>71,279</u>

The deposits with financial institutions represented the deposits paid to the financial institutions when the Group received long-term borrowings under finance lease arrangement.

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

## 16 TRADE PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade and bill payables		
— related to transportation costs	1,266	6,547
— related to raw materials	2,616	2,541
	<u>3,882</u>	<u>9,088</u>

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

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
1–30 days	<b>2,509</b>	8,994
31–60 days	<b>586</b>	69
61–90 days	<b>536</b>	–
91–180 days	<b>218</b>	12
Over 180 days	<b>33</b>	13
	<u><b>3,882</b></u>	<u>9,088</u>

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

## 17 OTHER PAYABLES AND ACCRUALS

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Payables for purchase of property, plant and equipment	<b>36,425</b>	30,796
Other payables to third parties ( <i>Note 4</i> )	<b>16,004</b>	23,224
Other taxes payable	<b>13,778</b>	16,869
Employee benefits payables	<b>4,769</b>	4,018
Amounts due to related parties	<b>2,603</b>	205
Others	<b>3,266</b>	2,746
	<u><b>76,845</b></u>	<u>77,858</u>
Total	<u><b>76,845</b></u>	<u>77,858</u>

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

## 18 OTHER LIABILITIES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Retention payable for construction projects (a)		
Non-current	—	5,639
Warehouse lease arrangements (b)		
(i) Advances from lessee		
— Current portion	9,558	12,379
— Non-current portion	37,140	—
Sub-total	46,698	12,379
(ii) Payables to LZ Assets		
Current		
— First warehouse	—	9,705
— Second warehouse	—	11,773
Non-current		
— First warehouse	25,187	36,066
— Second warehouse	30,575	43,748
Sub-total	55,762	101,292
Total	102,460	113,671
Grand total	102,460	119,310
Presented on the statement of financial position as:		
Other liabilities — current portion	9,558	33,857
Other liabilities — non-current portion	92,902	85,453
	102,460	119,310

### (a) Retention payable for construction projects

According to the construction contracts with the contractors of the Group's buildings, 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 and December 2018, HC Mining 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. 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 Mining 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 Mining 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 Mining 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 the remaining repayment in the third year, from the receipt of the notice of termination of the lease agreements.

At inception of the lease arrangement in 2018, the Group considered there is a likelihood that LZ Assets would exercise the right to terminate the lease agreements upon the expiry of the five years committed lease term by 31 December 2023, by then the Group would have an obligation to pay back LZ Assets the remaining balances of the advanced payments from LZ Assets, being in total RMB112 million, representing the total advances of RMB160 million less five years' rental income of RMB40 million and compensation of RMB8 million. Accordingly, on initial recognition of the two warehouse lease arrangements in October and December 2018, the Group recorded "Other liabilities — payables to LZ Assets" of RMB84.2 million, being the present value by discounting the obligations to pay back LZ Assets by December 2023 of RMB112 million by instalments as mentioned above. 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, which is 4.65%.

In November 2023, the lease agreements were modified to extend the committed and non-cancellable lease term for another five years after the expiry of the first five-year lease term in October and December 2023, with other terms of the original agreements remain unchanged. The Group accounted for the leases as a five year lease contract at inception of the lease in 2018, and extended it to another five years based on the modified contract terms. According to the revised lease term, the Group applied the same accounting treatment as the first five years lease term. 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, which is 4.2%. The Group recognised rental income of RMB13,519,000 (2022: RMB14,507,000) for the year ended 31 December 2023, and the payables to LZ Assets amounted to RMB55,762,000 (2022: RMB101,292,000) as at 31 December 2023.

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 2023 and 2022 were RMB4,571,000 and RMB4,502,000, respectively (Note 7).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### **Consolidate the Leading Position in the Industry Based on Our Own Strengths**

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. With the commencement of production operation of the Group's production line for sulphuric acid production (the "**New Production Line**") in 2023, the Group has been able to utilise the pyrite concentrate and add other raw materials to reprocess them to produce sulphuric acid, iron powder and electricity for sale to downstream customers, mainly comprised of chemical manufacturing companies and trading companies of chemicals in the PRC, in order 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 2023, economic activities have been gradually recovered from the shadow of the COVID-19 Pandemic and returned to normal. However, the international macroeconomic and political situation was profoundly complicated, geopolitics was becoming increasingly volatile, the domestic and international economies were facing challenges, and the fluctuation of commodity prices intensified. Coupled with increasingly fierce competition in the hazardous waste industry and structural imbalance between supply and demand, and the hazardous waste market is sluggish in general. The hazardous waste industry has been undergoing more severe competition and challenges. The global recovery was still slow, 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 principal activities were also somewhat impacted by such industry and market competition.

Revenue and net profit of the Group for the year ended 31 December 2023 amounted to approximately RMB108.0 million and RMB17.5 million, respectively, representing a decrease of 51.5% and 78.2% as compared to the same during the year ended 31 December 2022, respectively.

Meanwhile, the Group's gross profit decreased from approximately RMB144.0 million for the year ended 31 December 2022 to approximately RMB59.6 million for the year ended 31 December 2023. The decrease in gross profit was mainly due to the decrease in revenue and gross profit margin. The Group's gross profit margin for the year ended 31 December 2023 was 55.2%, representing a decrease of 9.4% as compared to that of 64.6% for the year ended 31 December 2022.

### **Be Future-oriented, Build Up a Resource-cycling Industry System and Steadily Promote Product Extension and Expansion**

The Group has continued to open up new areas and shape new dynamics by planning and constructing waste recycling projects, expanding hazardous waste recycling, promoting the extension of the value chain, enriching the waste types available for hazardous waste recycling and guiding the development of solid waste recycling projects. During the Reporting Period, the Group's New Production Line has commenced its production operations, which can produce sulfuric acid, iron powder and electricity through an integrated recycling process. This further expanded the Group's product portfolio to enable the Group to achieve stable profitability as well as ecological and economic benefits. The Group believes that, by capitalising on its strengths in the production of recycled products, the Group will be able to extend the value chain for its business, improve the core competitiveness and continue to increase its revenue, so that can focus on a long-term and more sustainable business development.

### **Be Empowered by Scientific Research, Promote the Transformation of Scientific and Technological Achievements, and Strengthen the Leadership of Innovation in the Circular Economy**

The Group vigorously promotes innovation-driven development and builds competitive advantages for differentiated development. Following the core principle of "resources recycling", and with industry upgrade empowered by technology innovation, the Group actively promotes the comprehensive utilisation of recovered solid waste resources towards high-value and in-depth development. Through exploring new technologies, focusing on the big picture of development, reinforcing patents, and fostering technological innovation, the Group aims to build its long-term competitiveness. During the Reporting Period, the Group successfully obtained three patents for its new technologies, to enhance the protection of its

R&D achievements. Further, the Group was continuously widely recognised for its solid business performance and efficient management ability. In December 2023, a wholly-owned subsidiary of the Group was awarded as “Model Intelligent Businesses in Yantai City (Third Batch)” (第三批煙臺市智能化示範企業名單) by the Bureau of Industry and Information Technology of Yantai City, Shandong Province (山東省煙臺市工業和信息化局). During the Reporting Period, one of the projects of the Group’s research and development pilot line were supported by business R&D funding granted by the Yantai Science and Technology Bureau (煙臺市科學技術局). Always driven by technology and innovation, the Group vigorously promotes the research of core technologies, explores the development of high value-added products, excites new dynamics and vitality, and strengthens its core competitiveness to enhance its development effectiveness.

Meanwhile, 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 (中華環保聯合會), Shandong Solid Waste Industry Association (山東省固廢產業協會) and Yantai University (煙臺大學), to provide strong technical research and development support for the sustainable and high-quality development of the Group.

### **Outline the Blueprint for Sustainable Development**

The Group fully integrates the ESG factors into its corporate strategy and daily operations, and promotes the full integration of the ESG governance into its corporate governance system in order to achieve high-quality sustainable development. During the Reporting Period, a wholly-owned subsidiary of the Group was awarded as 2023 Shandong Socially Responsible Business (2023山東社會責任企業) jointly by Shandong Federation of Industry and Commerce (山東省工商業聯合會), State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government (山東省人民政府國有資產監督管理委員會), Shandong Market Supervision and Administration Bureau (山東省市場監督管理局) and Shandong Local Financial Supervision and Administration Bureau (山東省地方金融監督管理局). In addition, the New Production Line project was included in the list of the projects to be supported by the Carbon Peaking and Carbon Neutrality Fund in 2023 (2023年碳達峰碳中和專項資金), which was reviewed by the Development and Reform Commission of Yantai Municipality (煙臺市發展和改革委員會) and the Finance Bureau of Yantai Municipality (煙臺市財政局). Meanwhile, the Group puts safety production first, consolidates the foundation of production safety, enhances safety management efforts and abilities, and ensures the safety of project production and construction. By deepening the sound development of the circular economy, so as to strengthen the resource security capabilities of economic and social development, the Group earnestly fulfils social responsibilities, demonstrates a sense of responsibility, and creates shared value for shareholders, customers, employees, and society.

## **OUTLOOK**

In 2024, with the further implementation of the Fourteenth Five-Year Plan and Vision 2035 Outline (《第十四個五年規劃和2035年遠景目標綱要》) and the continued efforts of the green development policy, the Group will uphold the spirit of pragmatism and seize the opportunities of the times to join the grand blueprint of the country's development and contribute to the green development. In 2024, the Group will focus on the following:

### **Continuously Advance the Integrated Utilisation of Solid Waste Resources and Further Toward the High-value Development**

Under the guidance of national policies and based on its resources, the Group will fully increase substantial requirements for 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, improve product values through sophisticated resource utilisation, and 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 so as to lead the industry to solid development.

### **Strengthen R&D, Expand Product Diversity, and Build a Synergistic Value Chain Through Coverage with Projects**

The Group will intensify its efforts in research and development and increase its support for technological innovation. The Group will actively promote the research and development of integrated utilisation of solid waste resources recovered, speed up the transformation of R&D achievements, optimise existing products, diversify product offerings, and expand the reach of the industry. The Group will achieve the horizontal and vertical coverage with in-depth resource utilisation across domains and categories, and effectively provide integrated service capacity along the whole value chain of solid waste and hazardous waste resource utilisation. At the same time, we will cooperate and exchange with relevant institutions and businesses among others. 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 actively empower business development and escort high-quality development.

## Advance the Circular Development of the Industrial Park and Promote the Integrated Utilisation of Solid Waste Resources

In accordance with the principle of “Horizontal Coupling, Vertical Extension and Circular Connection”, the Group will develop the economic system with small cycle within the business, medium cycle within the industrial park and large Cycle within the industry at a faster pace. When strengthening the industrial connections in the industrial park, the Group will encourage the formation of industrial chain clusters where businesses mutually supply raw materials and exchange products. It is committed to promoting synergistic utilisation of various solid wastes, fostering integration and concerted growth of the industries within the industrial park, and facilitating synergistic regional development. The Group will tackle 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 integrated utilisation industry.

### FINANCIAL REVIEW

#### Revenue

	For the year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Gold mine hazardous waste treatment services	<b>49,373</b>	<b>45.7</b>	76,439	34.3
Sales of pyrite concentrate	<b>34,775</b>	<b>32.2</b>	131,855	59.2
Hazardous waste storage rental services	<b>13,519</b>	<b>12.5</b>	14,507	6.5
Sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	<b>10,321</b>	<b>9.6</b>	–	–
	<b><u>107,988</u></b>	<b><u>100.0</u></b>	<b><u>222,801</u></b>	<b><u>100.0</u></b>

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 and recycling, such as pyrite concentrate; and (iii) reuse the pyrite concentrate produced by the Group through addition of other raw materials to produce products (including sulphuric acid, iron powder and electricity) for sale. Therefore, revenue of the Group is mainly derived from (i) gold mine hazardous waste treatment services; and (ii) sale of pyrite concentrate; and (iii) sale of products derived from the reprocessing of pyrite concentrate.

For the year ended 31 December 2023, revenues from gold mine hazardous waste treatment services, sales of pyrite concentrate and sales of products from the reprocessing of pyrite concentrate accounted for approximately 87.5% of our total revenues (31 December 2022: 93.5%). The Group also derived revenue from the hazardous waste storage rental services, which accounted for approximately 12.5% (31 December 2022: 6.5%) of our total revenue.

For the year ended 31 December 2023, the Group's total revenue was approximately RMB108.0 million, representing a decrease by approximately 51.5% as compared to that of approximately RMB222.8 million for the year ended 31 December 2022. The decrease was mainly due to approximately 73.6% and approximately 35.4% down in revenue from sales of pyrite concentrate and gold mine hazardous waste treatment services, respectively, compared to the previous year.

The significant decrease in revenue was primarily attributable to: (i) the decrease in both sales volume and unit price of pyrite concentrate, due to the downturn in industries that require pyrite concentrate as a key raw material for their production processes. For example, the market price of products in sulphuric acid related market dropped significantly compared to the previous year; (ii) a significant decrease in the amount of cyanide tailings provided by the upstream customers, resulting in a decrease in revenue from gold mine hazardous waste treatment services as compared to the previous year; and (iii) the commencement of the production of the New Production Line by the Group in the fourth quarter of 2023 to diversify the product portfolio and expand the Group's existing business. As pyrite concentrate is the main raw material for the production of the New Production Line, the Group had sufficient pyrite concentrate reserved for the commencement of the production line of sulphuric acid, and therefore reduced the quantity of pyrite concentrate sold. As the sales of the products produced by the New Production line, including sulphuric acid, iron powder and electricity (the "New Income Stream") only commenced in the fourth quarter of 2023, and the market price of sulphuric acid was at a low level, therefore, the New Income Stream was not sufficient to compensate for the decline in pyrite concentrate sales.

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

For the year ended 31 December 2023, the Group's gross profit was approximately RMB59.6 million, representing a decline of approximately 58.6% as compared to gross profit of approximately RMB144.0 million for the year ended 31 December 2022. This decline was more significant than the decline in total revenues, which was attributable to the decrease in gross profit margin for the year.

The overall gross profit margin decreased from approximately 64.6% for the year ended 31 December 2022 to approximately 55.2% for the year ended 31 December 2023. Such fluctuation was due to (i) the decrease in gross profit margin of sales of pyrite concentrate from approximately 61.3% for the year ended 31 December 2022 to approximately 45.1% for the year ended 31 December 2023; (ii) the decrease of gross profit margin for gold mine hazardous waste treatment services of approximately 69.3% for the year ended 31 December 2022 to approximately 65.8% for the year ended 31 December 2023; and (iii) the gross profit margin on the sales of products including sulphuric acid, iron powder and electricity derived from the reprocessing of pyrite concentrate was 22.3%, which pulled down the overall gross profit margin of the Group. The low gross profit margin on sales of products derived from the reprocessing of pyrite concentrate was due to the fact that the production line commenced its production activities in the fourth quarter of 2023, the production capacity of the production line was not yet fully released during the initial period of production activities, more upfront costs were incurred during the start-up of the production line, and the unit price of sulphuric acid was in the midst of a downturn.

## **Other income**

Other income increased significantly from approximately RMB1.8 million for the year ended 31 December 2022 to approximately RMB5.4 million for the year ended 31 December 2023. Such increase was mainly attributable to the increase in income from the agency sales of magnesite by approximately RMB4.4 million as compared to the previous year. Revenue from agency services was a one-off transaction and the Group has not actively pursued business opportunities in relation to the 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 2023, the Group's selling expenses was approximately RMB1.5 million, representing a decrease of approximately 48.3% as compared to that of selling expenses of approximately RMB2.9 million for the year ended 31 December 2022. The decrease was mainly due to the decrease of approximately RMB1.3 million in entertainment expenses as compared to the previous year.

## **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 and utilities; (v) entertainment expense; (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; (viii) research and development costs; and (ix) other expenses of similar nature.

For the year ended 31 December 2023, the Group's administrative expenses was approximately RMB36.7 million, representing an increase of approximately 12.6% as compared to administrative expenses of approximately RMB32.6 million for the year ended 31 December 2022.

The increase was due to the increase in salaries and wages and staff welfare of approximately RMB3.9 million, which was mainly due to the salaries and staff welfare expenses incurred for the preparation for the commissioning of the New Production Line and the projects of research and development pilot line.

## **Net finance costs**

Our net finance costs reflected interest expenses on bank borrowings, borrowings under finance lease arrangement, lease liabilities, exchange gain or loss and other liabilities after offsetting interest income we received from bank balances. For the year ended 31 December 2023, the Group's net finance costs was approximately RMB7.6 million, representing an increase of 52.0% as compared to the net finance costs of approximately RMB5.0 million for the year ended 31 December 2022. The increase in net finance costs was mainly due to (i) interest expenses on borrowings under finance lease arrangement of approximately RMB0.9 million for the year, while there were no such interest expenses in the previous year; and (ii) the net foreign exchange gain of approximately RMB35,000 recognised by the Group for the year ended 31 December 2023, which was a significant decrease from the net foreign exchange gain of approximately RMB1.2 million recognised for the year ended 31 December 2022.

## **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 2023 and 2022.

## **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 pyrite concentrate from the taxable income of the companies in the calculation of CIT.

For the year ended 31 December 2023, the Group's income tax expense was approximately RMB3.7 million, representing a decrease of approximately 84.3% as compared to income tax expenses of approximately RMB23.5 million for the year ended 31 December 2022, reflecting effective tax rate (equivalent to income tax expense divided by profit before income tax) of approximately 17.3% and 22.7% for the year ended 31 December 2023 and the year ended 31 December 2022, respectively.

The decrease in the effective tax rate from approximately 22.7% for the year ended 31 December 2022 to approximately 17.3% for the year ended 31 December 2023 was mainly due to (i) the increase in the amounts of deferred income tax assets recognised in relation to the tax loss of a subsidiary which is probable to generate taxable income in the foreseeable future; and (ii) the increase in research and development expenses, which were entitled to be additionally deductible in the calculation of corporate income tax.

## **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 2023, we incurred capital expenditure of approximately RMB78.2 million (31 December 2022: RMB252.3 million).

## **Capital Commitments**

As at 31 December 2023, the Group had capital commitments of RMB17.5 million (31 December 2022: RMB9.3 million).

## **Pledge of Assets**

As at 31 December 2023, the total net book value of assets pledged to secure the Group's bank borrowings and finance lease borrowings amounted to approximately RMB29.1 million (31 December 2022: approximately RMB21.9 million) for land use rights, approximately RMB52.3 million (31 December 2022: approximately RMB54.4 million) for buildings, approximately RMB57.1 million (31 December 2022: nil) for machinery and approximately RMB120.1 million (31 December 2022: approximately RMB124.7 million) for investment properties.

As at 31 December 2022, the Group's land use rights with an aggregate net book value of approximately RMB15.6 million and buildings with an aggregate net book value of approximately RMB40.8 million were pledged to secure short-term bank borrowings granted to two third parties totalling RMB16.0 million. As of 31 December 2023, the pledge was fully discharged.

## **Contingent Liabilities**

As at 31 December 2023, we did not have any material contingent liabilities. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings, to the knowledge of the Board, threatened against the Group and could have a material adverse effect on our business or operations.

## **Treasury Policy**

The Group adopts a prudent approach towards its treasury policies. To manage the liquidity risk, the Group closely monitors its liquidity position to ensure the liquidity structure of the Group's assets, liabilities and commitments and to ensure the 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 the HKD) to be significant, and that any fluctuation thereof will not have any material impact on the Group's business operations or its financial results. The management will, however, closely monitor its foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

## **Liquidity, Finance Resources and Capital Structure**

As at 31 December 2023, the Group had net current assets of approximately RMB25.9 million (31 December 2022: approximately RMB7.9 million). As at 31 December 2023, the gearing ratio was approximately 46.6% (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 31 December 2023, the Group maintained a strong financial position with cash and cash equivalents of approximately RMB76.1 million (31 December 2022: 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**

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

The AGM is expected to be held on Friday, 28 June 2024. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 25 June 2024 to Friday, 28 June 2024, 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, 24 June 2024.

### **FINAL DIVIDEND**

No final dividend for the year ended 31 December 2023 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 of the Stock Exchange on the Listing Date by way of global offering, 250,000,000 shares were issued, raising the total net proceeds (after deducting underwriting commissions and other related listing expenses) of approximately RMB177.3 million (equivalent to approximately HKD217.3 million).

	Percentage to total amount	Planned use of net proceeds <i>HKD'</i> <i>million</i>	Planned use of net proceeds <i>RMB'</i> <i>million</i>	Net proceeds utilised during the year ended 31 December 2023 <i>RMB'</i> <i>million</i>	Net proceeds unutilised as at 31 December 2023 <i>RMB'</i> <i>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	123.6	30.1	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>147.2</u>	<u>30.1</u>	

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

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

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

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

## **EVENTS AFTER THE REPORTING PERIOD**

There were no other significant events affecting the Group between 31 December 2023 and the date of this announcement.

## **EMPLOYEE AND REMUNERATION POLICY**

As at 31 December 2023, the Group had 213 employees. For the year ended 31 December 2023, the staff cost of the Group was approximately RMB21.8 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 2023.

## **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 the Company's code of conduct for the year ended 31 December 2023.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix C1 to the Listing Rules during the year ended 31 December 2023. 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 A.2.1 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 2023.

## **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 C1 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 2023. The Audit Committee also recommended and submitted the annual results and the consolidated financial statements for the year ended 31 December 2023 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 2023 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 2023 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 C1 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 C3 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 2023
“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
“VAT“	value-added tax

“we”, “us”, “our”, “Group”      the Company and its subsidiaries  
and “our Group”

“%”      per cent

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

Hong Kong, 28 March 2024

*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.*