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 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 31 December		
	2019	2018	Change
	RMB	RMB	%
Revenue	**237,130,960**	427,778,117	(44.6)
Gross profit	**56,537,885**	59,057,728	(4.3)
Gross profit margin	***23.8%***	*13.8%*	*10.0*
Loss for the period	**(35,785,017)**	(35,943,825)	(0.4)
Net loss margin	***(15.1)%***	*(8.4)%*	*(6.7)*
Loss attributable to owners of the parent	**(36,364,900)**	(35,478,472)	2.5
Losses per share attributable to the ordinary equity holders of the parent (RMB cents per share)			
- basic	**(4.96)**	(4.91)	
- diluted	**(4.96)**	(4.91)	

The Board resolved not to declare any interim dividend for the six months ended 31 December 2019.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of 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 2019, together with the unaudited comparative figures for the corresponding period in 2018.

Condensed consolidated statement of profit or loss and other comprehensive income

	Notes	For the six months ended 31 December 2019 (Unaudited) RMB	2018 (Unaudited) RMB
REVENUE	5	**237,130,960**	427,778,117
Cost of sales		**(180,593,075)**	(368,720,389)
Gross profit		**56,537,885**	59,057,728
Selling and distribution expenses		**(6,482,552)**	(7,560,607)
Administrative expenses		**(32,793,003)**	(27,085,208)
Research and development expenses		**(11,345,246)**	(10,366,284)
Net impairment (losses)/written back on financial assets		**(48,718,154)**	1,768,915
Other income and gains/(losses), net	6	**13,257,759**	(44,780,566)
OPERATING LOSS		**(29,543,311)**	(28,966,022)
Finance income		**221,095**	6,562,441
Finance costs		**(4,401,178)**	(9,544,766)
Finance costs - net	8	**(4,180,083)**	(2,982,325)
LOSS BEFORE INCOME TAX	7	**(33,723,394)**	(31,948,347)
Income tax expense	9	**(2,061,623)**	(3,995,478)
LOSS FOR THE PERIOD		**(35,785,017)**	(35,943,825)
Loss is attributable to:			
- Owners of the parent		**(36,364,900)**	(35,478,472)
- Non-controlling interests		**579,883**	(465,353)
		(35,785,017)	(35,943,825)
LOSSES PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT			
- Basic losses per share	11	**(4.96)**	(4.91)
- Diluted losses per share	11	**(4.96)**	(4.91)
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(1,460,964)**	(2,954,710)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(1,460,964)**	(2,954,710)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(37,245,981)**	(38,898,535)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD IS ATTRIBUTABLE TO:			
- Owners of the parent		**(37,825,864)**	(38,433,182)
- Non-controlling interests		**579,883**	(465,353)
		(37,245,981)	(38,898,535)

Condensed consolidated statement of financial position

	Notes	**31 December 2019 (Unaudited) RMB**	30 June 2019 (Audited) RMB
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	**82,629,509**	81,993,507
Investment properties		**112,952,727**	115,929,946
Prepaid land lease payments		**77,943,719**	78,799,512
Right-of-use assets	4.1	**5,955,610**	-
Goodwill	13	**39,934,884**	39,934,884
Other intangible assets		**13,441,505**	14,557,893
Deferred tax assets		**11,014,112**	8,353,095
Trade and other receivables	14(i)	**157,713,947**	7,075,588
Prepayments	14(iii)	**189,373**	195,903
Total non-current assets		**501,775,386**	346,840,328
CURRENT ASSETS			
Inventories		**102,722,784**	86,875,342
Trade and other receivables	14(i)	**583,421,105**	606,753,581
Prepayments	14(iii)	**65,941,325**	79,861,762
Financial assets at fair value through other comprehensive income		**20,645,856**	28,760,512
Pledged deposits		**30,742,230**	29,976,599
Contract assets		**24,245,323**	82,261,590
Cash and cash equivalents		**27,377,545**	24,196,754
Total current assets		**855,096,168**	938,686,140
Total assets		**1,356,871,554**	1,285,526,468
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**6,473,400**	6,847,232
Deferred income		**24,862,500**	25,537,500
Lease liabilities	4.1	**4,670,580**	-
Total non-current liabilities		**36,006,480**	32,384,732
CURRENT LIABILITIES			
Trade and other payables	15	**341,498,774**	305,179,522
Contract liabilities		**190,048,188**	141,166,067
Interest-bearing loans		**73,484,086**	54,785,664
Income tax payable		**10,169,454**	11,911,209
Lease liabilities	4.1	**1,142,445**	-
Convertible bonds	16	**87,123,161**	85,525,913
Total current liabilities		**703,466,108**	598,568,375
Total liabilities		**739,472,588**	630,953,107
NET ASSETS		**617,398,966**	654,573,361
EQUITY			
Share capital		**6,203,955**	6,203,955
Share premium		**509,708,723**	509,708,723
Equity component of convertible bonds		**35,161,248**	23,609,589
Other reserves		**66,989,255**	78,411,838
(Accumulated deficits)/retained earnings		**(461,134)**	37,422,220
Capital and reserves attributable to the owners of the parent		**617,602,047**	655,356,325
Non-controlling interests		**(203,081)**	(782,964)
Total equity		**617,398,966**	654,573,361

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").

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 2020.

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 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") except for the adoption of new and amended standards as disclosed in Note 3.

3 Significant 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 2019, 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 2019.

HKFRS 16	Leases
HK (IFRIC) 23	Uncertainty over income tax treatments
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement
HKAS 28 (Amendments)	Long-term interests in associates and joint ventures
Annual Improvements to HKFRS Standards 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group had to change its accounting policies as a result of adopting HKFRS 16. Please refer to Note 4 for details. The other amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

3.2 New standards, amendments and interpretations not yet adopted by the Group

Certain new accounting standards, amendments and interpretations to existing standards have been published that are not mandatory for the financial year beginning 1 July 2019 and relevant to the Group and have not been early adopted by the Group.

Standards, amendments and interpretations	Key requirements	Effective for annual years beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint venture	To be determined

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 Group's interim condensed consolidated financial statements.

4 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's interim financial statements and also discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

As indicated in Note 3.1 above, the Group has adopted HKFRS 16 from 1 July 2019, but has not restated comparatives for last reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in Note 4.2.

4.1 Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average discount rate applied to the lease liabilities on 1 July 2019 was 6.22%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	RMB
Operating lease commitments disclosed as at 30 June 2019	1,162,053
Discounted using the lessee's incremental borrowing rate at the date of initial application	1,129,382
Less: Short-term leases not recognised as a liability	(960,504)
Add: Adjustments as a result of a different treatment of extension and termination options	5,724,783
Lease liabilities recognised as at 1 July 2019	5,893,661
Of which are:	1,048,351
Current lease liabilities	4,845,310
Non-current lease liabilities	5,893,661

(iii) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The recognised right-of-use assets relate to the following type of assets:

	31 December 2019	1 July 2019
	RMB	RMB
Property, plant and equipment - buildings	5,955,610	5,928,661

(iv) Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Right-of-use assets - increase by RMB5,928,661
- Prepayments - decrease by RMB35,000
- Lease liabilities (current portion) - increase by RMB1,048,351
- Lease liabilities (non-current portion) - increase by RMB4,845,310

There was no impact on retained earnings on 1 July 2019.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

4.2 HKFRS 16 - Accounting policies applied from 1 July 2019

As explained in Note 4.1 above, the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 July 2019. The new policy is described below and the impact of the change is set out in Note 4.1.

The Group leases various offices. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

For the year ended 30 June 2019 and before, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis to allocate their cost to their residual values over their estimated lease period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprises small offices and motor vehicles whose lease terms are also within 12 months.

Extension options are included in the offices leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised during the six months ended 31 December 2019.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

5 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/(loss) before tax except that common administrative expenses, other income and gains/(losses), net, finance costs - net and income tax expense are excluded from such measurement.

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

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

The segment results for the six months ended 31 December 2019:

	Unaudited				
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers	**53,770,848**	**119,061,671**	**34,799,255**	**29,499,186**	**237,130,960**
Timing of revenue recognition					
At a point in time	**53,770,848**	**-**	**11,553,763**	**29,499,186**	**94,823,797**
Over time	**-**	**119,061,671**	**23,245,492**	**-**	**142,307,163**
Segment cost of sales	**(35,337,789)**	**(98,177,745)**	**(24,280,784)**	**(22,796,757)**	**(180,593,075)**
Segment gross profit	**18,433,059**	**20,883,926**	**10,518,471**	**6,702,429**	**56,537,885**
Segment results	**4,831,209**	**(6,686,990)**	**3,403,010**	**(25,647,807)**	**(24,100,578)**
Common administrative expenses					**(18,700,492)**
Other income and gains/(losses), net					**13,257,759**
Finance costs- net					**(4,180,083)**
Loss before income tax					**(33,723,394)**
Income tax expense					**(2,061,623)**
Loss for the period					**(35,785,017)**

Other segment information:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	**4,108,183**	**11,947**	**100,315**	**96,467**	**-**	**4,316,912**
Depreciation of property plant and equipment (Note 7)	**730,172**	**12,691**	**833,218**	**2,024,394**	**-**	**3,600,475**
Amortisation of prepaid land lease payments (Note 7)	**53,240**	**-**	**70,640**	**668,210**	**63,703**	**855,793**
Depreciation of investment properties (Note 7)	**-**	**-**	**-**	**2,821,848**	**155,371**	**2,977,219**
Amortisation of other intangible assets (Note 7)	**1,023,925**	**-**	**-**	**156,565**	**-**	**1,180,490**
Depreciation of right-of-use assets	**-**	**-**	**-**	**-**	**541,527**	**541,527**

The segment assets and liabilities as at 31 December 2019 are as follows:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Segment assets	**209,629,537**	**593,221,841**	**93,281,360**	**385,891,873**	**74,846,943**	**1,356,871,554**
Segment liabilities	**165,532,139**	**215,453,221**	**80,877,491**	**179,888,751**	**97,720,986**	**739,472,588**

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 (Note 7)	764,109	9,068	1,023,564	-	3,218,041	5,014,782
Amortisation of prepaid land lease payments (Note 7)	188,677	-	250,334	-	225,751	664,762
Depreciation of investment properties (Note 7)	-	-	-	1,900,010	155,371	2,055,381
Amortisation of other intangible assets (Note 7)	-	-	-	5,882	1,023,924	1,029,806

The segment assets and liabilities as at 30 June 2019 are as follows:

	Audited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Segment assets	212,327,398	490,983,666	70,422,522	443,391,478	68,401,404	1,285,526,468
Segment liabilities	121,413,440	201,993,421	59,759,940	149,700,093	98,086,213	630,953,107

6 Other income and gains/(losses), net

	For the six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB	RMB
Interest income from customer delaying on payment	**6,987,641**	-
Interest income recognised from project contracting services	**3,875,310**	-
Government grants	**1,526,231**	1,341,847
Rental income	**353,101**	179,917
Tax refund	**308,775**	599,512
Interest income from loan to a customer	**196,232**	-
Gain on scrap steel sale	**10,469**	158,255
Lawsuit	**-**	2,298,000
Change in fair value of contingent consideration	**-**	(28,569,128)
Impairment of goodwill (Note 13)	**-**	(21,556,591)
Others	**-**	767,622
	13,257,759	(44,780,566)

7 Loss before income tax

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

	For the six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB	RMB
Raw materials used	**161,371,484**	353,001,670
Net impairment losses/(written back) on financial assets	**48,718,154**	(1,768,915)
Employee benefit expenses	**29,925,604**	30,348,155
Change in inventory of finished goods and work in progress	**5,576,961**	4,420,396
Professional service fees	**5,518,696**	1,106,819
Depreciation of property, plant and equipment (Note 12)	**3,600,475**	5,014,782
Depreciation of investment properties	**2,977,219**	2,055,381
Addition/(reversal) of provision for write-down of inventories	**1,206,219**	(248,818)
Amortisation of other intangible assets	**1,180,490**	1,029,806
Amortisation of prepaid land lease payments	**855,793**	664,762
Depreciation of right-of-use assets	**541,527**	-
Change in fair value of contingent consideration	**-**	28,569,128
Impairment of goodwill (Note 13)	**-**	21,556,591

8 Finance costs - net

	For the six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB	RMB
Finance costs		
Interest on convertible bonds (Note 16)	**(2,269,249)**	(8,859,998)
Interest on loans	**(1,929,095)**	(684,768)
Interest paid/payable for lease liabilities	**(167,430)**	-
Others	**(35,404)**	-
	(4,401,178)	(9,544,766)
Finance income		
Interest income	**155,055**	6,456,214
Exchange gains, net	**66,040**	106,227
	221,095	6,562,441
Finance costs - net	**(4,180,083)**	(2,982,325)

9 Income tax expense

	For the six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB	RMB
Current income tax		
PRC enterprise income tax	**5,096,472**	4,987,463
Deferred income tax	**(3,034,849)**	(991,985)
Income tax expense	**2,061,623**	3,995,478

10 Dividends

No dividends (six months ended 31 December 2018: 3.0 HK cents per share) was paid during the six months ended 31 December 2019 (six months ended 31 December 2018: RMB 18,994,497).

On 28 February 2020, the Board resolved not to declare any interim dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: nil).

11 Earnings per share

The calculation of the basic earnings per share amount is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 733,857,225 (2018: 722,712,959) which represents the shares in issue during the period (2018: adjustment has been made to the basic earnings per share amount presented in respect of the impact of shares that were issuable as part of the consideration for the business acquisition on 25 September 2017).

The diluted earnings per share is same as the basic earnings per share for the six months ended 31 December 2019 and 2018 as any potential ordinary shares and the impact of the convertible bonds outstanding would have anti-dilutive effect.

	For the six months ended 31 December	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB	RMB
Basic		
Earnings		
Loss attributable to ordinary equity holders of the parent	**(36,364,900)**	(35,478,472)
Number of shares		
Weighted average number of ordinary shares in issue during the period	**733,857,225**	722,666,653
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	**733,857,225**	722,712,959
Basic losses per share (RMB cents)	**(4.96)**	(4.91)
Diluted		
Earnings		
Loss attributable to ordinary equity holders of the parent	**(36,364,900)**	(35,478,472)
Number of shares		
Weighted average number of ordinary shares in issue during the period	**733,857,225**	722,666,653
Adjustment for contingent shares	**-**	46,306
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	**733,857,225**	722,712,959
Diluted losses per share (RMB cents)	**(4.96)**	(4.91)

12 Property, plant and equipment

	Buildings	Machinery and vehicles	Furniture, fittings and equipment	Construction in progress	Total
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Six months ended 31 December 2019					
Opening net book amount as at 1 July 2019	63,350,891	15,101,372	1,692,333	1,848,911	81,993,507
Additions	-	94,828	169,357	3,988,625	4,252,810
Disposals	-	-	(16,333)	-	(16,333)
Internal transfer	5,837,536	-	-	(5,837,536)	-
Depreciation charge (Note 7)	(2,430,326)	(971,144)	(199,005)	-	(3,600,475)
Closing net book amount as at 31 December 2019	66,758,101	14,225,056	1,646,352	-	82,629,509
Six months ended 31 December 2018					
Opening net book amount as at 1 July 2018	181,801,787	16,339,637	1,445,115	-	199,586,539
Additions	-	24,722	1,437,484	657,906	2,120,112
Disposals	-	(193,032)	-	-	(193,032)
Internal Transfer	(58,716,152)	-	-	-	(58,716,152)
Depreciation charge (Note 7)	(4,114,632)	(485,564)	(414,586)	-	(5,014,782)
Closing net book amount as at 31 December 2018	118,971,003	15,685,763	2,468,013	657,906	137,782,685

13 Goodwill

	Headbox business	Logistics and warehousing services	Others	Total
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Six months ended 31 December 2019				
Opening net book amount as at 1 July 2019	36,155,379	3,183,135	596,370	39,934,884
Closing net book amount as at 31 December 2019	36,155,379	3,183,135	596,370	39,934,884
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

Goodwill of the Group mainly arose from the acquisition of Hangzhou Haorong Technology Co., Ltd. and Hangzhou MCN Paper Tech Co., Ltd. (together, the "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 2019		
Sales (% annual growth rate)	4%-5%	8%-94%
Budgeted gross margin (%)	33%-34%	51%-85%
Long term growth rate (%)	3%	3%
Pre-tax discount rate (%)	18.1%	16%
30 June 2019		
Sales (% annual growth rate)	4%-5%	8%-94%
Budgeted gross margin (%)	33%-34%	51%-85%
Long term growth rate (%)	3%	3%
Pre-tax discount rate (%)	16.7%	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 2019, no impairment charge arose in the aforesaid CGUs (30 June 2019: impairment charge of RMB 105,063,873 arose in the logistics and warehousing services CGU).

14 Trade and other receivables, contract assets and prepayments

(i) Trade and other receivables

	As at 31 December 2019 (Unaudited) RMB	As at 30 June 2019 (Audited) RMB
Warranty receivables *(a)*	**13,246,821**	19,906,655
Other trade receivables *(b)*	**683,397,346**	493,389,612
	696,644,167	513,296,267
Less: provision for impairment of trade receivables (*c*)	**(66,962,756)**	(39,538,917)
Trade receivables - net	**629,681,411**	473,757,350
Bills receivable	**21,233,358**	20,218,173
Trade and bills receivables	**650,914,769**	493,975,523
Payment on behalf of a customer	**87,766,161**	91,449,840
Deductible input value added tax	**9,593,534**	9,669,086
Loan deposit to an independent third party	**8,958,000**	8,796,600
Loan to a customer	**5,040,386**	7,228,531
Other receivables - guarantee	**3,597,443**	3,247,643
Other receivables due from a related party	**22,428**	23,612
Others	**1,897,047**	5,419,728
	116,874,999	125,835,040
Less: provision for impairment of other receivables *(c)*	**(26,654,716)**	(5,981,394)
Other receivables - net	**90,220,283**	119,853,646
Total trade and other receivables	**741,135,052**	613,829,169
Less: trade receivables - non-current portion	**(157,713,947)**	(7,075,588)
	583,421,105	606,753,581

(a) The 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 based on the date that the Group was entitled to collect the revenue is as follows:

	As at 31 December 2019 (Unaudited) RMB	As at 30 June 2019 (Audited) RMB
Warranty receivables		
1 year to 2 years	**2,525,448**	6,138,336
Over 2 years	**10,721,373**	13,768,319
	13,246,821	19,906,655

(b) The ageing analysis of the other trade receivables based on the date that the Group was entitled to collect the revenue is as follows:

	As at 31 December 2019 (Unaudited) RMB	As at 30 June 2019 (Audited) RMB
Other trade receivables		
Up to 3 months	**277,609,931**	208,786,984
3 months to 6 months	**122,386,479**	3,524,681
6 months to 1 years	**21,387,885**	3,775,227
1 year to 2 years	**173,764,285**	230,500,138
Over 2 years	**88,248,766**	46,802,582
	683,397,346	493,389,612

(c) As at 31 December 2019, provisions amounting to RMB29,504,075 (30 June 2019: RMB 11,898,699) and RMB 20,513,607 (30 June 2019: nil) were made on certain trade receivables and other receivables respectively given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these trade and other receivables.

(ii) Contract assets

	As at 31 December 2019 (Unaudited) RMB	As at 30 June 2019 (Audited) RMB
Contract assets	**25,197,568**	83,233,062
Less: provision for impairment of contract assets	**(952,245)**	(971,472)
	24,245,323	82,261,590

(iii) Prepayments

	As at 31 December 2019 (Unaudited) RMB	As at 30 June 2019 (Audited) RMB
Prepayments for procurement	**65,297,197**	79,921,802
Others	**834,001**	135,863
Total prepayments	**66,131,198**	80,057,665
Less: prepayments - non-current portion	**(189,873)**	(195,903)
	65,941,325	79,861,762

15 Trade and other payables

	As at 31 December 2019 (Unaudited) RMB	As at 30 June 2019 (Audited) RMB
Trade payables	**133,897,578**	129,178,810
Bills payable	**85,139,425**	110,852,396
Trade and bills payables	**219,037,003**	240,031,206
Deposits for project contracting services	**51,708,139**	-
Other taxes payables	**29,551,009**	32,501,508
Amount due to suppliers on a customer's behalf	**13,758,244**	13,775,461
Accruals	**6,029,734**	5,694,078
Amounts due to related parties	**6,000,000**	49,500
Payables for property, plant and equipment	**5,787,991**	6,487,991
Employee benefit payables	**3,507,253**	3,185,326
Provision for warranty expenses	**815,363**	484,577
Others	**5,304,038**	2,969,875
Other payables	**122,461,771**	65,148,316
Total trade and other payables	**341,498,774**	305,179,522

The ageing analysis of the trade payables is as follows:

	As at 31 December 2019 (Unaudited) RMB	As at 30 June 2019 (Audited) RMB
Up to 3 months	**83,401,933**	85,129,189
3 months to 6 months	**20,771,515**	23,254,725
6 months to 1 years	**19,383,125**	5,631,296
1 year to 2 years	**3,698,840**	6,264,575
Over 2 years	**6,642,165**	8,899,025
	133,897,578	129,178,810

16 Convertible Bonds

On 29 March 2017, the Company issued convertible bonds in principal amount of HK$100,000,000 (equivalent to RMB88,780,000) (the "Convertible Bonds").

Pursuant to the bond subscription agreement, the Convertible Bonds are:

(a) convertible at the option of the bond holders into ordinary shares of the Company at HK$2.50 per share (subject to adjustment) at any time on or after 29 April 2017 up to the close of business on the 30th day prior to the maturity date;

(b) the maturity date is 29 March 2019 and it is at the Company's discretion to extend one additional year;

The Convertible Bonds bear interest at a rate of 5% per annum payable semi-annually in arrears on 28 September and 28 March.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The proceeds from the issuance of Convertible Bonds of HK$100,000,000 have been split into liability and equity components on 29 March 2017 (the issuance date). On the issuance date, the fair value of the liability component of the Convertible Bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar bond without conversion option with consideration of the Group's own non-performance risk. And it will be measured on the amortised cost basis until extinguished on conversion or redemption. The remaining proceeds are allocated to the equity component of Convertible Bonds. Transaction costs are apportioned between liability and equity components of the Convertible Bonds based on the allocation of proceeds to the liability and equity components on the issuance date.

There is no movement in the number of the Convertible Bonds during the period.

The fair value of the liability and equity components are determined based on the valuations performed by Duff and Phelps, an independent firm of professional valuers, using binomial model.

On 25 March 2019, the Company received a notice from the investor requesting to extend the maturity date of the Convertible Bonds for 6 months after the maturity date, i.e. extend to 29 September 2019 under the same terms and conditions of the Convertible Bonds (the "First Extension"). The Company agreed to the First Extension and accounted for the First Extension as a modification of the existing financial liability with the change in present value of the liability component, which represents the difference between carrying amount of liability component before the First Extension and discounted new cash flows under new terms using original effective interest rate, recognised in the statement of profit or loss.

On 29 September 2019, a supplemental deed in relation to the Convertible Bonds was executed by the Company to extend the maturity date to 28 September 2020 (the "Second Extension"). The Company accounted for the Second Extension as a derecognition of the existing financial liability and the recognition of a new financial liability with a gain recognised on extinguishment, being the fair value of consideration given to extinguish the financial liability and its previous carrying amount.

	Liability component of Convertible Bonds (Unaudited) RMB	Equity component of Convertible Bonds (Unaudited) RMB	Total (Unaudited) RMB
At 1 July 2019	85,525,913	23,609,589	109,135,502
Interest expense (Note 8)	7,018,479	-	7,018,479
Interest paid	(2,241,208)	-	(2,241,208)
Extinguishment (Note 8)	(4,749,230)	11,170,841	6,421,611
Currency translation differences	1,569,207	380,818	1,950,025
At 31 December 2019	87,123,161	35,161,248	122,284,409
At 1 July 2018	75,710,498	23,609,589	99,320,087
Interest expense (Note 8)	8,859,998	-	8,859,998
Interest paid	(2,194,458)	-	(2,194,458)
Currency translation differences	2,959,831	-	2,959,831
At 31 December 2018	85,335,869	23,609,589	108,945,458

MANAGEMENT DICUSSION AND ANALYSIS

Industry Review

Looking back to the second half of 2019, China's economy has faced unprecedented challenges. Hindered by the unresolved Sino-US trade conflicts, along with the complex and changing domestic and international economic situations, the economic growth in China has been slowed down. In 2019, China's GDP recorded a growth rate of 6.1%, hitting its record low since 1990. The paper manufacturing industry kick-started its previous booming cycle during the second half of 2016; yet, its performance started sliding since mid-2018, with many domestic paper manufacturing enterprises even slowed down their investment pace in fixed assets in view of narrowing profits later in 2019. Since the second half of 2019, the declining import of waste paper has, however, driven the upward growth of the industry, in return not only the profits seized by industrial paper enterprises have seen a recovery, but also the industry itself. As reported by the National Bureau of Statistics, in 2019, the production of machine-made papers and cardboards in China grew 3.5% year-on-year to 125.15 million tonnes, which was also a rebound from the 2018 decline.

Despite the lingering downward pressure on the Chinese economy and the paper manufacturing industry, top-notch paper manufacturing enterprises in the industry have accelerated their planning efforts for their capacity layout in overseas markets. In the meantime, the robust economic development in Southeast Asia has propelled the growth in paper demand. Take Vietnam as an example, with the "Comprehensive and Progressive Agreement for Trans-Pacific Partnership" ("CPTPP") being taken into effect in Vietnam in January 2019, the country then officially signed the "EU-Vietnam Free Trade Agreement" ("EVFTA") and "EU-Vietnam Investment Protection Agreement" ("EVIPA") with the European Union in June of the same year. The signing and commencement of these free trade agreements are expected to ignite the expansion of the Vietnamese enterprises' export markets, which in turn will further boost the demand for papers and cardboards, and draw in fixed asset investments. Since the entire paper manufacturing market in Southeast Asia is still at the initial stage of development, we expect to still see a certain demand and growth in paper machines and equipment.

Business Review

Affected by the downward pressure on the Chinese economy and paper manufacturing industry, the performances of the Group have been significant affected. Although the gross profit margin was improved from 13.8% for the six months ended 31 December 2018 to 23.8% for the six months ended 31 December 2019, the Group still recorded a turnover and a loss of approximately RMB 237.1 million and approximately RMB 35.8 million respectively, representing a decrease of approximately 44.6% and approximately 0.4% respectively as compared with the same period in 2018.

During the period under review, the Group has (1) continued its efforts in actively exploring the overseas markets, in particular the Southeast Asian market, in response to the strategy of the "Belt and Road" initiative; (2) expanded new business and launched new products; and (3) enhanced internal management. For the six months ended 31 December 2019:

Successful commencement of operation of the turnkey project with high value

After 24 months of efforts, the Group completed the turnkey project of Anhui Linping Paper in December 2019. The project was related to the contracted construction of a production line for two high-ended wrapping paper machines of the same specification by Anhui Linping Paper. The paper machines have a net paper width of 5600 millimeters, with a designed speed of 900 meters/minute. The turnkey contract had a value of RMB350.0 million, with a total production capacity of 500,000 tonnes. The smooth ignition of one of these 5600 paper machines of the project marks the success of Huazhang Technology to have its turnkey project commissioned, which is an individual project with the highest order value since the commencement of its paper machine turnkey business. For such project involving the two paper machines of Linping Paper, Huazhang Technology provided a comprehensive solution for slurry and paper manufacturing, with the utilization of key components and services such as the headboxes and fully automation systems manufactured by the Group. The success of the project has provided highly valuable experience to improve the full-time all-encompassing services of paper manufacturing enterprises in the future.

Reputation among the industry draws in projects from major clients

With the completion of the first entire paper machine production line transformation project in the last financial year, the Group has created a positive ripple in the market. During this period, the Group successfully obtained the entire paper machine production line project of Sun Paper, with a contract value of approximately RMB23.9 million. The Group believes that its experience and technologies will both guarantee it to achieve continuous breakthrough and competitiveness in the market.

During the period under review, the Group participated the “2019 China Specialty Papers Conference, the 14th Annual Meeting of Specialty Papers Commission, and China International Specialty Papers Expo” as well as the “2019 China International Paper Technology Exhibition”, allowing it to exchange ideas and establish good relationships with the domestic paper-making equipment industry peers. With a well-established reputation planted among the industry together with its extensive customer network, the Group will continue to snatch up projects of excellent quality.

Steady business growth under the “Belt and Road” initiative

In the overseas markets, the Group had undertaken the project that was signed with a Vietnamese customer last year with a value of US$19.0 million (approximately RMB130.9 million). At present, the progress of the project is satisfactory. With part of the infrastructure facilities still being under construction, it is expected that the Group will successively provide machinery, equipment and installation services during the current financial year. The Group expected that the completion of the Vietnamese project will facilitate the promotion of the products and services of the Group in the Southeast Asian market. In addition, the overseas business division of the Group actively explored the overseas markets, especially for the headbox business.

FUTURE PROSPECTS

Upholding the vision and principles of “Integrating Together, Creating Together, Benefiting Together”, the Group will persist in playing the role of providing all-encompassing services to maximize the interests by sharing, creating together and working together for win-win situation. The Group will proactively drive its corporate affairs and business to leap forward, in order to maintain its competitiveness and mitigate the impact from the industry downturn cycle.

Looking ahead to 2020, the epidemic is expected to put pressure on China’s macro-economy in the short term, not to mention many uncertainties in the Sino-US trade negotiations still remain. The risk of macro-economic downturn will affect the production and sales of the paper manufacturing industry to a certain extent and also hamper the fixed asset investments of the industry. On the other hand, the progressive emergence of the Southeast Asian paper manufacturing industry has attracted domestic and foreign paper enterprises to set foot in the region by building factories, with enormous potential in the overseas markets. As a leading paper-making equipment supplier in China, the Group will step up its efforts in innovation as well as in research and development, so that more elements of Chinese creativity can be incorporated in the products being made in China. The Group will also maintain its existing business development while actively explore its overseas businesses

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 44.6% from approximately RMB427.8 million for the six months ended 31 December 2018 to approximately RMB237.1 million for the six months ended 31 December 2019. Gross profit margin increased from approximately 13.8% for the six months ended 31 December 2018 to approximately 23.8% for the six months ended 31 December 2019.

(i) Industrial products

Revenue from sales of industrial products decreased significantly by approximately 60.3% from approximately RMB135.5 million for the six months ended 31 December 2018 to approximately RMB53.8 million for the six months ended 31 December 2019. Such decrease was primarily attributable to decrease in demand on industrial automation system from the supporting service. The sales of industrial automation systems decreased by approximately RMB101.3 million to RMB29.2 million for the six months ended 31 December 2019 as compared with for the six months ended 31 December 2018. However, the gross profit margin of industrial products increased from approximately 26.4% for the six months ended 31 December 2018 to approximately 34.3% for the six months ended 31 December 2019. Such increase was attributable to the Group reduced its profit margin in industrial products to support the supporting services for the six months ended 31 December 2018 as no such strategy was implemented for the six months ended 31 December 2019.

(ii) Project contracting services

Revenue from project contracting services increased significantly by approximately 104.4% from approximately RMB58.3 million for the six months ended 31 December 2018 to approximately RMB119.1 million for the six months ended 31 December 2019. Such increase was mainly due to a mega project was completed for the six months ended 31 December 2019, which contributed a revenue of approximately RMB102.2 million. The gross profit margin of project contracting services increased from approximately 13.6% for the six months ended 31 December 2018 to approximately 17.5% for the six months ended 31 December 2019.

(iii) Environmental business

Revenue from sales of environmental business increased significantly by approximately 51.2% from approximately RMB23.0 million for the six months ended 31 December 2018 to approximately RMB34.8 million for the six months ended 31 December 2019. Such increase was primarily due to an increase in revenue from wastewater treatment business of approximately RMB19.3 million for the six months ended 31 December 2019 after the Group strengthened the promotion and adjusted the sales strategies. As a result, the gross profit margin of environmental business increased from approximately 22.8% for the six months ended 31 December 2019 to approximately 30.2% for the six months ended 31 December 2019.

(iv) Supporting services

Revenue from the provision of supporting services decreased significantly by approximately 86.0% from approximately RMB211.0 million for the six months ended 31 December 2018 to approximately RMB29.5 million for the six months ended 31 December 2019. The revenue from the provision of support services decreased significantly mainly due to the Group provided a new service in relation to the transformation work of an entire paper machine production line for the six months ended 31 December 2018, such service was generated a revenue of RMB159.8 million as no such service was incurred for the six months ended 31 December 2019. The gross profit margin for the provision of supporting services increased significantly from approximately 4.8% for the six months ended 31 December 2018 to approximately 22.7% for the six months ended 31 December 2019. The gross profit margin increased due to the gross profit margin of the new service in 2018 was low.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately 14.3% from approximately RMB7.6 million for the six months ended 31 December 2018 to approximately RMB6.5 million for the six months ended 31 December 2019, accounting for approximately 1.8% and approximately 2.7% of the Group's revenue for the six months ended 31 December 2018 and 2019 respectively. Decrease in selling and distribution expenses was primarily attributing to decrease in traveling expenses and transportation costs as compared with same period of 2018.

Administrative expenses

The administrative expenses increased by approximately 21.1% from approximately RMB27.1 million for the six months ended 31 December 2018 to approximately RMB32.8 million for the six months ended 31 December 2019, accounting for approximately 6.3% and approximately 13.8% of the Group's revenue for the six months ended 31 December 2018 and 2019 respectively. Increase in administrative expenses is mainly attributable to the Group invested amounts of approximately RMB8.5 million for the preparation work of the waste recycling and treatment project, such as hiring a project team and holding a global conference for the project, for the six months ended 31 December 2019 as no such project for the six months ended 31 December 2018.

Research and development expenses

The research and development expenses increased by approximately 9.4% from approximately RMB10.4 million for the six months ended 31 December 2018 to approximately RMB11.3 million for the six months ended 31 December 2019, accounting for approximately 2.4% and approximately 4.8% of the Group's revenue for the six months ended 31 December 2018 and 2019 respectively. The Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes, the Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment (losses)/written back on financial assets

Net impairment (losses)/written back on financial assets changed from a written back of approximately RMB1.8 million for the six months ended 31 December 2018 to a losses of approximately RMB48.7 million for the six months ended 31 December 2019. Such change was primarily due to several customers have difficulties, such as suspension or liquidities issues. As a result, the customers cannot repay the receivables timely in such an economic environment. The management of the Group has actively monitored the settlement of the receivables and made prudent assessments and made an impairment loss on financial assets of approximately RMB48.7 million. The Group will take more actions, such as negotiation with the customers for the repayment and even legal action, to reduce the loss.

Other income and gains/(losses), net

Other income and gains/(losses), net changed from a loss of approximately RMB44.8 million for the six months ended 31 December 2018 to a gain of approximately RMB13.3 million for the six months ended 31 December 2019. For the six months ended 31 December 2019, the Group recorded interest incomes from customers for late payments and amortised financial income from the project contracting services with aggregated amounts of approximately RMB10.8 million, as compared with the six months ended 31 December 2018, the Group recorded non-recurring expenditure in relation to change in fair value of contingent consideration from acquisition of headbox business of approximately RMB28.6 million and impairment of goodwill from acquisition of the logistic business of approximately RMB21.6 million.

Finance costs - net

The finance costs - net increased by approximately 40.2% fromRMB3.0 million for the six months ended 31 December 2018 to approximately RMB4.2 million for the six months ended 31 December 2019, primarily attributing to a decrease in interest income of approximately RMB6.3 million and an increase in interest on loans of approximately RMB1.2 million for the six months ended 31 December 2019, which offsetting by a decrease in interest on convertible bonds of approximately RMB6.5 million for the six months ended 31 December 2019.

Income tax expense

The income tax expense decreased by approximately 48.4% from approximately RMB4.0 million for the six months ended 31 December 2018 to approximately RMB2.1 million for the six months ended 31 December 2019. The decrease was mainly attributable to decrease in operating profits of the Group for the six months ended 31 December 2019.

The effective tax rates of the Group decreased from approximately -12.5% for the six months ended 31 December 2018 to approximately -6.1% for the six months ended 31 December 2019.

Loss for the period and net loss margin

The loss for the period remain stable at approximately RMB35.9 million and RMB35.8 million for the six months ended 31 December 2018 and 2019. The net loss margin increased from approximately -8.4% for the six months ended 31 December 2018 to approximately -15.1% for the six months ended 31 December 2019, primarily due to a decrease in turnover for the six months ended 31 December 2019.

Loss for the period attributable to owners of the parent

The loss for the period attributable to owners of the parent remain stable at approximately RMB35.5 million and RMB36.4 million for the six months ended 31 December 2018 and 2019.

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 2019, the Group had cash and cash equivalent balance amounting to approximately RMB27.4 million (30 June 2019: approximately RMB24.2 million) and interest-bearing loans amounting to approximately RMB73.5 million (30 June 2019: RMB54.8 million).

Convertible Bonds

On 29 March 2017, the Company issued Convertible Bonds in principal amount of HK$100.0 million (equivalent to approximately RMB88.8 million).

Pursuant to the bond subscription agreement, the Convertible Bonds are:

(a) convertible at the option of the bond holders into ordinary shares of the Company at HK$2.50 (subject to adjustment) at any time on or after 29 April 2017 up to the close of business on the 30th day prior to the maturity date; and
(b) the maturity date is 29 March 2019 and it is subject to the Company's discretion to extend one additional year;

The net proceeds from the Convertible Bonds amounted to approximately HK$99.5 million (the "Net Proceeds"). As at 30 June 2018, the Net Proceeds, after deducting all relevant costs and expenses, had been fully utilised as to approximately HK$79.6 million for the Group's new intergraded solution projects and as to approximately HK$19.9 million for the Group's general working capital, respectively.

On 25 March 2019, the Company received a notice from the investor requesting to extend the maturity date of the Convertible Bonds for 6 months after the Maturity Date, i.e., to 29 September 2019 under the same terms and conditions of the Convertible Bonds. On 21 May 2019, the First Extension has been approved by extraordinary general meeting in the form of an ordinary resolution.

On 29 September 2019, the Company executed a supplemental deed to further extend the maturity date of the Convertible Bonds to 28 September 2020 under the same terms and conditions of the Convertible Bonds and Convertible Bonds holder has an option to extend the maturity date for one additional year. On 20 December 2019, the Second Extension has been approved at the extraordinary general meeting in the form of an ordinary resolution. For more details, please refer to the related announcements of the Company dated 29 September 2019 and the related circular of the Company dated 3 December 2019.

No Convertible Bonds has been converted into ordinary shares during the period.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the six months ended 31 December 2019.

Borrowings and charges of assets

As at 31 December 2019, the Group's borrowings were approximately RMB73.5 million (30 June 2019: RMB54.8 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear an interest range of 4.35% to 10.0% per annum (30 June 2019: all denominated in RMB, and bear an interest range of 5.31% to 7.2% per annum).

As at 31 December 2019, the Group's Convertible Bonds was approximately RMB87.1 million (30 June 2019: RMB85.5 million) which will mature on 28 September 2020 and the interest is 5.0% per annum.

As at 31 December 2019, the banking facilities granted by the bank was secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB65.0 million and RMB113.0 million and RMB77.9 million respectively (30 June 2019: approximately RMB63.4 million and RMB115.9 million and RMB78.8 million respectively).

Trade and other receivables

Trade and bills receivables increased by approximately RMB156.9 million from approximately RMB494.0 million as at 30 June 2019 to approximately RMB650.9 million as at 31 December 2019, primarily due to some contracting projects were completed for the six months ended 31 December 2019. Due to overall downward economic environment, several customers had financial difficulties and delayed the settlement of the receivables, as a results, the Group increased to make impairment loss on trade receivables and other receivables. The provision for impairment of trade receivables and other receivables were increased by approximately RMB27.4 million and RMB20.7 million, respectively, for the six months ended 31 December 2019. The Group will strengthen customer credit risk management to guard against the increased in bad debt provision, and will take legal action if necessary.

CONTINGENT LIABILITIES

As at 31 December 2019, 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 2019, the Group had 336 employees (30 June 2019: 314 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2019 were approximately RMB29.9 million, as comparable to approximately RMB30.3 million for the six months ended 31 December 2018. 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

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 2019.

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.

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	Exercise price	Number of share option	Approximate percentage of shareholding as at 31 December 2019
Executive directors:			
Jin Hao	HK$4.04	450,000	0.06%
Other Employees	HK$4.04	18,550,000	2.53%
In aggregate		19,000,000	2.59%

The closing price of the shares immediately before the date on which the options were granted was HK$3.76 per share.

If all such share options is exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 2.59% as at 31 December 2019.

During the period under review, there has been no movement of options granted under the Share Option Scheme.

The details of the grant of share options such as exercise periods are disclosed in the announcement of the Company dated on 15 January 2019 and the interim report.

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 an 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 2019.

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 2019 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 2019 (six months ended 31 December 2018: 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 2019.

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

Zhejiang Province, the PRC, 28 February 2020

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