

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



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 2020

FINANCIAL HIGHLIGHTS

	For the six months ended 31 December		
	2020	2019	Change
	RMB	RMB	%
Revenue	292,730,691	237,130,960	23.4
Gross profit	59,141,122	56,537,885	4.6
<i>Gross profit margin</i>	<i>20.2%</i>	23.8%	(3.6)
Profit/(loss) for the period	18,292,867	(35,785,017)	151.1
<i>Net profit/(loss) margin</i>	<i>6.2%</i>	(15.1)%	21.3
Profit/(loss) attributable to owners of the parent	18,563,277	(36,364,900)	151.0
Earnings/(losses) per share attributable to the ordinary equity holders of the parent (RMB cents per share)			
- basic	2.53	(4.96)	
- diluted	2.53	(4.96)	

The Board resolved not to declare any interim dividend for the six months ended 31 December 2020.

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 2020, together with the unaudited comparative figures for the corresponding period in 2019.

Condensed consolidated statement of profit or loss and other comprehensive income

	Notes	For the six months ended	
		31 December 2020 (Unaudited) RMB	2019 (Unaudited) RMB
REVENUE	4	292,730,691	237,130,960
Cost of sales		(233,589,569)	(180,593,075)
Gross profit		59,141,122	56,537,885
Selling and distribution expenses		(6,382,508)	(6,482,552)
Administrative expenses		(22,755,155)	(32,793,003)
Research and development expenses		(12,797,889)	(11,345,246)
Net impairment losses on financial and contract assets		(253,739)	(48,718,154)
Other income and gains/(losses), net	5	16,538,783	13,257,759
OPERATING PROFIT/(LOSS)		33,490,614	(29,543,311)
Finance income		256,798	221,095
Finance costs		(11,431,283)	(4,401,178)
Finance costs - net	7	(11,174,485)	(4,180,083)
PROFIT/(LOSS) BEFORE INCOME TAX	6	22,316,129	(33,723,394)
Income tax expense	8	(4,023,262)	(2,061,623)
PROFIT/(LOSS) FOR THE PERIOD		18,292,867	(35,785,017)
Profit/(loss) is attributable to:			
- Owners of the parent		18,563,277	(36,364,900)
- Non-controlling interests		(270,410)	579,883
		18,292,867	(35,785,017)
EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT			
- Basic earnings/(losses) per share	10	2.53	(4.96)
- Diluted earnings/(losses) per share	10	2.53	(4.96)
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		8,055,025	(1,460,964)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		8,055,025	(1,460,964)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		26,347,892	(37,245,981)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD IS ATTRIBUTABLE TO:			
- Owners of the parent		26,618,302	(37,825,864)
- Non-controlling interests		(270,410)	579,883
		26,347,892	(37,245,981)

Condensed consolidated statement of financial position

	Notes	31 December 2020 (Unaudited) RMB	30 June 2020 (Audited) RMB
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	76,510,029	79,483,658
Investment properties		106,998,286	109,975,507
Prepaid land lease payments		76,231,931	77,087,727
Right-of-use assets		4,598,833	5,303,580
Goodwill	12	39,934,884	39,934,884
Other intangible assets		11,382,400	12,664,279
Deferred tax assets		14,373,965	14,318,685
Trade and other receivables	13(i)	66,517,010	125,321,393
Prepayments	13(iii)	176,313	182,843
Total non-current assets		<u>396,723,651</u>	<u>464,272,556</u>
CURRENT ASSETS			
Inventories		156,341,376	113,679,076
Trade and other receivables	13(i)	491,361,043	529,419,356
Prepayments	13(iii)	123,320,624	135,171,764
Financial assets at fair value through other comprehensive income		44,405,413	50,049,740
Pledged deposits		61,122,958	28,602,729
Contract assets	13(ii)	21,170,159	11,035,234
Cash and cash equivalents		39,747,039	40,394,804
Total current assets		<u>937,468,612</u>	<u>908,352,703</u>
Total assets		<u>1,334,192,263</u>	<u>1,372,625,259</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing loans		36,000,000	-
Deferred tax liabilities		5,763,708	6,110,739
Deferred income		23,512,500	24,187,500
Lease liabilities		3,448,267	4,038,619
Total non-current liabilities		<u>68,724,475</u>	<u>34,336,858</u>
CURRENT LIABILITIES			
Trade and other payables	14	322,711,014	354,215,675
Contract liabilities		181,149,397	206,393,720
Interest-bearing loans		74,215,700	107,208,500
Income tax payable		5,316,592	7,048,968
Lease liabilities		1,185,387	1,201,155
Convertible bonds	15	79,329,629	91,245,279
Total current liabilities		<u>663,907,719</u>	<u>767,313,297</u>
Total liabilities		<u>732,632,194</u>	<u>801,650,155</u>
NET ASSETS		<u>601,560,069</u>	<u>570,975,104</u>
EQUITY			
Share capital		6,195,323	6,203,955
Share premium		508,173,594	509,708,723
Equity component of convertible bonds		6,199,604	35,161,248
Other reserves		105,187,221	61,516,759
Accumulated deficits		(23,456,722)	(41,147,040)
Capital and reserves attributable to the owners of the parent		<u>602,299,020</u>	<u>571,443,645</u>
Non-controlling interests		(738,951)	(468,541)
Total equity		<u>601,560,069</u>	<u>570,975,104</u>

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").

These 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 26 February 2021.

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 2020 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 2020, 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 2020, 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 2020.

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform
HKFRS 16 (Amendments)	Covid-19 - related Rent Concessions

The 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 2020 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
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

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 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, right-of-use assets, 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, lease liabilities and certain other payables, as these liabilities are managed on a group basis.

The segment results for the six months ended 31 December 2020:

	Unaudited				
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers	108,376,733	153,801,260	14,510,281	16,042,417	292,730,691
Timing of revenue recognition					
At a point in time	108,376,733	-	2,727,671	12,249,398	123,353,802
Over time	-	153,801,260	11,782,610	3,793,019	169,376,889
Segment cost of sales	<u>(78,946,843)</u>	<u>(128,903,053)</u>	<u>(10,956,223)</u>	<u>(14,783,450)</u>	<u>(233,589,569)</u>
Segment gross profit	29,429,890	24,898,207	3,554,058	1,258,967	59,141,122
Segment results	<u>17,598,276</u>	<u>8,669,008</u>	<u>262,702</u>	<u>(2,560,924)</u>	<u>23,969,062</u>
Common administrative expenses					(7,017,231)
Other income and gains/(losses), net					16,538,783
Finance costs- net					<u>(11,174,485)</u>
Profit before income tax					22,316,129
Income tax expense					<u>(4,023,262)</u>
Profit for the period					<u>18,292,867</u>

Other segment information:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	35,516	-	24,275	135,127	-	194,918
Depreciation of property plant and equipment (Note 6)	483,525	78,337	676,366	1,925,970	-	3,164,198
Depreciation of right-of-use assets (Note 6)	-	-	-	-	662,057	662,057
Depreciation of investment properties (Note 6)	-	-	-	2,821,849	155,372	2,977,221
Amortisation of prepaid land lease payments (Note 6)	53,243	-	70,640	668,210	63,703	855,796
Amortisation of other intangible assets (Note 6)	<u>1,023,925</u>	<u>-</u>	<u>-</u>	<u>257,954</u>	<u>-</u>	<u>1,281,879</u>

The segment assets and liabilities as at 31 December 2020 are as follows:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Segment assets	250,044,068	558,576,187	62,887,396	340,926,860	121,757,752	1,334,192,263
Segment liabilities	217,179,111	199,676,110	46,916,950	177,176,684	91,683,339	732,632,194

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					<u>(35,785,017)</u>	

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 6)	730,172	12,691	833,218	2,024,394	-	3,600,475
Depreciation of right-of-use assets (Note 6)	-	-	-	-	541,527	541,527
Depreciation of investment properties (Note 6)	-	-	-	2,821,848	155,371	2,977,219
Amortisation of prepaid land lease payments (Note 6)	53,240	-	70,640	668,210	63,703	855,793
Amortisation of other intangible assets (Note 6)	1,023,925	-	-	156,565	-	1,180,490

The segment assets and liabilities as at 30 June 2020 are as follows:

	Audited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Segment assets	258,161,109	587,588,549	64,530,169	368,174,479	94,170,953	1,372,625,259
Segment liabilities	230,487,233	228,941,947	40,248,552	189,776,195	112,196,228	801,650,155

5 Other income and gains/(losses), net

	For the six months ended	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB	RMB
Interest income recognised from project contracting services	5,981,952	3,875,310
Debt relief	4,099,961	-
Government grants	3,326,712	1,526,231
Service income	1,037,735	-
Tax refund	797,439	308,775
Rental income	482,427	353,101
Penalty income	301,050	-
Interest income from customer delaying on payment	266,700	6,987,641
Interest income from loan to a customer	199,971	196,232
Others	44,836	10,469
	16,538,783	13,257,759

6 Profit/(loss) before income tax

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

	For the six months ended	
	31 December	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB	RMB
Raw materials used	259,294,913	161,371,484
Change in inventory of finished goods and work in progress	(33,987,668)	5,576,961
Employee benefit expenses	24,327,022	29,925,604
Depreciation of property, plant and equipment (Note 11)	3,164,198	3,600,475
Depreciation of investment properties	2,977,221	2,977,219
Professional service fees	2,667,218	5,518,696
Addition of provision for write-down of inventories	2,194,800	1,206,219
Amortisation of other intangible assets	1,281,879	1,180,490
Amortisation of prepaid land lease payments	855,796	855,793
Depreciation of right-of-use assets	662,057	541,527
Net impairment losses on financial and contract assets	253,739	48,718,154

7 Finance costs - net

	For the six months ended	
	31 December	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB	RMB
Finance costs		
Interest on convertible bonds (Note 15)	(3,616,043)	(2,269,249)
Interest on loans	(2,772,949)	(1,929,095)
Upfront commitment fee on convertible bond	(1,740,900)	-
Interest paid/payable for lease liabilities	(148,881)	(167,430)
Exchange losses, net	(3,152,510)	-
Others	-	(35,404)
	<u>(11,431,283)</u>	<u>(4,401,178)</u>
Finance income		
Interest income	256,798	155,055
Exchange gains, net	-	66,040
	<u>256,798</u>	<u>221,095</u>
Finance costs - net	<u>(11,174,485)</u>	<u>(4,180,083)</u>

8 Income tax expense

	For the six months ended	
	31 December	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB	RMB
Current income tax		
PRC enterprise income tax	3,489,768	5,096,472
Hong Kong profits tax	940,180	-
Deferred income tax	(406,686)	(3,034,849)
Income tax expense	<u>4,023,262</u>	<u>2,061,623</u>

9 Dividends

No dividends was paid during the six months ended 31 December 2020 (six months ended 31 December 2019: nil).

On 26 February 2021, the Board resolved not to declare any interim dividend for the six months ended 31 December 2020 (six months ended 31 December 2019: nil).

10 Earnings per share

The calculation of the basic earnings per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 733,074,613 (2019: 733,857,225) which represents the shares in issue during the period.

The diluted earnings per share is same as the basic earnings per share for the six months ended 31 December 2020 and 2019. For the six months ended 31 December 2020, the Group had no potential dilutive ordinary shares in issue (six months ended 31 December 2019: any potential ordinary shares would have anti-dilutive effect).

	For the six months ended	
	31 December	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB	RMB
<u>Basic</u>		
Earnings		
Earnings/(losses) attributable to ordinary equity holders of the parent	<u>18,563,277</u>	<u>(36,364,900)</u>
Number of shares		
Weighted average number of ordinary shares in issue during the period	<u>733,074,613</u>	<u>733,857,225</u>
Basic earnings/(losses) per share (RMB cents)	<u>2.53</u>	<u>(4.96)</u>
<u>Diluted</u>		
Earnings		
Earnings/(losses) attributable to ordinary equity holders of the parent	<u>18,563,277</u>	<u>(36,364,900)</u>
Number of shares		
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	<u>733,074,613</u>	<u>733,857,225</u>
Diluted earnings/(losses) per share (RMB cents)	<u>2.53</u>	<u>(4.96)</u>

11 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 2020					
Opening net book amount as at 1 July 2020	64,490,539	13,328,875	1,664,244	-	79,483,658
Additions	-	-	194,918	-	194,918
Disposals	-	-	(4,349)	-	(4,349)
Depreciation charge (Note 6)	(1,939,923)	(1,038,334)	(185,941)	-	(3,164,198)
Closing net book amount as at 31 December 2020	62,550,616	12,290,541	1,668,872	-	76,510,029
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 6)	(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

12 Goodwill

	Headbox business	Logistics and warehousing services	Others	Total
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Six months ended 31 December 2020				
Opening net book amount as at 1 July 2020	36,155,379	3,183,135	596,370	39,934,884
Closing net book amount as at 31 December 2020	36,155,379	3,183,135	596,370	39,934,884
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

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 headbox business CGU which has significant goodwill allocated:

	Headbox business
31 December 2020	
Sales (% annual growth rate)	2%-5%
Budgeted gross margin (%)	30%-34%
Long term growth rate (%)	3%
Pre-tax discount rate (%)	20.2%
30 June 2020	
Sales (% annual growth rate)	2%-5%
Budgeted gross margin (%)	32%-34%
Long term growth rate (%)	3%
Pre-tax discount rate (%)	19.3%

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 2020, no impairment charge arose in the aforesaid CGUs (30 June 2020: nil).

13 Trade and other receivables, contract assets and prepayments

(i) Trade and other receivables

	As at 31 December 2020 (Unaudited) RMB	As at 30 June 2020 (Audited) RMB
Warranty receivables (a)	18,352,368	24,401,686
Other trade receivables (b)	<u>525,495,171</u>	<u>620,239,326</u>
	543,847,539	644,641,012
Less: provision for impairment of trade receivables (c)	<u>(100,141,231)</u>	<u>(101,333,200)</u>
Trade receivables - net	443,706,308	543,307,812
Bills receivable	<u>28,147,171</u>	<u>20,372,673</u>
Trade and bills receivables	<u>471,853,479</u>	<u>563,680,485</u>
Payment on behalf of a customer	87,287,538	87,265,017
Loan to customers	9,711,605	4,088,398
Deductible input value added tax	9,022,832	10,203,052
Other receivables - guarantee	3,888,444	3,304,332
Loan deposit to an independent third party	-	9,134,400
Others	<u>3,430,139</u>	<u>4,401,774</u>
	113,340,558	118,396,973
Less: provision for impairment of other receivables (c)	<u>(27,315,984)</u>	<u>(27,336,709)</u>
Other receivables - net	<u>86,024,574</u>	<u>91,060,264</u>
Total trade and other receivables	557,878,053	654,740,749
Less: trade and other receivables - non-current portion	<u>(66,517,010)</u>	<u>(125,321,393)</u>
	<u>491,361,043</u>	<u>529,419,356</u>

(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 2020 (Unaudited) RMB	As at 30 June 2020 (Audited) RMB
Warranty receivables		
1 year to 2 years	7,582,367	11,926,904
Over 2 years	<u>10,770,001</u>	<u>12,474,782</u>
	<u>18,352,368</u>	<u>24,401,686</u>

- (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 2020 (Unaudited) RMB	As at 30 June 2020 (Audited) RMB
Other trade receivables		
Up to 3 months	75,427,911	169,632,126
3 months to 6 months	24,366,139	8,897,007
6 months to 1 years	115,000,199	163,351,853
1 year to 2 years	103,977,485	52,407,628
Over 2 years	206,723,437	225,950,712
	<u>525,495,171</u>	<u>620,239,326</u>

- (c) As at 31 December 2020, provisions amounting to RMB 79,154,496 (30 June 2020: RMB 79,154,496) and RMB 24,585,572 (30 June 2020: 24,585,572) 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 2020 (Unaudited) RMB	As at 30 June 2020 (Audited) RMB
Contract assets	21,695,375	11,588,617
Less: provision for impairment of contract assets	(525,216)	(553,383)
	<u>21,170,159</u>	<u>11,035,234</u>

- (iii) Prepayments

	As at 31 December 2020 (Unaudited) RMB	As at 30 June 2020 (Audited) RMB
Prepayments for procurement	123,161,719	134,944,989
Others	335,218	409,618
Total prepayments	123,496,937	135,354,607
Less: prepayments - non-current portion	(176,313)	(182,843)
	<u>123,320,624</u>	<u>135,171,764</u>

14 Trade and other payables

	As at 31 December 2020 (Unaudited) RMB	As at 30 June 2020 (Audited) RMB
Trade payables	174,938,190	153,320,676
Bills payable	68,390,227	64,577,308
Trade and bills payables	<u>243,328,417</u>	<u>217,897,984</u>
Other taxes payables	36,745,826	49,918,691
Interest-free loan from independent third parties	13,580,800	18,050,800
Amount due to suppliers on a customer's behalf	13,419,621	13,618,244
Accruals	4,153,059	7,038,078
Employee benefit payables	2,796,576	2,086,926
Interest payable on convertible bonds	841,640	2,283,600
Payables for property, plant and equipment	744,914	1,471,346
Provision for warranty expenses	723,533	578,461
Deposits for project contracting services	-	29,986,987
Other deposit	1,471,834	1,471,836
Amounts due to related parties	-	5,488,478
Others	4,904,794	4,324,244
Other payables	<u>79,382,597</u>	<u>136,317,691</u>
Total trade and other payables	<u><u>322,711,014</u></u>	<u><u>354,215,675</u></u>

The ageing analysis of the trade payables is as follows:

	As at 31 December 2020 (Unaudited) RMB	As at 30 June 2020 (Audited) RMB
Up to 3 months	114,185,523	90,913,279
3 months to 6 months	9,712,214	1,129,810
6 months to 1 years	3,233,156	25,740,249
1 year to 2 years	41,512,074	20,658,934
Over 2 years	6,295,223	14,878,404
	<u><u>174,938,190</u></u>	<u><u>153,320,676</u></u>

15 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 "Old Convertible Bonds").

Pursuant to the bond subscription agreement, the Old 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; and
- (b) the maturity date is 29 March 2019 and it is at the Company's discretion to extend one additional year;

The Old 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 Old 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 Old 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 Old Convertible Bonds. Transaction costs are apportioned between liability and equity components of the Old Convertible Bonds based on the allocation of proceeds to the liability and equity components on the issuance date.

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 Old Convertible Bonds for 6 months after the maturity date, i.e. extend to 29 September 2019 under the same terms and conditions of the Old 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 Old 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 de-recognition 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.

On 1 December 2020, the Company issued another convertible bonds in principal amount of HK\$ 100,000,000 (equivalent to RMB85,041,000) (the "**New Convertible Bonds**"). The proceeds from the issuance of the new Convertible Bonds was used to repay the old Convertible Bonds.

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

- (a) convertible at the option of the bond holders into ordinary shares of the Company at HK\$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and
- (b) the maturity date is 30 November 2021 and unless previously converted or cancelled, after 1 June 2021, the Bondholders shall have the option to request for the redemption by the Issuer of the Bonds by serving onto the Issuer a prior written notice of not less than two weeks from the intended date of early redemption of the Bonds;

The New Convertible Bonds bear interest at a rate of 12% per annum payable quarterly in arrears on 1 March 2021, 1 June 2021, 1 September 2021 and 30 November 2021.

The proceeds from the issuance of the New Convertible Bonds of HK\$100,000,000 have been split into liability and equity components on 1 December 2020 (the issuance date), while the liability component includes host debt and early redemption option, which is an embedded derivative of the host contract. On the issuance date, the fair value of the host debt of the New Convertible Bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar bond without conversion option or early redemption option with consideration of the Group's own non-performance risk. It will be measured on the amortised cost basis until extinguished on conversion or redemption. The early redemption option is estimated at fair value initially and will be measured at amortised cost together with the host debt. The remaining proceeds are allocated to the equity component of the New Convertible Bonds and is included in shareholder's equity.

	Liability component of Convertible Bonds (Unaudited) RMB	Equity component of Convertible Bonds (Unaudited) RMB	Total (Unaudited) RMB
At 1 July 2020	91,245,279	35,161,248	126,406,527
Settlement of old Convertible Bonds	(85,041,000)	(35,161,248)	(120,202,248)
Issuance of new Convertible Bonds	78,841,396	6,199,604	85,041,000
Interest expense (Note 7)	3,616,043	-	3,616,043
Interest paid	(2,176,125)	-	(2,176,125)
Currency translation differences	(7,155,964)	-	(7,155,964)
At 31 December 2020	<u>79,329,629</u>	<u>6,199,604</u>	<u>85,529,233</u>
At 1 July 2019	85,525,913	23,609,589	109,135,502
Interest expense (Note 7)	7,018,479	-	7,018,479
Interest paid	(2,241,208)	-	(2,241,208)
Extinguishment (Note 7)	(4,749,230)	11,170,841	6,421,611
Currency translation differences	1,569,207	380,818	1,950,025
At 31 December 2019	<u>87,123,161</u>	<u>35,161,248</u>	<u>122,284,409</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

China's economy and all sectors have suffered from the significant influences brought by the sudden outbreak of the Covid-19 pandemic in the first half of 2020. However, leveraging on the supportive policies and the effective control on the pandemic by the Chinese government, China's economy has rapidly recovered in the second half of 2020. China's gross domestic product (GDP) grew from 3.2% in the second quarter of 2020 to 6.5% in the fourth quarter of 2020, and China's economy has recovered to pre-pandemic levels. According to the data from the National Bureau of Statistics, the national production volume of machine-made papers and cardboards in 2020 was 127.0 million tonnes, representing an increase of 1.48% over the same period last year. This showed an increasing trend for two consecutive years after the decrease recorded in 2018.

In January 2020, the National Development and Reform Commission and the Ministry of Ecology and Environment promulgated the Opinions on Further Strengthening the Treatment of Plastic Pollution (《關於進一步加強塑料污染治理的意見》). China would prohibit and limit the production, sales and use of certain plastic products by the end of 2020, and there will be a significant reduction in the consumption of disposable plastic products by the end of 2022, thereby promoting the application of alternative products. In the second half of 2020, regions including Shanghai, Zhejiang, Jiangsu, Yunnan, and Guizhou have promulgated the relevant proposal requirements on strengthening the treatment of plastic pollution, which, among others, gradually limited or even prohibited the use of certain disposable plastic items. It is a favourable policy to the paper manufacturing industry. Paper packaging materials become the best option to replace certain limited plastic products for their regenerable, degradable and recyclable raw materials, sufficient production capacity, convenient usage, and low price. This will expand the scale of paper manufacturing enterprises and increase the investments in the production capacity and the research and development of paper packaging materials.

In November 2020, in order to consistently implement the new version of the Law on the Prevention and Control of Environmental Pollution by Solid Wastes (《固體廢物污染環境防治法》), which was effective from 1 September, the four ministries and commissions including the Ministry of Ecology and Environment jointly promulgated the Announcement on Matters Concerning Comprehensively Prohibiting the Import of Solid Wastes (《關於全面禁止進口固體廢物有關事項的公告》). The announcement came into force on 1 January 2021, requiring China to prohibit the import of solid wastes by any means and the dumping, storage and disposal of imported solid wastes within the territory of China. The prohibition on the import of waste paper will strike a hard blow at the structure of raw materials in the paper manufacturing industry, which forces paper manufacturing enterprises to expand the construction of large-scale pulp and paper-making production lines to achieve self-containment.

Business Review

For the six months ended 31 December 2020, the Group benefited from the recovery of the paper manufacturing industry and recorded an increase in revenue and gross profit by approximately 23.4% to RMB292.7 million and approximately 4.6% to RMB59.1 million as compared to the same period last year, respectively. For the six months ended 31 December 2020, the Group recorded a profit of approximately RMB18.3 million as compared to the loss of approximately RMB35.8 million over the same period last year.

Newly Signed Contracts

The value of the Group's newly signed contracts grew by approximately 26.8% (as compared to the same period last year) from approximately RMB200.1 million for the six months ended 31 December 2019 to approximately RMB253.8 million for the six months ended 31 December 2020. Such growth was mainly attributable to (i) the recovery of the paper manufacturing industry that procured paper manufacturing enterprises to increase capital contribution and undergo equipment renovation, and (ii) the establishment of the precision manufacturing department by the Group in July 2019, which is a new business driver of the Group during the period.

The primary purpose for the establishment of the precision manufacturing department of the Group is to proactively respond to the national policy on the digitalization of industrial manufacturing, namely the "Industry 4.0" Program, by utilizing the advantage of intelligent control and big data, taking intelligent manufacturing as the core to develop advanced pulp and paper-making equipment with electromechanical integration technology, and replacing imported products with our self-developed products.

After the efforts made over the past year, the value of the department's newly signed contracts increased by approximately RMB15.6 million from approximately RMB1.7 million for the six months ended 31 December 2019 to approximately RMB17.3 million for the six months ended 31 December 2020, and the growth rate was encouraging. Its core products, being conical refiners and pulpers with high efficiency and low energy consumption, combine the technological characteristics of high integration, high efficiency, intelligence, and low consumption in one. Such products have been highly recognized in the product market, with rapidly increasing market shares, which further solidified the leading position of our Group in the domestic paper-making industry in terms of intelligent manufacturing. The Group is currently developing products related to pulp and paper-making equipment, such as series of products (including paper-cutting machines with high speed and high-precision synchronization) that are in great demand in the market, and expects to launch such products on the market in the first half of 2021. The products mainly focus on the post-processing procedure of various paper types, such as printing and writing paper and duplex board.

Research and Development

In September 2020, the paper manufacturing equipment research institute of the Group was recommended by the Ministry of Science and Technology and evaluated and recognized by the Zhejiang Provincial Department of Science and Technology as an enterprise research institute at the provincial level in January 2021, namely Zhejiang Huazhang Technology Paper Manufacturing Equipment Research Institute (浙江省華章科技造紙裝備研究院). The research institute is mainly committed to the upgrade of industrialized technology of the traditional paper manufacturing industry and the development of environmental equipment with high efficiency and energy conservation for the paper manufacturing industry in order to achieve the localization of automatic equipment. Capitalizing on the rapid development capabilities of the research institute in terms of systematicity, professionalism, and practicality, the Group will continuously enhance the competitiveness of its core products and increase its market share in the industry in a moderate manner, which will promote the development of our peers in China and collectively push forward the economic development of the traditional paper manufacturing industry.

In addition, in December 2020, Mr. Zhu Gen Rong, the chairman of the Group, was awarded “the Fourth Cailun Technology Award (第四屆蔡倫科技獎)” by China Technical Association of Paper Industry. The “Cailun Award” was created by China Technical Association of Paper Industry to recognize technology scholars who have made outstanding contributions to science and technology innovation and technology advancement in the paper manufacturing industry in China.

Overseas

In November 2020, the Group participated, together with other Chinese suppliers of paper manufacturing equipment, in the commercial operation of the PM23 project, one of the four production lines for 5600/900 wrapping paper machines in the paper production bases in Selangor, Malaysia, invested by a Hong Kong-listed paper manufacturing enterprise. The Group provided the drive control systems of paper machines and rewinders and the DCS/MCS control system for the four production lines. The success of the project further demonstrated the capability of China's paper manufacturing machines to maintain a presence in the international paper manufacturing equipment market for their advancement, practicality, and cost performance.

As at 31 December 2020, most of the Group's turnkey projects in Vietnam have been completed and are expected to duly commence in the second quarter of 2021. The overseas projects supplied by the Group commenced, which will definitely provide more references to promote China's equipment manufacturing industry abroad and participate in international competitions.

FUTURE PROSPECTS

2021 represents the first year of China's 14th Five-Year Plan when the paper manufacturing industry will also present new layouts and characteristics, including equipment with better energy conservation and higher efficiency, green and sustainable development, etc. Adhering to the principles of “Integrating Together, Creating Together, Benefiting Together”, the Group will ride on the wind and waves and forge ahead on the way of innovation while making more efforts in scientific research to catch up with the future development of the industry.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased by approximately 23.4% from approximately RMB237.1 million for the six months ended 31 December 2019 to approximately RMB292.7 million for the six months ended 31 December 2020, primarily attributing to the recovery of the paper industry after the impact of the COVID-19 pandemic in the 1st half of 2020. However, the gross profit margin decreased from approximately 23.8% for the six months ended 31 December 2019 to approximately 20.2% for the six months ended 31 December 2020.

(i) Industrial products

Revenue from sales of industrial products increased significantly by approximately 101.6% from approximately RMB53.8 million for the six months ended 31 December 2019 to approximately RMB108.4 million for the six months ended 31 December 2020. Such increase was primarily attributable to recovery of the paper industry and increase in demand on headbox equipment. The sales of industrial automation systems and headbox business increased by approximately RMB29.4 million to approximately RMB58.6 million and approximately RMB25.2 million to approximately RMB49.8 million, respectively, for the six months ended 31 December 2020 as compared with for the six months ended 31 December 2019. However, the gross profit margin of industrial products decreased from approximately 34.3% for the six months ended 31 December 2019 to approximately 27.2% for the six months ended 31 December 2020, primarily attributing to decrease in gross profit margin of headbox business.

(ii) Project contracting services

Revenue from project contracting services increased by approximately 29.2% from approximately RMB119.1 million for the six months ended 31 December 2019 to approximately RMB153.8 million for the six months ended 31 December 2020. Such increase was mainly due to the installation work of contracting projects in Vietnam was started since the 2nd quarter of 2020 and most of installation works were completed in the 2nd half of 2020. The gross profit margins of project contracting services were maintained at 16.2% and 17.5% for the six months ended 31 December 2020 and 2019, respectively.

(iii) Environmental business

Revenue from sales of environmental business decreased significantly by approximately 58.3% from approximately RMB34.8 million for the six months ended 31 December 2019 to approximately RMB14.5 million for the six months ended 31 December 2020. Such decrease was primarily due to a decrease in demand in sludge treatment products and wastewater treatment business as the market competition was keen. The gross profit margin of environmental business also decreased from approximately 30.2% for the six months ended 31 December 2019 to approximately 24.5% for the six months ended 31 December 2020.

(iv) Supporting services

Revenue from the provision of supporting services decreased significantly by approximately 45.6% from approximately RMB29.5 million for the six months ended 31 December 2019 to approximately RMB16.0 million for the six months ended 31 December 2020. The revenue from the provision of support services decreased significantly mainly due to a decrease in demand on the supporting services for the six months ended 31 December 2020. The gross profit margin for the provision of supporting services decreased from approximately 22.7% for the six months ended 31 December 2019 to approximately 7.8% for the six months ended 31 December 2020, primarily attributing to a decrease in profits of after-sale service which cannot offset the loss generated from supply-chain business.

Selling and distribution expenses

The selling and distribution expenses were stable at approximately RMB6.5 million and RMB6.4 million for the six months ended 31 December 2019 and 2020, respectively, accounting for approximately 2.7% and approximately 2.2% of the Group's revenue for the six months ended 31 December 2019 and 2020, respectively.

Administrative expenses

The administrative expenses decreased by approximately 30.6% from approximately RMB32.8 million for the six months ended 31 December 2019 to approximately RMB22.8 million for the six months ended 31 December 2020, accounting for approximately 13.8% and approximately 7.8% of the Group's revenue for the six months ended 31 December 2019 and 2020 respectively. Decrease in administrative expenses is mainly attributable to (i) a decrease in traveling expenses as business trips were not encouraged after the COVID-19 and (ii) a decrease in expenditures of approximately RMB6.5 million in relation to the preparation work of the waste recycling and treatment projects for the six months ended 31 December 2020 as compared with the respective period in 2019.

Research and development expenses

The research and development expenses increased by approximately 12.8% from approximately RMB11.3 million for the six months ended 31 December 2019 to approximately RMB12.8 million for the six months ended 31 December 2020, accounting for approximately 4.8% and approximately 4.4% of the Group's revenue for the six months ended 31 December 2019 and 2020 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 on financial and contract assets

Net impairment losses on financial and contract assets decreased significantly by approximately 99.5% from approximately RMB48.7 million for the six months ended 31 December 2019 to approximately RMB0.3 million for the six months ended 31 December 2020. For the six months ended 31 December 2019, the Group made impairment on financial assets of several customers amounting to approximately RMB47.6 million, due to these customers have difficulties, such as suspension of the projects or liquidities issues, since the second half of 2018. As a result, the customers cannot repay the receivables timely in such economic environment. For the six months ended 31 December 2020, the situation of these customers did not have any change, therefore, the Group did not make further impairment and considered that the impairment provision was sufficient as at 31 December 2020. The Group still continue to work with the financing lease companies in a joint effort for collection. The Group holds on-going discussion with those customers with regard to collection. The Group is also considering further engaging legal counsels to enforce the judgment, if a cost-efficient arrangement with legal counsels can be reached.

Other income and gains/(losses), net

Other income and gains/(losses), net increased by approximately 24.7% from approximately RMB13.3 million for the six months ended 31 December 2019 to approximately RMB16.5 million for the six months ended 31 December 2020, primarily attributing to a debt relief of RMB4.1 million was recorded for the six months ended 31 December 2020 as the Group received a notice that a customer was bankrupted, so the advanced made by this customer's subsidiary for purchase of equipment was relieved and the Group received the bankruptcy liquidation fund, which had been previously written off as uncollectible trade receivable, while no such transaction for the six months ended 31 December 2019.

Finance costs - net

The finance costs - net increased significantly by approximately 167.3% from RMB4.2 million for the six months ended 31 December 2019 to approximately RMB11.2 million for the six months ended 31 December 2020, primarily attributing to a payment of upfront commitment fee amounting to approximately RMB1.7 million in relation to issuance of a new convertible bond in December 2020 and an exchange loss of approximately RMB3.2 million as the contracting project in Vietnam were settled in USD which increased the bank deposits in US dollar at as 31 December 2020 and generated the unrealized exchange loss.

Income tax expense

The income tax expense increased significantly by approximately 95.2% from approximately RMB2.1 million for the six months ended 31 December 2019 to approximately RMB4.0 million for the six months ended 31 December 2020. The increase was mainly attributable to the Group recorded operating profits for the six months ended 31 December 2020 as operating loss was recorded for the year six months ended 31 December 2019.

The effective tax rates of the Group changed from approximately -6.1% for the six months ended 31 December 2019 to approximately 18.0% for the six months ended 31 December 2020.

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

As a result of the foregoing, the Group recorded a profit for the period of approximately RMB18.3 million for the six months ended 31 December 2020 as compared with the loss for the period as of approximately RMB35.8 million for the six months ended 31 December 2019. The net margin was improved from net loss margin of 15.1% for the six months ended 31 December 2019 to net profit margin of 6.2% for the six months ended 31 December 2020.

Profit/(loss) for the period attributable to owners of the parent

As a result of the foregoing, the Group recorded a profit for the period attributable to owners of the parent of approximately RMB18.6 million for the six months ended 31 December 2020 as compared with a loss for the period attributable to owners of the parent of approximately RMB36.4 million for the six months ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group was principally financed by internal resources, bank loans as well as financing from the capital market. As at 31 December 2020, the Group had cash and cash equivalent balance amounting to approximately RMB39.7 million (30 June 2020: approximately RMB40.4 million) and interest-bearing loans and long-term loans amounting to approximately RMB74.2 million and RMB36.0 million, respectively (30 June 2020: RMB107.2 million and nil).

Convertible Bonds

On 29 March 2017, the Company issued Old Convertible Bonds in principal amount of HK\$100.0 million (equivalent to approximately RMB88.8 million), the bond was expired on 28 September 2020 and replaced by issuance of a convertible bond on 1 December 2020.

On 1 December 2020, the Company issued a New Convertible Bonds in principal amount of HK\$100.0 million (equivalent to approximately RMB85.0 million).

Given the current environment, it was difficult for the Company to raise the necessary financing to repay the amount due under the Old Convertible bonds. The net proceeds from the issue have been used to repay the Old Convertible bonds and the Old Convertible Bond have been settled as at 31 December 2020.

The initial conversion price under the subscription agreement of HK\$0.71, represents (i) the closing price of HK\$0.71 per share as quoted on the Hong Kong Stock Exchange on the last trading day, and (ii) the average closing price of HK\$0.71 per Share as quoted on the Hong Kong Stock Exchange for the five trading Days up to and including 30 November 2020 (being the last trading day immediately prior to the date of the subscription agreement).

The New Convertible Bond can be convertible into 140,845,070 (with a nominal value of HK\$1,408,450) new ordinary shares of the Company.

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

- (a) convertible at the option of the bond holders into ordinary shares of the Company at HK\$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and
- (b) the maturity date is 30 November 2021 and unless previously converted or cancelled, after 1 June 2021, the Bondholders shall have the option to request for the redemption by the Issuer of the Bonds by serving onto the Issuer a prior written notice of not less than two weeks from the intended date of early redemption of the Bonds;

Creation Best International Limited (“**Creation**”) is the investor of New Convertible Bond and Mr. Fang Hui is the ultimate beneficial owner of Creation.

For more details, please refer to the related announcements of the Company dated 1 and 28 December 2020.

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 2020.

Borrowings and charges of assets

As at 31 December 2020, the Group’s interest-bearing loans and long-term loans were approximately RMB74.2 million and RMB36.0 million (30 June 2020: RMB107.2 million and nil), respectively, which will be repayable within 1 year and within 3 years, respectively. Such loans were all denominated in RMB, and bear an interest range of 4.69% to 7.2% per annum (30 June 2020: all denominated in RMB, and bear an interest range of 3.75% to 7.2% per annum).

As at 31 December 2020, the New Convertible Bonds was approximately RMB79.3 million (30 June 2020: RMB91.2 million) which will mature on 30 November 2021 and the interest is at 12.0% per annum.

As at 31 December 2020, the banking facilities granted by the banks were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB60.8 million and RMB107.0 million and RMB76.2 million, respectively (30 June 2020: approximately RMB63.1 million and RMB110.0 million and RMB77.1 million, respectively).

Trade and other receivables

Trade and bills receivables decreased by approximately RMB91.8 million from approximately RMB563.7 million as at 30 June 2020 to approximately RMB471.9 million as at 31 December 2020, primarily due to most of customers settled the receivables in accordance with the contract terms for the six months ended 31 December 2020 as the paper industry is recovering. The provision for impairment of trade receivables was decreased by approximately RMB1.2 million to approximately RMB100.1 million for the six months ended 31 December 2020. The Group will strengthen customer credit risk management to guard against the increase in bad debt provision, and will take legal action if necessary.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISK

The Group's transactions are mainly denominated in Renminbi, United States Dollars, and Hong Kong Dollars. The exchange rate changes of such currencies were monitored regularly and managed appropriately. The Group will enter into foreign currency forward contracts to manage and reduce the risk involved in the net position in each foreign currency, if necessary.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 307 employees (30 June 2020: 296 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2020 were approximately RMB24.3 million, as comparable to approximately RMB29.9 million for the six months ended 31 December 2019. 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 2020, the Company repurchased 962,000 of its ordinary shares on the Stock Exchange in July, September and October 2020, respectively, at an aggregate amount of approximately HK\$1.7 million, representing approximately 0.13% of the total number of issued shares of the Company.

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
2020				
July	698,000	2.20	1.84	1,402,635
September	206,000	1.22	1.03	235,090
October	58,000	1.37	1.32	77,601
	<u>962,000</u>			<u>1,715,326</u>

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.

Such shares have been cancelled on 10 September 2020 and 17 November 2020.

Save 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 2020.

SHARE OPTION SCHEME

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

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 movements in the Company’s share options outstanding under the Share Option Scheme:

For the six months ended 31

Name or category of participant	At 1 July 2020	Number of share options				At 31 December 2020
		Granted during the period	Exercised during the period	Lapsed/ expired during the period	Cancelled/ forfeited during the period	
Executive directors:						
Jin Hao	450,000	-	-	-	450,000	
Other Employees	18,550,000	-	-	-	18,550,000	
In aggregate	19,000,000	-	-	-	19,000,000	

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

The share options were granted under the Share Option Scheme on 15 January 2019. The exercise price of the options granted under the Share Option Scheme was HK\$4.04.

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 2.53% as at 31 December 2020.

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

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

INFORMATION ABOUT CONTROLLING SHAREHOLDER

The Company was informed by Florescent Holdings Limited (the “**Florescent**”), a controlling shareholder of the Company, that a company filed a winding up petition dated 28 December 2020 against Florescent in the High Court of the Hong Kong Special Administrative Region. Details of which are disclosed in the announcement dated 10 January 2021.

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 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 2020.

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 2020 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 2020 (six months ended 31 December 2019: 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 about 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 2020.

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

Zhejiang Province, the PRC, 26 February 2021

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.