

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



## **HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED**

**鴻承環保科技有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2265)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024**

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 2024 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2023.

#### **RESULTS HIGHLIGHTS**

For the six months ended 30 June 2024, the Group’s total revenue was approximately RMB105.1 million, representing an increase by approximately 113.6% as compared to total revenue of approximately RMB49.2 million for the six months ended 30 June 2023.

For the six months ended 30 June 2024, the Group’s gross profit was approximately RMB51.9 million, representing an increase by approximately 66.9% as compared to gross profit of approximately RMB31.1 million for the six months ended 30 June 2023. The overall gross profit margin decreased from approximately 63.3% for the six months ended 30 June 2023 to approximately 49.4% for the six months ended 30 June 2024.

For the six months ended 30 June 2024, the Group’s net profit was approximately RMB20.4 million, representing an increase by approximately 94.3% as compared to net profit of approximately RMB10.5 million for the six months ended 30 June 2023.

For the six months ended 30 June 2024, basic earnings per share attributable to the owners of the Company were approximately RMB0.02.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Note	Six months ended 30 June	
		2024	2023
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	105,104	49,159
Cost of sales		<u>(53,227)</u>	<u>(18,027)</u>
<b>Gross profit</b>		<b>51,877</b>	31,132
Other income	4	2,259	1,726
Other gains/(losses) — net	5	(435)	(84)
Reversal of impairment on financial assets		263	1,364
Selling expenses		(1,556)	(652)
Administrative expenses		<u>(23,086)</u>	<u>(16,605)</u>
<b>Operating profit</b>	6	<b>29,322</b>	16,881
Finance income	7	62	89
Finance costs	7	<u>(3,520)</u>	<u>(3,350)</u>
<b>Finance costs — net</b>	7	<b>(3,458)</b>	(3,261)
<b>Profit before income tax</b>		<b>25,864</b>	13,620
Income tax expenses	8	<u>(5,418)</u>	<u>(3,095)</u>
<b>Profit for the period, all attributable to owners of the Company</b>		<b><u>20,446</u></b>	<b><u>10,525</u></b>
<b>Other comprehensive income:</b>			
Item that may be reclassified to profit or loss			
Currency translation differences		<u>(1,586)</u>	<u>34</u>
<b>Total comprehensive income for the period, all attributable to owners of the Company</b>		<b><u>18,860</u></b>	<b><u>10,559</u></b>
<b>Earnings per share for the period attributable to owners of the Company</b>			
Basic and diluted (expressed in RMB per share)	9	<u>0.02</u>	<u>0.01</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	<i>Note</i>	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Right-of-use assets	11	77,304	77,406
Property, plant and equipment	12	415,635	384,860
Investment properties		118,626	120,819
Intangible assets		26	30
Prepayment for non-current assets		2,693	5,779
Deferred income tax assets		3,722	4,207
Financial assets measured at fair value through profit or loss		10	–
		<u>618,016</u>	<u>593,101</u>
<b>Current assets</b>			
Inventories	13	28,656	34,348
Trade receivables	14	26,563	40,642
Other receivables and prepayments	15	60,360	49,103
Financial assets measured at fair value through other comprehensive income		758	3,342
Cash and cash equivalents		29,686	76,119
		<u>146,023</u>	<u>203,554</u>
<b>Total assets</b>		<u><u>764,039</u></u>	<u><u>796,655</u></u>
<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		(300,705)	(299,119)
Retained earnings		264,582	244,136
<b>Total equity</b>		<u><u>490,050</u></u>	<u><u>471,190</u></u>

	<i>Note</i>	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	As at 31 December 2023 RMB'000 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		<b>33,834</b>	49,827
Deferred income tax liabilities		<b>5,570</b>	5,039
Lease liabilities	<i>11</i>	<b>613</b>	–
Other liabilities	<i>18</i>	<b>89,282</b>	92,902
		<u><b>129,299</b></u>	<u>147,768</u>
<b>Current liabilities</b>			
Trade payables	<i>16</i>	<b>2,985</b>	3,882
Other payables and accruals	<i>17</i>	<b>33,336</b>	76,845
Borrowings		<b>72,482</b>	67,352
Current income tax liabilities		<b>15,023</b>	13,197
Contract liabilities	<i>3</i>	<b>10,921</b>	6,863
Lease liabilities	<i>11</i>	<b>385</b>	–
Other liabilities	<i>18</i>	<b>9,558</b>	9,558
		<u><b>144,690</b></u>	<u>177,697</u>
<b>Total liabilities</b>		<u><b>273,989</b></u>	<u>325,465</u>
<b>Total equity and liabilities</b>		<u><b>764,039</b></u>	<u>796,655</u>

## 1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 12 January 2021 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The 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; recycling and extracting therefrom resources with economic value for sale, such as pyrite concentrate; and production and sales of products from the reprocessing of pyritic concentrate (including sulphuric acid, iron powder and electricity) 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 2023 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 and financial assets measured at fair value through profit or loss, 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 2024. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

<b>New standards and amendments</b>		<b>Effective for annual financial periods beginning on or after</b>
IAS 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
Interpretation 5 (2020) Presentation of Financial Statements	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

### ***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 2024 and have not been early adopted by the Group. These new standards and interpretations are:

<b>Standards and amendments</b>		<b>Effective for annual periods beginning on or after</b>
IAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
IFRS 18 (Amendments)	Presentation and Disclosure in Financial Statements	1 January 2027
IFRS 19 (Amendments)	Subsidiaries without Public Accountability: Disclosures	1 January 2027
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 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 pyritic concentrate in the PRC. The process of the treatment services and production of pyritic concentrate are in one integral process, and the CODM assesses the performance of treatment services and sales of pyritic concentrate as a whole. Since late 2023, the Group has commenced the production and sales of products from the reprocessing of pyritic 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 pyritic 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 as follows:

	<b>Hazardous waste treatment and recycling RMB'000</b>	<b>Reprocessing of pyritic concentrate and others RMB'000</b>	<b>Unallocated RMB'000</b>	<b>Total RMB'000</b>
<b>For the six months ended 30 June 2024</b>				
Segment revenue	<u>58,795</u>	<u>46,309</u>	<u>–</u>	<u>105,104</u>
Segment profit/(loss)	19,820	10,805	(1,303)	29,322
Finance costs — net	(2,156)	(1,250)	(52)	<u>(3,458)</u>
Profit before income tax				25,864
Income tax expense				<u>(5,418)</u>
Profit for the period				<u><u>20,446</u></u>
Depreciation and amortisation	<u>8,162</u>	<u>8,507</u>	<u>–</u>	<u>16,669</u>
Additions to non-current assets	<u>18,735</u>	<u>27,434</u>	<u>–</u>	<u>46,169</u>
<b>As at 30 June 2024</b>				
Total assets	<u>381,175</u>	<u>380,836</u>	<u>2,028</u>	<u>764,039</u>
Total liabilities	<u>190,126</u>	<u>73,724</u>	<u>10,139</u>	<u>273,989</u>



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

(b) Revenue during the six months ended 30 June 2024 and 2023

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Revenue from contract with customers within the scope of IFRS 15</b>		
Revenue from provision of gold mine hazardous waste treatment services	19,150	31,161
Revenue from sales of pyritic concentrate	34,866	10,745
Revenue from sales of products from the reprocessing of pyritic concentrate (including sulphuric acid, iron powder and electricity)	46,309	–
	<u>100,325</u>	<u>41,906</u>
<b>Other Revenue</b>		
Rental income	4,779	7,253
	<u>105,104</u>	<u>49,159</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:

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Recognised over time</b>		
Revenue from provision of gold mine hazardous waste treatment services	19,150	31,161
<b>Recognised at a point in time</b>		
Revenue from sales of pyritic concentrate	34,866	10,745
Revenue from sales of products from the reprocessing of pyritic concentrate (including sulphuric acid, iron powder and electricity)	46,309	–
	<u>100,325</u>	<u>41,906</u>

(c) **Contract liabilities**

The Group recognised the following contract liabilities:

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	As at 31 December 2023 RMB'000 (Audited)
Contract liabilities related to provision of gold mine hazardous waste treatment services	97	–
Contract liabilities related to sales of pyrite concentrate	7,616	558
Contract liabilities related to sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	<u>3,208</u>	<u>6,305</u>
	<u><b>10,921</b></u>	<u><b>6,863</b></u>

The following table shows how much of the revenue recognised during the six months ended 30 June 2024 and 2023 relates to carried-forward contract liabilities:

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(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
— Sales of pyritic concentrate	489	–
— Sales of products from the reprocessing of pyritic concentrate (including sulphuric acid, iron powder and electricity)	<u>6,174</u>	<u>–</u>
	<u><b>6,663</b></u>	<u><b>773</b></u>

**(d) Unsatisfied contracts**

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

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	<b>As at 31 December 2023 RMB'000 (Audited)</b>
Expected to be recognised within one year		
Provision of gold mine hazardous waste treatment services	<b>97</b>	–
Sales of pyrite concentrate	<b>7,616</b>	558
Sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	<b>3,208</b>	6,305
	<b>10,921</b>	6,863

**(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 2024 and 2023 is set out below:

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Customer A	<b>17,708</b>	25,221
Customer B	<b>N/A<sup>(i)</sup></b>	7,253

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

**4 OTHER INCOME**

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Government grants	<b>1,555</b>	–
Agency service income	<b>703</b>	1,670
Personal income tax refund	<b>1</b>	56
	<b>2,259</b>	1,726

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

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net losses on disposal of property, plant and equipment and other assets	<b>(430)</b>	(84)
Others	<b>(5)</b>	—
	<b><u>(435)</u></b>	<b><u>(84)</u></b>

## 6 OPERATING PROFIT

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

	<b>Six months ended 30 June</b>	
	<b>2024</b>	<b>2023</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cost of inventories	<b>13,382</b>	7,435
Employee benefit expenses including directors' emoluments	<b>14,268</b>	10,480
Depreciation and amortisation of		
— Right-of-use assets	<b>1,127</b>	1,232
— Property, plant and equipment	<b>13,342</b>	5,701
— Investment properties	<b>2,193</b>	2,193
— Intangible assets	<b>7</b>	6
Transportation expenses	<b>3,121</b>	3,941
Electricity and water expenses	<b>6,729</b>	4,146
Consultation fee	<b>2,215</b>	984
Repair and maintenance fee	<b>646</b>	703

## 7 FINANCE COSTS — NET

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<b>Finance income</b>		
— Interest income derived from bank balances	<u>(62)</u>	<u>(89)</u>
<b>Finance costs</b>		
— Interest expenses on bank borrowings	<b>1,030</b>	1,018
— Interest expenses relating to warehouse lease arrangements	<b>1,159</b>	2,327
— Interest expenses on lease liabilities	<b>24</b>	7
— Interest expenses on borrowings under finance lease arrangement	<b>1,350</b>	—
— Others	<u>(43)</u>	<u>(2)</u>
	<u><b>3,520</b></u>	<u>3,350</u>
<b>Finance costs — net</b>	<u><b>3,458</b></u>	<u>3,261</u>

## 8 INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
PRC income tax		
— Current income tax expense	<b>4,402</b>	3,503
— Deferred income tax expense	<u><b>1,016</b></u>	<u>(408)</u>
	<u><b>5,418</b></u>	<u>3,095</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 periods.

	<b>Six months ended 30 June</b>	
	<b>2024</b>	2023
	<b>(Unaudited)</b>	(Unaudited)
Profit attributable to owners of the Company ( <i>RMB'000</i> )	<b>20,446</b>	10,525
Weighted average number of ordinary shares in issue	<b><u>1,000,000,000</u></b>	<u>1,000,000,000</u>
Basic earnings per share ( <i>RMB</i> )	<b><u>0.02</u></b>	<u>0.01</u>

### (b) Diluted

During the six months ended 30 June 2024 and 2023, 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 2024 and 2023.

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

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2024</b>	2023
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Audited)
<b>Right-of-use assets</b>		
Land use rights	<b>76,318</b>	77,406
Leased properties and equipment	<b><u>986</u></b>	<u>–</u>
	<b><u>77,304</u></b>	<u>77,406</u>
<b>Lease liabilities</b>		
Leased properties and equipment		
— Current	<b>385</b>	–
— Non-current	<b><u>613</u></b>	<u>–</u>
	<b><u>998</u></b>	<u>–</u>

## 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
<b>As at 1 January 2024</b>						
<b>(Unaudited)</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>	<b>177,238</b>	<b>142,332</b>	<b>5,165</b>	<b>5,604</b>	<b>54,521</b>	<b>384,860</b>
<b>Six months ended 30 June 2024</b>						
<b>(Unaudited)</b>						
Opening net book amount	177,238	142,332	5,165	5,604	54,521	384,860
Additions	2,161	1,244	449	447	40,685	44,986
Disposals	–	(479)	–	(384)	–	(863)
Depreciation	(4,362)	(7,881)	(627)	(478)	–	(13,348)
<b>Closing net book amount</b>	<b>175,037</b>	<b>135,216</b>	<b>4,987</b>	<b>5,189</b>	<b>95,206</b>	<b>415,635</b>
<b>As at 30 June 2024 (Unaudited)</b>						
Cost	204,651	162,522	9,183	7,805	95,206	479,367
Accumulated depreciation	(29,614)	(27,306)	(4,196)	(2,616)	–	(63,732)
<b>Net book amount</b>	<b>175,037</b>	<b>135,216</b>	<b>4,987</b>	<b>5,189</b>	<b>95,206</b>	<b>415,635</b>
<b>As at 1 January 2023</b>						
<b>(Unaudited)</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>	<b>118,627</b>	<b>26,728</b>	<b>1,599</b>	<b>4,814</b>	<b>169,987</b>	<b>321,755</b>
<b>Six months ended 30 June 2023</b>						
<b>(Unaudited)</b>						
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)
<b>Closing net book amount</b>	<b>115,491</b>	<b>53,773</b>	<b>1,337</b>	<b>4,858</b>	<b>169,090</b>	<b>344,549</b>
<b>As at 30 June 2023 (Unaudited)</b>						
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)
<b>Net book amount</b>	<b>115,491</b>	<b>53,773</b>	<b>1,337</b>	<b>4,858</b>	<b>169,090</b>	<b>344,549</b>



### 13 INVENTORIES

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Raw materials	9,717	5,569
Work-in-progress	271	248
Finished goods	<u>18,668</u>	<u>28,531</u>
Total	<u><u>28,656</u></u>	<u><u>34,348</u></u>

### 14 TRADE RECEIVABLES

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Trade receivables		
— related to provision of gold mine hazardous waste treatment services	21,495	40,234
— related to sales of pyrite concentrate	5,222	—
— related to sales of sulfuric acid and electricity	<u>—</u>	<u>825</u>
	26,717	41,059
Less: provision for impairment	<u>(154)</u>	<u>(417)</u>
	<u><u>26,563</u></u>	<u><u>40,642</u></u>

#### (i) Ageing analysis of the trade receivables

The credit terms grant to customers are generally from 30 to 60 days.

As at 30 June 2024 and 31 December 2023, the ageing analysis of the trade receivables based on the invoice date is as follows:

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	As at 31 December 2023 RMB'000 (Audited)
1-90 days	<b>17,824</b>	10,088
91-180 days	<b>6,875</b>	7,612
181-270 days	<b>2,018</b>	16,149
271-360 days	–	7,210
over 360 days	–	–
	<u><b>26,717</b></u>	<u>41,059</u>

**(ii) Impairment of the trade receivables**

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

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

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	As at 31 December 2023 RMB'000 (Audited)
As at 1 January	<b>417</b>	2,856
Loss allowance recognised in profit or loss during the period/year	<u><b>(263)</b></u>	<u>(2,439)</u>
As at period/year end	<u><b>154</b></u>	<u>417</u>

## 15 OTHER RECEIVABLES AND PREPAYMENTS

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	<b>As at 31 December 2023 RMB'000 (Audited)</b>
Other receivables from third parties	4,035	5,380
Prepayments for purchase of raw materials, transportation cost and other expenses	27,485	11,847
Value-added tax receivables	22,825	23,714
Performance bonds and deposits for bidding	830	2,875
Amount due from a related party	626	620
Deposits with financial institutions	3,000	3,500
Others	1,559	1,167
	<u>60,360</u>	<u>49,103</u>

## 16 TRADE PAYABLES

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	<b>As at 31 December 2023 RMB'000 (Audited)</b>
Trade and bill payables		
— related to transportation costs	966	1,266
— related to raw materials	2,019	2,616
	<u>2,985</u>	<u>3,882</u>

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

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	As at 31 December 2023 RMB'000 (Audited)
1-30 days	1,766	2,509
31-60 days	453	586
61-90 days	457	536
91-180 days	286	218
Over 180 days	23	33
	<u>2,985</u>	<u>3,882</u>

## 17 OTHER PAYABLES AND ACCRUALS

	<b>As at 30 June 2024 RMB'000 (Unaudited)</b>	As at 31 December 2023 RMB'000 (Audited)
Payables for purchase of property, plant and equipment	9,427	36,425
Other payables to third parties	462	16,004
Other taxes payable	12,610	13,778
Employee benefits payables	5,200	4,769
Amount due to related parties	3,418	2,603
Others	2,219	3,266
	<u>2,219</u>	<u>3,266</u>
Total	<u>33,336</u>	<u>76,845</u>

## 18 OTHER LIABILITIES

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Warehouse lease arrangements ( <i>Note a</i> )		
(i) Advances from lessee		
— Current portion	9,558	9,558
— Non-current portion	<u>32,362</u>	<u>37,140</u>
Sub-total	<u>41,920</u>	46,698
(ii) Payables to LZ Assets		
Non-current		
— First warehouse	25,711	25,187
— Second warehouse	<u>31,209</u>	<u>30,575</u>
Sub-total	<u>56,920</u>	55,762
Total	<u><u>98,840</u></u>	<u><u>102,460</u></u>
Presented on the statement of financial position as:		
Other liabilities — current portion	9,558	9,558
Other liabilities — non-current portion	<u>89,282</u>	<u>92,902</u>
	<u><u>98,840</u></u>	<u><u>102,460</u></u>

(a) **Warehouse lease arrangements**

In October 2018 and December 2018, Shandong Hongcheng Mining (Group) Co., Ltd. (山東鴻承礦業(集團)有限公司), an indirect wholly owned subsidiary of our Company (“**HC Mining**”) 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 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 Mining 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 full 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 considers 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 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 RMB4,779,000 for the six months ended 30 June 2024 (30 June 2023: RMB7,253,000), and the resultant payable to LZ Assets amounted to RMB 56,920,000 as at 30 June 2024 (31 December 2023: RMB55,762,000).

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 2024 and 2023 were RMB1,159,000 and RMB2,327,000, respectively.

## 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 are 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 is able to use pyrite concentrates and reprocess them to produce sulphuric acid, iron powder and electricity for sale to downstream customers, which mainly comprised 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 2024, the hazardous waste market is generally sluggish due to a combination of factors: the complex international macroeconomic and political landscape, industry changes, the gradually eased global inflation, and the downward trend in global economic growth. This slowdown is further exacerbated by intensifying competition within the hazardous waste industry and a structural imbalance between supply and demand. As a result, the hazardous waste industry is undergoing more severe competition and challenges. The global economy was still facing 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 achieved year-on-year growth despite challenging industry and operational conditions, thanks to the collaborative efforts of all stakeholders involved and the effective implementation of its business strategies.



The Group's revenue and net profit for the six months ended 30 June 2024 amounted to approximately RMB105.1 million and approximately RMB20.4 million, representing an increase of approximately 113.6% and approximately 94.3%, respectively as compared to the same period of the previous year.

Meanwhile, the Group's gross profit increased from approximately RMB31.1 million for the six months ended 30 June 2023 to approximately RMB51.9 million for the six months ended 30 June 2024. The overall gross profit margin, however, decreased from approximately 63.3% for the six months ended 30 June 2023 to approximately 49.4% for the six months ended 30 June 2024.

Despite facing multiple challenges in the first half of 2024, such as complex and demanding external environment, increasing uncertainty of the market, and market and industry adjustment cycles, the Group maintained its entrepreneurial spirit and was determined to overcome these obstacles. We aimed to make all-out efforts by leveraging our own industry edges. We strode towards sustainable high-quality development by reinforcing and deepening our services in regional markets and accurately grasping the opportunities from the market and industry.

## **FUTURE PROSPECTS**

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 the remaining months of 2024, the Group will focus on the following:

### **Being future-oriented, building up a resource-cycling industry system and steadily promoting 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, and guiding the development of solid waste recycling projects. During the Reporting Period, the Group expanded its horizontal and vertical market reach and leveraged its existing products for reprocessing into new products. This strategic approach aimed to bolster the Group's competitive edge and extend the scope of resource utilisation, consequently diversifying the range of product types manufactured using recycled hazardous waste. The New Production Line commissioned at the end of 2023 significantly boosted the Group's revenue. In addition to scaling up the production capacity of its current products and

hazardous waste treatment, the Group is engaged in the production, research and development of sulfamic acid and magnesium sulfate projects and new products like magnesium fertilizers. Progress has been made in these initiatives, with results achieved in phases. By implementing the projects, the Group will be able to broaden its product portfolios to achieve stable profitability as well as ecological and economic benefits. The Group believes that by leveraging our strengths in relevant areas of the production of recycled products, we can extend the value chain of our business, improve core competitiveness, and continuously drive revenue growth. This allows us to focus on long-term, more sustainable business development and vigorously promote the synergistic utilisation of various solid wastes, fostering integration and concerted growth of the industries within the Industrial Park.

**Being empowered by scientific research, promoting the transformation of scientific and technological achievements, and strengthening 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 “recycling 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, focusing on the big picture of development, reinforcing patents, and fostering technological innovation, the Group aims to enhance its long-term competitiveness. Currently, the Group owns a total of ten patented technologies and is continuously and widely recognised for our solid business performance and efficient management ability. A wholly-owned subsidiary of the Group was awarded the title “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). One of the Group’s production projects was designated as a key project in Laizhou city. 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 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, to provide strong technical research and development support for the sustainable and high-quality development of the Group.

## **Focusing on projects and keeping promoting their refined management and outlining the blueprint for sustainable development**

The Group fully integrates the ESG factors into its corporate strategies 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. A wholly-owned subsidiary of the Group was awarded the title of “2023 Shandong Socially Responsible Business” (二零二三年山東社會責任企業) 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 (二零二三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 places a high priority on production safety, consolidates the basis of production safety, actively advances digital transformation, and strengthens safety management capabilities. This approach ensures efficient management, secures smooth and organized business operations, and promotes the sustainable growth of the circular economy to enhance resource security for economic and social development. Through these efforts, the Group earnestly fulfills its social responsibilities, demonstrates a sense of responsibility, and creates shared value for shareholders, customers, employees, and society.

## FINANCIAL REVIEW

### Revenue

	For the six months ended 30 June			
	2024		2023	
	RMB'000	%	RMB'000	%
Gold mine hazardous waste treatment services	19,150	18.2	31,161	63.4
Sales of pyrite concentrate	34,866	33.2	10,745	21.9
Hazardous waste storage rental services	4,779	4.5	7,253	14.7
Sales of products from the reprocessing of pyrite concentrate (including sulphuric acid, iron powder and electricity)	46,309	44.1	–	–
	<u>105,104</u>	<u>100.0</u>	<u>49,159</u>	<u>100.0</u>

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

For the six months ended 30 June 2024, revenue from our gold mine hazardous waste treatment services, sales of pyrite concentrate and sales of products from the reprocessing of pyrite concentrate accounted for approximately 95.5% (six months ended 30 June 2023: approximately 85.3%) of our total revenue. The Group also derived revenue from the hazardous waste storage rental services, which accounted for approximately 4.5% (six months ended 30 June 2023: approximately 14.7%) of our total revenue.

For the six months ended 30 June 2024, the Group's total revenue was approximately RMB105.1 million, representing an increase by approximately 113.6% as compared to that of approximately RMB49.2 million for the six months ended 30 June 2023. The increase was

mainly due to: (i) the new income stream, namely the sales of the products produced by the New Production line, including sulphuric acid, iron powder and electricity, which commenced in the fourth quarter of 2023 and contributed additional revenue of approximately RMB46.3 million for the six months ended 30 June 2024 and (ii) the increase in revenue from sales of pyrite concentrate due to the increase in both the sales volume and unit price of pyrite concentrate, which was offset by the decrease in the revenue of gold mine hazardous waste treatment services compared to the same period of the previous year.

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

For the six months ended 30 June 2024, the Group's gross profit was approximately RMB51.9 million, representing an increase by approximately 66.9% as compared to gross profit of approximately RMB31.1 million for the six months ended 30 June 2023. The increase was less significant than the increase in total revenues due to the decrease in gross profit margin for the period.

The overall gross profit margin decreased from approximately 63.3% for the six months ended 30 June 2023 to approximately 49.4% for the six months ended 30 June 2024. Such fluctuation was a combined effect of (i) the gross profit margin for gold mine hazardous waste treatment services slightly decreased from approximately 66.4% for the six months ended 30 June 2023 to approximately 61.4% for the six months ended 30 June 2024, even though the gross profit margin of sales of recycled products increased from approximately 50.0% for the six months ended 30 June 2023 to approximately 53.0% for the six months ended 30 June 2024; (ii) the gross profit margin of the hazardous waste storage rental services decreased from approximately 69.8% for the six months ended 30 June 2023 to approximately 54.1% for the six months ended 30 June 2024; and (iii) the gross profit margin of the sales of products including sulphuric acid, iron powder and electricity derived from the reprocessing of pyrite concentrate was 41.1%, which negatively affected the overall gross profit margin of the Group.

### **Other income**

Other income increased from approximately RMB1.7 million for the six months ended 30 June 2023 to approximately RMB2.3 million for the six months ended 30 June 2024, representing an increase of approximately 35.3%. The increase was mainly due to the receipt of government grants of approximately RMB1.6 million in the current periods, which was offset by the decrease in income from acting as an agent from sales of magnesite by approximately RMB1.0 million as compared to the same period of the previous year.

## **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 2024, the Group's selling expenses was approximately RMB1.6 million, representing an increase of approximately 128.6% as compared to that of approximately RMB0.7 million for the six months ended 30 June 2023. The increase was mainly due to the increase of entertainment expenses compared to the same period of the previous year, which is in line with the increase in the revenue for the Reporting Period.

## **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 expenses; (vi) professional and consultation fee; (vii) transportation and related expenses; (viii) research and development costs; and (ix) other expenses of similar nature.

For the six months ended 30 June 2024, the Group's administrative expenses was approximately RMB23.1 million, representing an increase of approximately 39.2% as compared to the amount of administrative expenses of approximately RMB16.6 million for the six months ended 30 June 2023.

The increase in the Group's administrative expenses was the combined effect of (i) the increase in the employee benefit expenses of approximately RMB1.6 million due to the commencement of the New Production Line and expanded business; (ii) the increase in taxes and levies of approximately RMB1.0 million due to the increase in the revenue; (iii) the increase in the depreciation and amortisation of approximately RMB1.5 million; (iv) the increase in the professional and consultation fee of approximately RMB1.2 million; and (v) the increase in raw materials and expenses used in the research and development projects.

## **Net finance costs**

Our net finance costs reflected the sum of 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 six months ended 30 June 2024, the Group's net finance costs was approximately RMB3.5 million, representing a

slight increase of approximately 6.1% as compared to that of approximately RMB3.3 million for the six months ended 30 June 2023. The increase in net finance costs was mainly due to the interest expenses on borrowings under finance lease arrangement of approximately RMB1.4 million for the period, while there were no such interest expenses in the previous period, which was offset by the decrease in interest expenses relating to warehouse lease arrangements by approximately RMB1.2 million as compared to previous period.

### **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 2024 and 30 June 2023.

### **PRC corporate income tax ("CIT")**

The tax rate of our subsidiaries established in the PRC is 25%. 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 pyrite concentrate from the taxable income of the companies in the calculation of CIT.

For the six months ended 30 June 2024, the Group's income tax expense was approximately RMB5.4 million, representing an increase of approximately 74.2% as compared to that of approximately RMB3.1 million for the six months ended 30 June 2023, reflecting effective tax rate (equivalent to income tax expense divided by profit before income tax) of approximately 20.9% and 22.7% for the six months ended 30 June 2024 and 30 June 2023, respectively. The decrease in effective tax rate was mainly due to (i) the sales of pyrite concentrate which were entitled to a reduction of 10% of revenue in the calculation of CIT accounted for larger portion of the total revenue; and (ii) the increase in research and development expenses, which were entitled to be additional deductible in the calculation of CIT.



## **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 2024, we incurred capital expenditure of approximately RMB46.2 million (31 December 2023: approximately RMB78.2 million).

## **Capital Commitments**

As at 30 June 2024, the Group had capital commitments of approximately RMB28.5 million (31 December 2023: RMB17.5 million).

## **Pledge of Assets**

As at 30 June 2024, the total net book value of assets pledged to secure the Group's bank borrowings and finance lease borrowings amounted to approximately RMB28.6 million (31 December 2023: approximately RMB29.1 million) for land use rights, approximately RMB51.2 million (31 December 2023: approximately RMB52.3 million) for buildings, approximately RMB54.3 million (31 December 2023: approximately RMB57.1 million) for machineries and approximately RMB117.8 million (31 December 2023: approximately RMB120.1 million) for investment properties.

## **Contingent Liabilities**

As at 30 June 2024, we did not have any material contingent liabilities. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings, to the knowledge of the Board, threatened against the Group and could have a material adverse effect on our business or operations.

## **Treasury Policy**

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



## **Foreign Exchange Risk Management**

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

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

As at 30 June 2024, the Group had net current assets of approximately RMB1.3 million (31 December 2023: approximately RMB25.9 million). As at 30 June 2024, the gearing ratio was approximately 42.1% (31 December 2023: approximately 46.6%). 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 2024, the Group maintained a strong financial position with cash and cash equivalents of approximately RMB29.7 million (31 December 2023: approximately RMB76.1 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 2024.

## 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	Planned use of net proceeds <i>HKD' million</i>	Planned use of net proceeds <i>RMB' million</i>	Net proceeds utilised as at 30 June 2024 <i>RMB' million</i>	Net proceeds unutilised as at 30 June 2024 <i>RMB' million</i>	Expected timeline for full utilisation of the unutilised proceeds
Establish the New Production Facility, comprising two production compartments, with a permitted annual treatment capacity of 600,000 tonnes, and diversification of our product offerings	86.7%	188.4	153.7	135.6	18.1	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>159.2</u>	<u>18.1</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 30 June 2024 and the date of this announcement.

## **EMPLOYEE AND REMUNERATION POLICY**

As at 30 June 2024, the Group had 296 employees. For the six months ended 30 June 2024, the staff cost of the Group was approximately RMB14.3 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 C3 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 C1 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 2024 INTERIM REPORT**

This interim 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 interim report of the Company for the six months ended 30 June 2024 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, 30 August 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.*