Huazhang Technology Holding Limited
華章科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1673)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	For the six months ended 31 December		
	2018	2017	Change
	RMB	RMB	%
Revenue	**427,778,117**	242,063,632	76.7
Gross profit	**59,057,728**	66,451,074	(11.1)
Gross profit margin	***13.8%***	*27.5%*	(13.7)
(Loss)/profit for the period	**(35,943,825)**	22,203,479	(261.9)
Net (loss)/profit margin	***(8.4)%***	*9.2%*	(17.6)
(Loss)/profit attributable to owners of the parent	**(35,478,472)**	22,044,300	(260.9)
(Losses)/earnings per share attributable to the ordinary equity holders of the parent (RMB cents per share)			
- basic	**(4.91)**	3.56	
- diluted	**(4.91)**	3.55	
Non-GAAP profit for the period	**17,027,483**	27,969,580	(39.1)
Non-GAAP net profit margin	***4.0%***	*11.6%*	*(7.6)*

The Board resolved not to declare any interim dividend for the six months ended 31 December 2018.

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of the Huazhang Technology Holding Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2018, together with the unaudited comparative figures for the corresponding period in 2017.

Condensed consolidated statement of profit or loss and other comprehensive income

	Notes	For the six months ended 31 December 2018 (Unaudited) RMB	2017 (Unaudited) RMB
REVENUE	5	**427,778,117**	242,063,632
Cost of sales		**(368,720,389)**	(175,612,558)
Gross profit		**59,057,728**	66,451,074
Selling and distribution expenses		**(7,560,607)**	(6,676,140)
Administrative expenses		**(27,085,208)**	(18,821,302)
Research and development expenses		**(10,366,284)**	(9,524,671)
Net impairment written back/(losses) on financial assets		**1,768,915**	(4,072,825)
Other income and gains/(losses), net	6	**(44,780,566)**	4,664,228
OPERATING (LOSS)/PROFIT		**(28,966,022)**	32,020,364
Finance income		**6,562,441**	3,131,077
Finance costs		**(9,544,766)**	(7,558,373)
Finance costs - net	7	**(2,982,325)**	(4,427,296)
(LOSS)/PROFIT BEFORE INCOME TAX	8	**(31,948,347)**	27,593,068
Income tax expense	9	**(3,995,478)**	(5,389,589)
(LOSS)/PROFIT FOR THE PERIOD		**(35,943,825)**	22,203,479
(Loss)/profit is attributable to:			
- Owners of the parent		**(35,478,472)**	22,044,300
- Non-controlling interests		**(465,353)**	159,179
		(35,943,825)	22,203,479
(LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT	11		
- Basic (losses)/earnings per share		**(4.91)**	3.56
- Diluted (losses)/earnings per share		**(4.91)**	3.55
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(2,954,710)**	1,869,476
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		**(2,954,710)**	1,869,476
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(38,898,535)**	24,072,955
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD IS ATTRIBUTABLE TO:			
- Owners of the parent		**(38,433,182)**	23,913,776
- Non-controlling interests		**(465,353)**	159,179
		(38,898,535)	24,072,955

Condensed consolidated statement of financial position

	Notes	**31 December 2018 (Unaudited) RMB**	30 June 2018 (Audited) RMB
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	**137,782,685**	199,586,539
Investment properties	12	**94,923,284**	5,989,795
Prepaid land lease payments	12	**46,418,423**	72,045,656
Goodwill	13	**123,442,166**	144,998,757
Other intangible assets	12	**15,213,069**	14,846,912
Deferred tax assets		**4,825,890**	4,212,878
Trade and other receivables	14(i)	**14,031,176**	32,023,284
Prepayments	14(ii)	**202,433**	208,963
Total non-current assets		**436,839,126**	473,912,784
CURRENT ASSETS			
Prepaid land lease payments	12	**1,441,361**	1,292,172
Inventories		**107,493,785**	80,188,203
Trade and other receivables	14(i)	**733,627,135**	574,743,632
Prepayments	14(ii)	**129,796,430**	128,671,118
Financial assets at fair value through other comprehensive income ("FVOCI")		**12,418,066**	-
Pledged deposits		**16,564,540**	69,697,182
Cash and cash equivalents		**80,902,493**	72,880,335
Total current assets		**1,082,243,810**	927,472,642
Total assets		**1,519,082,936**	1,401,385,426
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**7,215,917**	7,594,890
Deferred income		**26,212,500**	25,500,000
Convertible bonds		**85,335,869**	75,710,498
Total non-current liabilities		**118,764,286**	108,805,388
CURRENT LIABILITIES			
Trade and other payables	15	**288,165,486**	489,903,745
Contract liabilities		**327,156,130**	-
Interest-bearing loans		**36,513,800**	21,857,880
Income tax payable		**6,489,005**	6,675,441
Contingent consideration arose from business acquisition		**36,057,595**	7,540,000
Total current liabilities		**694,382,016**	525,977,066
Total liabilities		**813,146,302**	634,782,454
NET ASSETS		**705,936,634**	766,602,972
EQUITY			
Share capital		**6,104,943**	6,107,141
Share premium		**471,490,335**	491,227,935
Equity component of convertible bonds		**23,609,589**	23,609,589
Other reserves		**73,052,076**	73,713,139
Retained earnings		**131,329,050**	171,129,174
Capital and reserves attributable to the owners of the parent		**705,585,993**	765,786,978
Non-controlling interests		**350,641**	815,994
Total equity		**705,936,634**	766,602,972

1 General information

The Company was incorporated on 26 June 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Law, 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, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Group are principally engaged in the research and development, manufacture and sale of industrial products, project contracting services, environmental products and the provision of supporting services in the People's Republic of China (the "PRC").

On 25 September 2017, the Group acquired 100% of the equity interest of Hangzhou Haorong Technology Co., Ltd. and Hangzhou MCN Paper Tech Co., Ltd. (together, the "MCN Group"). As part of the sale and purchase agreement of MCN Group, contingent consideration is payable to former shareholders of MCN Group, which was calculated based on its profit for the calendar years 2017 and 2018. The initial contingent consideration of RMB7,617,422 was recognised as liability in prior period. As of the reporting date, the criteria of adjustment to the initial contingent consideration had been fulfilled and a fair value change of RMB 28,569,128 was recognised in other income and gains/(losses), net (Note 6) during this period.

This condensed consolidated interim financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 28 February 2019.

These condensed consolidated interim financial statements have not been audited.

2 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 31 December 2018 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2018, as described in those annual financial statements.

3.1 New standards and amendments and interpretation to standards adopted by the Group

The following new standards and amendments and interpretation to standards are mandatory for the Group's financial year beginning 1 July 2018.

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
HKFRS 2 (Amendment)	*Classification and Measurement of Share-based Payment Transactions*
HKFRS 4 (Amendment)	*Insurance Contracts "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts"*
HKAS 28 (Amendment)	*Investments in Associates and Joint ventures*
HKAS 40 (Amendment)	*Transfers of Investment Property*
HK (IFRIC) Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements	2014-2016 Cycle

The adoption of the new standards, amendments and interpretation does not have significant impact on the condensed consolidated interim financial information except for HKFRS 9 and HKFRS 15. Please refer to note 4 for details.

3.2 New standards and amendments and interpretation to standards that have been issued but are not effective

(a) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB1,968,215 which represents approximately 0.3% of net asset value of the Group. The impact to financial statements is immaterial.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

(b) The following new standards and amendments and interpretation to standards have been issued but are not effective for the financial year beginning 1 July 2018 and have not been early adopted by the Group:

Standards/Interpretation	**Subject of standards/amendment**	**Effective for annual years beginning on or after**
HK (IFRIC) Interpretation 23	Uncertainty over Income Tax Treatment	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to HKFRS Standards 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	1 January 2019

The Directors are in the process of assessing the possible impact on the future adoption of the new and revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Company's interim condensed consolidated financial statements.

4 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

4.1 Impact on the Group's condensed consolidated interim financial statements

As explained in notes 4.2 and 4.3 below, HKFRS 9 and HKFRS 15 were generally adopted by the Group without restating comparative information. As a result of the changes in the entity's accounting policies, adjustments are therefore not reflected in the statement of financial position as at 30 June 2018, but are recognised in the opening balance as at 1 July 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

Consolidated statement of financial position (extract)	30 June 2018 As originally presented	HKFRS 9	HKFRS 15	1 July 2018 Restated
	RMB	RMB	RMB	RMB
Non-current assets				
Deferred tax assets	4,212,878	587,655	-	4,800,533
Current assets				
Trade and other receivables	574,743,632	(6,605,443)	-	568,138,189
FVOCI	-	3,989,783	-	3,989,783
Equity				
Retained earnings	171,129,174	(2,028,005)	-	169,101,169
Current liabilities				
Trade and other payables – advances from customers	229,297,919	-	(229,297,919)	-
Contract liabilities	-	-	229,297,919	229,297,919

4.2 Adoption of HKFRS 9 Financial Instruments

4.2.1 HKFRS 9 Financial Instruments - Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 4.2.2 below.

The total impact on the Group's retained earnings as at 1 July 2018 is as follows:

	RMB
Closing retained earnings at 30 June 2018 - HKAS 39	171,129,174
Increase in provision for trade and other receivables	(2,615,660)
Increase in deferred tax assets relating to impairment provisions	587,655
Adjustment to retained earnings from adoption of HKFRS 9 on 1 July 2018	(2,028,005)
Opening retained earnings at 1 July 2018 - HKFRS 9	169,101,169

Classification and measurement

On 1 July 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 measurement categories, which are those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss) and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

Financial assets - 1 July 2018	FVOCI (Trade and other receivables)	Amortised Cost (Trade and other receivables)
	RMB	RMB
Closing balance 30 June 2018 – HKAS 39	-	83,702,261
Reclassify bills receivable from trade and other receivables to FVOCI	3,989,783	(3,989,783)
Opening balance 1 July 2018 – HKFRS 9	3,989,783	79,712,478

The Group classified certain bills receivable that issued by highly reputable banks as FVOCI on the basis of both:

- those bills receivable are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of bills receivable; and
- the contractual terms of the bills receivable give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and other receivables and FVOCI.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, pledged deposits and cash and cash equivalents.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance for all trade receivables. Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group established ECL model based on historical settlement records, past experience and available forward-looking information. The impact of the change in impairment methodology on the Group's retained earnings is disclosed in the table above. While cash and cash equivalents, pledged deposits and FVOCI are also subject to the impairment requirements of HKFRS 9, the identified impairment losses were immaterial.

The loss allowances for trade and other receivables as at 30 June 2018 reconcile to the opening loss allowances on 1 July 2018 as follows:

	Trade and other receivables
	RMB
At 30 June 2018 - calculated under HKAS 39	15,312,397
Amounts restated through opening retained earnings	2,615,660
Opening loss allowance as at 1 July 2018 - calculated under HKFRS 9	17,928,057

Trade and other receivables are written off when there is no reasonable expectation of recovery.

4.2.2 HKFRS 9 Financial Instruments - Accounting policies applied from 1 July 2018

The following describes the Group's updated financial instruments policy to reflect the adoption of HKFRS 9:

Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in other gains - net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the condensed consolidated statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the profit or loss and recognised in other gains - net. Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains - net and impairment expenses are presented as separate line item in the condensed consolidated statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised and presented net in the profit or loss within other gains - net in the period in which it arises. Interest income from these financial assets is included in the other income.

Impairment

From 1 July 2018, the Group assesses on a forward looking basis the ECL associated with its assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment of other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

4.3 Adoption of HKFRS 15 Revenue from Contracts with Customers

4.3.1 HKFRS 15 Revenue from Contracts with Customers - Impact of adoption

HKFRS 15 replaces the provisions of HKAS 18 Revenue and HKAS 11 Construction contracts that relate to the recognition, classification and measurement of revenue and costs.

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policy. The Directors consider that the changes in accounting policy of revenue recognition pursuant to HKFRS 15 do not have significant impact on the revenue recognised in the statement of profit or loss.

Reclassification of advances from customers to contract liabilities was made as at 1 July 2018 to be consistent with the terminology used under HKFRS 15:

	HKAS 18 carrying amount 30 June 2018 RMB	**Reclassification RMB**	**HKFRS 15 carrying amount 1 July 2018 RMB**
Trade and other payables - advances from customers	229,297,919	(229,297,919)	-
Contract liabilities	-	229,297,919	229,297,919

4.3.2 HKFRS 15 Revenue from Contracts with Customers — Accounting policies

Sale of goods - industrial products, sludge treatment products and supporting services

The Group provides installation services for the sale of industrial products, sludge treatment products and supporting services. The goods or services are highly related that the Group would not be able to fulfill its promises by transferring each of the goods or services independently. Thus installation services bundled together with the sale of machinery are not considered distinct. Revenue from sales of goods recognised when the control of the asset has been transferred to the customer, which is usually upon the installation services are completed.

Sale of project contracting service

The Group provides project contracting services for the customers. The main sales contract can be divided into design, procurement and installation while the performance obligations of the three parts of the contract are closely related and cannot be separated. Revenue from the sale of project contracting services will be recognised as one performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. Significant financing component is identified and recognised as interest income as cash received for payments that are received in arrears of performance. At the end of the reporting period, the Group assesses the stage of completion and adjusts the amount to reflect the effects of the customer's credit risk.

Sale of goods – wastewater treatment products

The Group provides total wastewater treatment solution to customers, the goods or services provided during the contractual period are highly related that the Group would not be able to fulfill its promises by transferring each of the goods or services independently. Thus the services bundled together with the sale of machinery are not considered distinct. Revenue from the construction contracts will be recognised as one performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

The Group presents unconditional rights to consideration as trade receivables. In other conditions that the services rendered exceed the payment, a contract asset is recognised. The Group adopts the ECL model for its trade receivables and contract assets. If the payments exceed the services rendered, a contract liability is recognised. Net value of contract assets and liabilities is presented regarding one contract.

5 Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) industrial products;
(b) project contracting services;
(c) environmental products; and
(d) supporting services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that common administrative expenses, other income and gains/(losses), net, finance costs and income tax expense are excluded from such measurement.

Segment assets include all assets of the Group except deferred tax assets, pledged deposits, certain prepayments, investment properties, cash and cash equivalents, and prepaid land lease payments, as these assets are managed on a group basis.

Segment liabilities include all liabilities of the Group except income tax payable, other liabilities and convertible bonds, as these liabilities are managed on a group basis.

The segment results for the six months ended 31 December 2018:

	Unaudited				
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers	**135,531,167**	**58,256,233**	**23,021,634**	**210,969,083**	**427,778,117**
Timing of revenue recognition					
At a point in time	**135,531,167**	**-**	**19,062,379**	**210,969,083**	**365,562,629**
Over time	**-**	**58,256,233**	**3,959,255**	**-**	**62,215,488**
Segment cost of sales	**(99,685,921)**	**(50,346,032)**	**(17,777,838)**	**(200,910,598)**	**(368,720,389)**
Segment gross profit	**35,845,246**	**7,910,201**	**5,243,796**	**10,058,485**	**59,057,728**
Segment results	**22,065,242**	**5,312,922**	**(2,399,310)**	**(18,731,776)**	**6,247,078**
Common administrative expenses					**(11,989,125)**
Other income and gains/(losses), net					**(23,223,975)**
Finance costs - net					**(2,982,325)**
Loss before income tax					**(31,948,347)**
Income tax expense					**(3,995,478)**
Loss for the period					**(35,943,825)**

Other segment information:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	**131,231**	**27,241**	**14,319**	**7,459,436**	**3,343,284**	**10,975,511**
Depreciation of property plant and equipment	**764,109**	**9,068**	**1,023,564**	**-**	**3,218,041**	**5,014,782**
Amortization of prepaid land lease payments	**188,677**	**-**	**250,334**	**-**	**225,751**	**664,762**
Depreciation of investment properties	**-**	**-**	**-**	**1,900,010**	**155,371**	**2,055,381**
Amortisation of other intangible assets	**-**	**-**	**-**	**5,882**	**1,023,924**	**1,029,806**

The segment assets and liabilities as at 31 December 2018 are as follows:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Segment assets	**250,286,271**	**522,094,032**	**173,214,129**	**465,943,179**	**107,545,325**	**1,519,082,936**
Segment liabilities	**178,826,661**	**293,052,498**	**56,379,563**	**124,739,784**	**160,147,796**	**813,146,302**

The segment results for the six months ended 31 December 2017:

	Unaudited				
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers	44,266,655	103,994,444	64,171,575	29,630,958	242,063,632
Timing of revenue recognition					
At a point in time	44,266,655	-	49,388,803	29,630,958	123,286,416
Over time	-	103,994,444	14,782,772	-	118,777,216
Segment cost of sales	(33,773,387)	(73,421,462)	(51,794,812)	(16,622,897)	(175,612,558)
Segment gross profit	10,493,268	30,572,982	12,376,763	13,008,061	66,451,074
Segment results	996,032	25,917,048	1,161,775	9,231,708	37,306,563
Common administrative expenses					(9,950,427)
Other income and gains/(losses), net					4,664,228
Finance costs - net					(4,427,296)
Profit before income tax					27,593,068
Income tax expense					(5,389,589)
Profit for the period					22,203,479

Other segment information:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	98,631	5,350	37,717	1,067,652	-	1,209,350
Depreciation of property plant and equipment	440,175	-	1,037,717	-	542,575	2,020,467
Amortization of prepaid land lease payments	11,787	-	15,639	193,149	14,102	234,677
Depreciation of investment properties	-	-	-	-	155,372	155,372
Amortisation of other intangible assets	-	-	-	-	511,963	511,963

The segment assets and liabilities as at 30 June 2018 are as follows:

	Audited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Segment assets	253,070,470	403,673,667	107,378,222	479,699,633	157,563,434	1,401,385,426
Segment liabilities	195,202,469	173,632,010	78,785,709	64,919,044	122,243,222	634,782,454

6 Other income and gains/(losses), net

	For the six months ended 31 December	
	2018 (Unaudited) RMB	2017 (Unaudited) RMB
Lawsuit (i)	**2,298,000**	-
Government grant	**1,341,847**	817,877
Tax refund	**599,512**	-
Leasing income	**179,917**	259,480
Gain on scrap steel sale	**158,255**	-
Bidding service income	**-**	3,333,253
Change in fair value of contingent consideration (Note 1)	**(28,569,128)**	77,422
Impairment of goodwill (Note 13)	**(21,556,591)**	-
Others	**767,622**	176,196
	(44,780,566)	4,664,228

(i) On 16 November 2018, the Group won a lawsuit against a customer who was default in a sales contract and consequently the advance from this customer of RMB 2,298,000 was forfeited and recognised as other income and gains/(losses), net.

7 Finance costs - net

	For the six months ended 31 December	
	2018 (Unaudited) RMB	2017 (Unaudited) RMB
Finance costs		
Interest on convertible bonds	**(8,859,998)**	(7,321,341)
Interest on loans	**(684,768)**	(129,048)
Exchange loss	**-**	(107,984)
	(9,544,766)	(7,558,373)
Finance income		
Interest income	**6,456,214**	2,793,693
Exchange gain	**106,227**	337,384
	6,562,441	3,131,077
Finance costs - net	**(2,982,325)**	(4,427,296)

8 (Loss)/profit before income tax

The Group's (loss)/profit before income tax is arrived at after charging/(crediting):

	For the six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB	RMB
Raw materials used	**353,001,670**	159,033,163
Change in inventory of finished goods and work in progress	**4,420,396**	5,330,923
Employee benefit expenses	**30,348,155**	19,963,615
Change in fair value of contingent consideration (Note 1)	**28,569,128**	77,422
Impairment of goodwill (Note 13)	**21,556,591**	-
Depreciation of property, plant and equipment (Note 12)	**5,014,782**	2,020,467
Depreciation of investment properties (Note 12)	**2,055,381**	155,372
Professional service fees	**1,106,819**	2,074,563
Amortisation of other intangible assets (Note 12)	**1,029,806**	511,963
Amortisation of prepaid land lease payments (Note 12)	**664,762**	234,677
Reversal of provision for write-down of inventories	**(248,818)**	(211,062)
Net impairment (written back)/losses on financial assets	**(1,768,915)**	4,072,825

9 Income tax expense

	For the six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB	RMB
Current income tax		
PRC enterprise income tax	**4,987,463**	6,489,788
Deferred income tax	**(991,985)**	(1,100,199)
Income tax expense	**3,995,478**	5,389,589

10 Dividends

The dividends of 3.0 HK cents per share (six months ended 31 December 2017: 2.4 HK cents per share), an amount of RMB18,994,497 was paid during the six months ended 31 December 2018 (six months ended 31 December 2017: RMB12,438,578).

On 28 February 2019, the Board resolved not to declare any interim dividend for the six months ended 31 December 2018 (six months ended 31 December 2017: nil).

11 Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 722,666,653 (2017: 619,394,934) which represents the shares in issue during the period and shares that were issuable as part of the consideration for the business acquisition on 25 September 2017.

No adjustment has been made to the basic earnings per share amount presented for the period ended 31 December 2018 in respect of a dilution as the impact of the convertible bonds outstanding and shares that were issuable as part of the consideration for the business acquisition on 25 September 2017 had anti-dilutive effect on the basic earnings per share amount presented.

Adjustment has been made to the basic earnings per share amount presented for the period ended 31 December 2017 as the impact of the shares that were issuable as part of the consideration for the business acquisition on 25 September 2017 had dilutive effect on the basic earnings per share amount presented.

	For the six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB	RMB
Basic		
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent	**(35,478,472)**	22,044,300
Number of shares		
Weighted average number of ordinary shares in issue during the period	**722,666,653**	619,394,934
Adjustment for contingent shares	**46,306**	-
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating basic earnings per share during the period	**722,712,959**	619,394,934
Basic (losses)/earnings per share (RMB cents)	**(4.91)**	3.56
Diluted		
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent	**(35,478,472)**	22,044,300
Number of shares		
Weighted average number of ordinary shares in issue during the period	**722,666,653**	619,394,934
Adjustment for contingent shares	**46,306**	1,405,509
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating diluted earnings per share during the period	**722,712,959**	620,800,443
Diluted (losses)/earnings per share (RMB cents)	**(4.91)**	3.55

12 Property, plant and equipment ("PP&E"), investment properties, prepaid land lease payments and other intangible assets

	PP&E	**Investment properties**	**Prepaid land lease payments**	**Other intangible assets**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
	RMB	**RMB**	**RMB**	**RMB**
Six months ended 31 December 2018				
Opening net book amount as at1 July 2018	199,586,539	5,989,795	73,337,828	14,846,912
Additions	2,120,112	-	7,459,436	1,395,963
Disposals	(193,032)	-	-	-
Internal transfer	(58,716,152)	90,988,870	(32,272,718)	-
Depreciation and amortisation charge (Note 8)	(5,014,782)	(2,055,381)	(664,762)	(1,029,806)
Closing net book amount as at 31 December 2018	137,782,685	94,923,284	47,859,784	15,213,069
Six months ended 31 December 2017				
Opening net book amount as at 1 July 2017	40,141,314	6,300,537	3,353,805	-
Additions	1,209,350	-	-	-
Acquisition of a subsidiary	137,734,305	-	71,000,000	16,382,801
Depreciation and amortisation charge (Note 8)	(2,020,467)	(155,372)	(234,677)	(511,963)
Closing net book amount as at 31 December 2017	177,064,502	6,145,165	74,119,128	15,870,838

13 Goodwill

	Headbox business	Logistics and warehousing services	Others	Total
	Unaudited RMB	**Unaudited RMB**	**Unaudited RMB**	**Unaudited RMB**
Six months ended 31 December 2018				
Opening net book amount as at 1 July 2018	36,155,379	108,247,008	596,370	144,998,757
Impairment charge (Note 6)	-	(21,556,591)	-	(21,556,591)
Closing net book amount as at 31 December 2018	36,155,379	86,690,417	596,370	123,442,166
Six months ended 31 December 2017				
Opening net book amount as at 1 July 2017	-	-	596,370	596,370
Goodwill on acquisition	35,905,850	108,247,008	-	144,152,858
Closing net book amount as at 31 December 2017	35,905,850	108,247,008	596,370	144,749,228

Goodwill of the Group mainly arose from the acquisition of MCN Group and Fu An 777 Logistics Limited ("777 Logistics", together with its subsidiaries, collectively known as the "777 Logistic Group") in 2017.

Goodwill is allocated to the cash generating unit ("CGU") of headbox business under the business segment of industrial products and the CGU of logistics and warehousing services under the business segment of supporting services for impairment test.

The following table sets out the key assumptions for the CGUs that have significant goodwill allocated to them:

	Headbox business	Logistics and warehousing services
31 December 2018		
Sales (% annual growth rate)	9%-10%	6%-94%
Budgeted gross margin (%)	33%-34%	36%-60%
Long term growth rate (%)	2.5%	2.7%
Pre-tax discount rate (%)	22%	16%
30 June 2018		
Sales (% annual growth rate)	9%-10%	15%-33%
Budgeted gross margin (%)	33%-34%	8%
Long term growth rate (%)	2.5%	3%
Pre-tax discount rate (%)	14%	16%

These assumptions have been used for the analysis of CGU within the operating segment.

Sales is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in rubber, a key raw material, which management does not expect to be able to pass on to customers through price increases.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segment.

As at 31 December 2018, the impairment charge of RMB21,556,591 arose in the logistics and warehousing services CGU (30 June 2018: Nil) was due to the subsequent business strategy adjustment of this operation.

14 Trade and other receivables and prepayments

(i) Trade and other receivables

	As at 31 December 2018 (Unaudited) RMB	As at 30 June 2018 (Audited) RMB
Warranty receivables *(a)*	**25,663,684**	24,294,874
Amounts due from contract customers	**48,301,831**	74,894,609
Other trade receivables *(b)*	**480,809,301**	411,084,130
	554,774,816	510,273,613
Less: provision for impairment of trade receivables	**(14,003,063)**	(13,156,318)
Trade receivables - net	**540,771,753**	497,117,295
Bills receivable	**69,052,915**	83,702,261
Trade and bills receivables	**609,824,668**	580,819,566
Payment on behalf of a customer	**101,356,976**	-
Deductible input value added tax	**20,854,238**	8,639,801
Loan deposit	**8,762,000**	8,431,000
Other receivables - performance guarantee	**7,037,014**	5,697,560
Other receivables due from a related party	**17,428**	17,428
Others	**1,962,066**	5,317,650
	139,989,722	28,103,439
Less: provision for impairment of other receivables	**(2,156,079)**	(2,156,079)
Other receivables - net	**137,833,643**	25,947,360
Total trade and other receivables	**747,658,311**	606,766,916
Less: trade receivables - non-current portion	**(14,031,176)**	(32,023,284)
	733,627,135	574,743,632

(a) Warranty receivables represent approximately 5% to 10% of the contract value of the sales of the Group which will be collected upon the expiry of the warranty period (which is usually for a period of 18 months from the date of delivery or 12 months after on-site testing, whichever is earlier).

The ageing analysis of the warranty receivables (including non-current portion) is as follows:

	As at 31 December 2018 (Unaudited) RMB	As at 30 June 2018 (Audited) RMB
Warranty receivables		
Up to 3 months	**11,510,588**	12,198,937
3 months to 6 months	**948,452**	770,532
6 months to 1 years	**1,524,898**	2,454,884
1 year to 2 years	**2,654,204**	1,396,772
Over 2 years	**9,025,542**	7,473,749
	25,663,684	24,294,874

(b) The ageing analysis of the other trade receivables (including non-current portion) is as follows:

	As at 31 December 2018 (Unaudited) RMB	As at 30 June 2018 (Audited) RMB
Other trade receivables		
Up to 3 months	**362,982,665**	310,309,198
3 months to 6 months	**38,118,835**	948,389
6 months to 1 years	**1,839,419**	48,487,548
1 year to 2 years	**46,047,563**	41,625,606
Over 2 years	**31,820,819**	9,713,389
	480,809,301	411,084,130

(ii) Prepayments

	As at 31 December 2018 (Unaudited) RMB	As at 30 June 2018 (Audited) RMB
Prepayments for procurement	**127,406,330**	128,694,966
Others	**2,592,533**	185,115
Total prepayments	**129,998,863**	128,880,081
Less: prepayments - non-current portion	**(202,433)**	(208,963)
	129,796,430	128,671,118

15 Trade and other payables

	As at 31 December 2018 (Unaudited) RMB	As at 30 June 2018 (Audited) RMB
Trade payables	**121,625,094**	136,756,489
Bills payable	**67,154,801**	67,797,047
	188,779,895	204,553,536
Advances from customers	**-**	229,297,919
Other taxes payables	**52,227,707**	31,863,486
Amount due to suppliers on a customer's behalf	**18,674,509**	-
Payables for property, plant and equipment	**14,619,451**	14,051,015
Employee benefit payables	**3,135,959**	2,630,637
Accruals	**2,344,654**	2,021,477
Interest payable	**1,841,094**	-
Provision for warranty expenses	**172,108**	370,008
Deposits	**157,000**	681,457
Others	**6,213,109**	4,434,210
	99,385,591	285,350,209
	288,165,486	489,903,745

The ageing analysis of the trade payables is as follows:

	As at 31 December 2018 (Unaudited) RMB	As at 30 June 2018 (Audited) RMB
Up to 3 months	**9,229,069**	97,406,971
3 months to 6 months	**83,686,214**	15,447,171
6 months to 1 years	**14,712,869**	9,856,070
1 year to 2 years	**9,413,540**	11,053,489
Over 2 years	**4,583,402**	2,992,788
	121,625,094	136,756,489

BUSINESS REVIEW AND OUTLOOK

Business Review

After 40 years of the Chinese economic reform, China has developed its own advantages based on the in-depth understanding of the country's conditions. Through the active promotion of the economic reform, China has been on a fast track of economic growth. However, there was a mass outbreak of China's macroeconomic risks in 2018. The Chinese government actively took measures to "de-leverage" and prevent risks, which increased the volatility in stock, foreign exchange, bond and property markets. Together with the "wave of landmine blasts" of the internet finance peer-to-peer lending platform (P2P) and the on-going Sino-US trade conflicts, the downward pressure on economic growth has increased. In 2018, China's GDP growth was 6.6%, reflected a decrease of 0.3% over the same period last year. China's paper manufacturing industry has also encountered a "dreary winter". Under a constant limitation on the supply of raw materials, the production costs of enterprises were therefore increased. At the same time, due to the factors including the reduction of downstream demand, the supply pressure in the paper manufacturing market remains. Most paper stocks in the industry was still at a high level. In addition, some paper enterprises still have new production capacity plans, which brings an increasing impact on the conflict of supply and demand. Therefore, the paper market does not rule out the possibility of a decline. According to the production data of China's machine-made paper and paperboard announced by the National Bureau of Statistics in 2018, the annual output of paper and paperboard was about 116.6 million tonnes, reduced by 1.5% from the same period of last year.

Despite the downward pressure on the Chinese economy and paper manufacturing industry, the Group's revenue for the six months ended 31 December 2018 increased significantly by approximately 76.7% to RMB427.8 million from the same period of last year. During the period under review, the Group has been committed to 1) expanding new business, 2) developing overseas markets and 3) enhancing internal management to boost the Group's business and maintain stable revenue growth.

The Company implemented the development concept formulated in the previous year, "Integrating Together, Creating Together, Benefiting Together". Through the collective effort and cooperation with partners and customers, we completed the first entire paper machine production line transformation project during the period under review. The Group successfully completed the renovation, installation and debugging work within less than 30 days of the production line down time. In this project, Huazhang Technology has tackled technical difficulties and proved that domestic enterprises have reached the international level on ability and technology to provide the entire paper machine production line transformation. After the completion of the first project, the Group will invest more resources to develop related businesses, in order to provide full-time all-encompassing services for paper manufacturing enterprises and help them to improve product quality, reduce energy consumption and improve production environment.

Regarding the development of overseas markets, during the period under review, the Group achieved major business breakthroughs in the offshore market, particularly in the Southeast Asian market. Through its own sales team, Huazhang Technology won a single sales contract of more than RMB100 million in Vietnam for the first time. It was a very encouraging accomplishment. It was a contract signed by the Group with a local paper manufacturing company for a project contract service agreement with a value of US$19.0 million (approximately RMB130.9 million) to build a 120,000 tonnes paper manufacturing production line for customers. The project is expected to be completed on or before 30 June 2019. For the six months ended 31 December 2018, the Group's sales agreements signed in overseas markets totaled approximately RMB134.2 million, reflected an increase of approximately RMB130.5 million compared with the same period last year.

In terms of internal management, in the past couple of years, the Group has continuously acquired or developed new businesses in the country. In order to enhance internal management and monitor each business unit, during the period under review, the Group has planned to invest RMB2.8 million to implement the new enterprise management system. The new system will strengthen the group's cash management and cost control, as well as monitor the business activities of each subsidiary in real time.

Future Development

Looking ahead to 2019, there will be more difficulties and challenges with the ongoing Sino-US trade disputes and the increasingly complicated business environment in China. We will maintain our existing business development and actively explore new business to maintain the growth of the Group's business while diversifying industry risks.

On 11 January 2019, with the support of its major shareholder, Florescent Holdings Limited, the Group plans to develop waste recycling project overseas. In recent years, China has started to ban the import of waste materials (including recyclable plastics, waste paper and scrap metal) for recycling. The prohibition is expected to be fully implemented in 2019. About half of the world's recyclable plastics, waste paper and scrap metal are received by China. The ban will result in a large amount of excess recyclable waste worldwide. At present, most of the metals can be recycled in the form of recycled metals, including a larger output of scrap steel, recycled copper, recycled aluminum, and recycled lead etc. The comprehensive utilization of a huge amount of discarded resources has become an important option for the sustainable development of economic, social and environmental in various countries. Therefore, from a global perspective, it is currently the best investment opportunity period for the comprehensive utilization of recycled resources. The Group has actively studied the feasibility of the project, including setting up a waste recycling plant overseas to take the chance for developing the global waste recycling. In addition, the Group will adopt advanced technology to dismantle metal solid waste, which can improve the recycling rate of metal resources such as copper, aluminum steel. It will reduce the dependence of primary mineral resources due to human development, thus effectively alleviating the pressure of resource shortage. If the project can be actualized, it will represent an exciting expansion of the Group's environmental services business.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased significantly by approximately 76.7% from approximately RMB242.1 million for the six months ended 31 December 2017 to approximately RMB427.8 million for the six months ended 31 December 2018. Gross profit margin decreased from approximately 27.5% for the six months ended 31 December 2017 to approximately 13.8% for the six months ended 31 December 2018.

(i) Industrial products

Revenue from sales of industrial products increased significantly by approximately 206.2% from approximately RMB44.3 million for the six months ended 31 December 2017 to approximately RMB135.5 million for the six months ended 31 December 2018. Such increase was primarily attributable to the acquisition of the headbox business in September 2017 and increase in sales of industrial automation systems stimulated by supporting services amounting to approximately RMB67.2 million during the review period. The revenue from sales of headbox increased from approximated RMB10.1 million for the six months ended 31 December 2017 to approximately RMB34.2 million for the six months ended 31 December 2018. The gross profit margin of industrial products increased from approximately 23.7% for the six months ended 31 December 2017 to approximately 26.4% for the six months ended 31 December 2018. Such increase was attributable to an increase in sales of headbox which have a higher profit margin.

(ii) Project contracting services

Revenue from project contracting services decreased by approximately 44.0% from approximately RMB104.0 million for the six months ended 31 December 2017 to approximately RMB58.3 million for the six months ended 31 December 2018. Such decrease was affected by the progress of the projects as most of the projects are in the early stage and the Group is more focus on the overseas market due to the uncertain business environment in China. The Group will increase its resources to provide project contracting service in overseas. The gross profit margin of project contracting services decreased from approximately 29.4% for the six months ended 31 December 2017 to approximately 13.6% for the six months ended 31 December 2018 due to the Group provided the design services at the early stage during the period of 2017, which have a higher profit margin, as no such service was provided in the same period of 2018.

(iii) Environmental business

Revenue from sales of environmental business decreased by approximately 64.1% from approximately RMB64.2 million for the six months ended 31 December 2017 to approximately RMB23.0 million for the six months ended 31 December 2018. Such decrease was primarily due to no RDF products, which had a lower profit margin, was sold for the six months ended 31 December 2018 and the demand for wastewater treatment products was decreased. As a result, the gross profit margin of environmental business increased from approximately 19.3% for the six months ended 31 December 2017 to approximately 22.8% for the six months ended 31 December 2018.

(iv) Supporting services

Revenue from the provision of supporting services increased by approximately six times from approximately RMB29.6 million for the six months ended 31 December 2017 to approximately RMB211.0 million for the six months ended 31 December 2018. The revenue from the provision of support services increased significantly mainly due to the Group provided new services to customers, including entire paper machine production line transformation project, and supply chain financial services for the six months ended 31 December 2018. The gross profit margin for the provision of supporting services decreased from approximately 43.9% for the six months ended 31 December 2017 to approximately 4.8% for the six months ended 31 December 2018. The gross profit margin decreased due to the new service represented over 50% of the revenue of supporting service business, but the gross profit margin of the new service was low.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 13.2% from approximately RMB6.7 million for the six months ended 31 December 2017 to approximately RMB7.6 million for the six months ended 31 December 2018, accounting for approximately 2.8% and approximately 1.8% of the Group's revenue for the six months ended 31 December 2017 and 2018 respectively. Increase in selling and distribution expenses was primarily attributing to an increase in transportation costs of approximately RMB0.4 million and an increase in salaries and employee benefits of approximately RMB0.4 million for the six months ended 31 December 2018 as compared with same period of 2017. Such increase is a result of increase in number of sales personnel and sales activities.

Administrative expenses

The administrative expenses increased significantly by approximately 43.9% from approximately RMB18.8 million for the six months ended 31 December 2017 to approximately RMB27.1 million for the six months ended 31 December 2018, accounting for approximately 7.8% and approximately 6.3% of the Group's revenue for the six months ended 31 December 2017 and 2018 respectively. Increase in administrative expenses is mainly attributable to an increase in salaries and employee benefits of approximately RMB8.0 million for the six months ended 31 December 2018 as compared with the same period of 2017 as the Group increased over 30 employees in relation to project management and technical supports and increased staff salaries during the review period.

Research and development expenses

The research and development expenses increased by approximately 8.8% from approximately RMB9.5 million for the six months ended 31 December 2017 to approximately RMB10.4 million for the six months ended 31 December 2018, accounting for approximately 3.9% and approximately 2.4% of the Group's revenue for the six months ended 31 December 2017 and 2018 respectively. Increase in research and development expenses was primarily attributing to increase in usage of materials for the research and development activities, including internet of things and headboxes etc.

Other income and gains/(losses), net

Other income and gains/(losses), net changed from a gain of approximately RMB4.7 million for the six months ended 31 December 2017 to a loss of approximately RMB44.8 million for the six months ended 31 December 2018. Such change mainly comprised of change in fair value of contingent consideration and impairment of goodwill, the reasons of increase are as follows: -

Change in fair value of contingent consideration - For the six months ended 31 December 2018, the Group recorded a change in fair value of contingent consideration amounting to approximately RMB28.6 million in relation to acquisition of MCN Group. According to sales and purchase agreement dated 23 May 2017, if in the event that the average profits of MCN Group for the year ended 31 December 2017 and 2018 (the "Average Profits") equals to or exceeds RMB4.0 million, the Company is required to adjust the initial consideration for the acquisition of the MCN Group and will pay an additional consideration to the vendors. As the Average Profits exceeded RMB4.0 million, the Group recognised the additional consideration as the change in fair value of contingent consideration. The change in fair value is non-cash items and bear no impact on the cash flow and operation of the Group. As at 31 December 2018, the Group have accrued a liability as contingent consideration arose from business acquisition amounting to approximately RMB36.1 million (30 June 2018: approximately RMB7.5 million), which is expected to be settled by issuance of new share of the Company.

Impairment of goodwill - For the six months ended 31 December 2018, the Group made an impairment provision for the goodwill, which was generated from the acquisition of the logistic and warehousing services business, amounting to RMB21.6 million. Impairment is determined by assessing the recoverable amount of the logistic and warehousing services business, where the recoverable amount of the logistic and warehousing services business is less than the carrying amount, due to the subsequent business strategy adjustment of this operation, an impairment loss is recognised. The impairment is non-cash items and bear no impact on the cash flow and operation of the Group.

Finance costs - net

The net finance costs decreased by approximately 32.6% from approximately RMB4.4 million for the six months ended 31 December 2017 to approximately RMB3.0 million for the six months ended 31 December 2018, primarily attributing to an increase in finance costs of approximately RMB2.0 million for the six months ended 31 December 2018, which offsetting by an increase in finance income of approximately RMB3.4 million for the six months ended 31 December 2018.

Income tax expense

The income tax expense decreased by approximately 25.9% from approximately RMB5.4 million for the six months ended 31 December 2017 to approximately RMB4.0 million for the six months ended 31 December 2018. The decrease was mainly attributable to decrease in operating profits of the Group for the six months ended 31 December 2018.

The effective tax rates of the Group changed from 19.5% for the six months ended 31 December 2017 to -12.5% for the six months ended 31 December 2018, such change is due to there was an operating loss for the six months ended 31 December 2018 and fair value of contingent consideration and impairment of goodwill were non-deductible expenses. Excluding the non-deductible expenses, the effective tax rate of the Group for the six months ended 31 December 2018 was 22.0%. Increase in effective tax rates is attributable to increase in profits contributed by some operating subsidiaries whose tax rate is 25%.

(Loss)/profit for the period and net (loss)/profit margin

As a result of the foregoing, the Group recorded a loss for the period of approximately RMB35.9 million for the six months ended 31 December 2018 as compared with the profit for the period of approximately RMB22.2 million for the six months ended 31 December 2017. Since the Group had recorded a loss for the period, the net loss margin for the six months ended 31 December 2018 was approximately -8.4% as compared with the net profit margin for the six months ended 31 December 2017 was approximately 9.2%.

(Loss)/profit for the period attributable to owners of the parent

As a result of the foregoing, the Group recorded a loss for the period attributable to owners of the parent of approximately RMB 35.5 million for the six months ended 31 December 2018 as compared with a profit for the period attributable to owners of the parent of approximately RMB22.0 million for the six months ended 31 December 2017.

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain additional non-GAAP financial measures (in terms of, profit for the period and net margin), have been presented in this announcement. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of discounting of receivables from installment transactions. In addition, non-GAAP adjustments include estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliation between the Non-GAAP financial measures and measures prepared in accordance with HKFRS for the six months ended 31 December 2018 and 2017:

	Six months ended 31 December	
	2018	2017
	RMB	RMB
(Loss)/profit for the period	**(35,943,825)**	22,203,479
Amortised costs of liability component of the convertible bond (Note 1)	**6,665,666**	5,191,579
Financial components from provision for project contracting services (Note 2)	**(3,820,077)**	574,522
Impairment of goodwill	**21,556,591**	-
Change in fair value of contingent consideration	**28,569,128**	-
Adjusted profit for the period	**17,027,483**	27,969,580

Note:

(1) Amortised costs of liability component of convertible bonds is the amount at which the convertible bonds were measured at initial recognitions plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

(2) Financial components from provision for project contracting services combines the difference between the sales price and the present value of the consideration, determined by discounting the installments receivable at the imputed rate of interest, and the difference to be recognised as revenue as interest element using the effective interest method.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources. As at 31 December 2018, the Group had cash and cash equivalent balance amounting to approximately RMB80.9 million (30 June 2018: approximately RMB72.9 million) and interest-bearing loans amounting to approximately RMB36.5 million (30 June 2018: RMB21.9 million).

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the six months ended 31 December 2018.

Borrowings and charges of assets

As at 31 December 2018, the Group's borrowings were approximately RMB36.5 million (30 June 2018: RMB21.9 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear an interest range of 3.1% to 7.2% per annum (30 June 2018: all denominated in RMB, and bear an interest range of 4.35% to 10.0% per annum).

As at 31 December 2018, the Group's convertible bond was approximately RMB85.3 million (30 June 2018: RMB75.7 million) which will mature on 29 March 2019 and the interest is 5.0% per annum.

As at 31 December 2018, the banking facilities granted by the bank was secured by property, plant and equipment, prepaid land lease payments and investment properties of the Group amounting to approximately RMB24.6 million and RMB3.2 million and RMB94.9 million respectively (30 June 2018: approximately RMB29.8 million and RMB3.2 million and RMB6.0 million respectively).

Trade and bills receivables

Trade and bills receivables increased by approximately RMB29.0 million from approximately RMB580.8 million as at 30 June 2018 to approximately RMB609.8 million as at 31 December 2018, which remained stable as the revenue was increased significantly. Besides, the repayment period for the provision of project contracting service is around 2-3 years. The customers settle the receivable by instalments through the finance lease company. The Group believes that this model will enable the Group to improve market competitiveness, to provide more flexible services to customers. In addition, the Group will strengthen customer credit risk management to guard against the increased in bad debt provision.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISK

The Group's principal business is located in the PRC and its transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars.

The RMB is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 325 employees (30 June 2018: 318 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2018 were approximately RMB30.3 million, as comparable to approximately RMB20.0 million for the six months ended 31 December 2017. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the period, the Group continued its commitment to employees' training and development programme.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 31 December 2018, 256,000 of its ordinary shares were repurchased on the Stock Exchange at an aggregate price of approximately HK$0.9 million. Subsequent to these share repurchase exercises, the Company has acquired and cancelled approximately 0.04% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations.

Month of repurchases	Number of shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid
		Highest	**Lowest**	
		HK$	*HK$*	*HK$*
July 2018	200,000	3.52	3.48	703,560
November 2018	56,000	2.95	2.87	163,326
	256,000			866,886

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would lead to an enhancement of the earnings per share.

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2018.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 6 May 2013 and effective on the 16 May 2013.

During the period under review, no option has been granted and there has been no movement of any options granted (if any) under the Share Option Scheme.

As at 15 January 2019, a total of 19,000,000 share options have been granted to a Director and certain employees of the Group under the Share Option Scheme. The following table discloses the share options granted under the Share Option Scheme:-

Name or category of participants	Number of share option	Approximate percentage of shareholding as at 31 December 2018
Executive directors:		
Jin Hao	450,000	0.06%
Other Employees	18,550,000	2.57%
In aggregate	19,000,000	2.63%

If all such share options is exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 2.56% as at 31 December 2018.

The details of the grant of share options are disclosed in the announcement of the Company dated on 15 January 2019.

As at the date of this announcement, no share option is exercised.

SHARE AWARD SCHEME

The Company conditionally adopted the share award scheme (the "Share Award Scheme") on 11 January 2019. The purposes of the Share Award Scheme are to attract talents who might be able to assist in the development of the waste recycling and treatment project. Florescent Holdings Limited and the Company entered into a agreement setting out, amongst others, the conditions and other terms in relation to the gift over the gift shares (consisting of 170 million Shares) at nil consideration to the trustee of the Share Award Scheme to be established by the Company.

For more detail and the principal terms of the Share Award Scheme are disclosed in the announcement of the Company dated on 11 January 2019.

As at the date of this announcement, no share award is granted and exercised.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, the Group had no material events after the reporting period.

CORPORATE GOVERNANCE CODE

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value.

Continuous efforts are made to review and enhance the Group's risk management, internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the six months ended 31 December 2018 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2018 (six months ended 31 December 2017: Nil).

AUDIT COMMITTEE

The audit committee was established on 6 May 2013. The audit committee consists of three independent non-executive Directors namely, Mr. Kong Chi Mo, Mr. Dai Tian Zhu and Mr. Heng, Keith Kai Neng. The audit committee is chaired by Mr. Kong Chi Mo.

The audit committee of the Company has discussed with the management and external auditors the accounting principles and policies adopted by the Group, and has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 31 December 2018.

By order of the Board
Huazhang Technology Holding Limited
Zhu Gen Rong
Chairman

Zhejiang Province, the PRC, 28 February 2019

As at the date of this announcement, the executive Directors are Mr. Zhu Gen Rong, Mr. Wang Ai Yan, Mr. Liu Chuan Jiang, Mr. Jin Hao and Mr. Liang Huiqun, and the independent non-executive Directors are Mr. Dai Tian Zhu, Mr. Kong Chi Mo and Mr. Heng, Keith Kai Neng.