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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)

CONTINUING CONNECTED TRANSACTIONS – MASTER SALES AGREEMENT

AND

CHANGE IN USE OF PROCEEDS FROM SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE

CONTINUING CONNECTED TRANSACTIONS

The Board announces that on 8 June 2021, Environmental Resources, an indirect wholly-owned subsidiary of the Company, and the Customer entered into the Master Sales Agreement, pursuant to which Environmental Resources agreed to sell and the Customer agreed to purchase metal scraps, as part of the parties' ordinary and usual course of business, for a term from the date of the Master Sales Agreement to 30 June 2022.

LISTING RULES IMPLICATIONS

The Customer is a company established in the PRC, and as at the date of this announcement is owned as to 51% by Ms. Fang Aiping and 49% by Mr. Fang Anlin. As Ms. Fang Aiping and Mr. Fang Anling are respectively an aunt and an uncle of Mr. Fang Hui, the executive Director and a substantial shareholder of the Company, the Customer is a connected person of the Company and the transactions contemplated under the Master Sales Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the Master Sales Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Master Sales Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CHANGE IN USE OF PROCEEDS FROM SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE

Reference is made to the announcements of the Company dated 2 March 2021, 28 April 2021 and 10 May 2021 and the circular of the Company dated 13 April 2021 in relation to the Subscription under Specific Mandate that the total net proceeds raised from the Subscription amounted to approximately HK\$100 million would be utilised towards the costs of purchasing and leasing plants and machineries for the Dubai Recycling Project.

Due to the continuing travel restrictions imposed for COVID-19, the Company cannot yet make progress on the development of the Dubai Recycling Project. Hence, in the short term, it is unlikely that the Company will need to spend the proceeds from the Subscription on capital expenditure for the Dubai Recycling Project.

For now, the Company will therefore focus on widening its suppliers and customers base for a larger variety of waste materials. As the Company has not yet established additional trade credit to trade waste materials, the Board has therefore resolved to temporarily use the proceeds from the Subscription as working capital to purchase waste material for processing and/or re-sale. Please refer to “Change in Use of Proceeds from Placing of Shares under Specific Mandate” for more details.

BACKGROUND

The Board announces that on 8 June 2021, Environmental Resources, an indirect wholly-owned subsidiary of the Company and the Customer have entered into the Master Sales Agreement.

Under the Master Sales Agreement, Environmental Resources will sell metal scraps to the Customer as part of the parties’ ordinary and usual course of business.

PRINCIPAL TERMS OF THE MASTER SALES AGREEMENT

Date: 8 June 2021

Parties: (a) Environmental Resources; and
(b) the Customer.

Products and services: Environmental Resources will sell metal scraps to the Customer.

The Master Sales Agreement expressly provides that the Environmental Resources and the Customer, may from time to time enter into implementation agreements for each specific transaction contemplated under the Master Sales Agreement to reflect the detailed requirements of the relevant transactions.

The terms and conditions of these implementation agreements shall follow the binding principles, guidelines and terms as set out in the Master Sales Agreement.

The Board is of the view that the nature and purpose of these implementation agreements are simply further elaborating on the details of the transactions contemplated under the Master Sales Agreement and therefore shall not constitute new categories of connected transactions of the Company.

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| Duration: | From the date of the Master Sales Agreement and ending on 30 June 2022. |
| Price and pricing policy: | <p>The detailed terms and conditions, specification, price, quantity and delivery date in relation to the goods to be procured and the incidental services under the Master Sales Agreement shall be reflected in the implementation agreements made between Environmental Resources and the Customer and determined in accordance with the following principles:</p> <ul style="list-style-type: none">(i) each transaction is to be negotiated on a case-by-case and arm's length basis and on normal commercial terms in the ordinary and usual course of business;(ii) prices of the products and services to be provided to the Customer and the terms of the implementation agreements shall be determined with reference to the prevailing market price of same or comparable goods and services, and those charged to independent third parties by Environmental Resources for provision of the same or comparable goods and services; and(iii) where it is impracticable to refer to the rates offered by or to independent third parties for comparable goods or services, Environmental Resources shall take into consideration the specifications of the goods or services, cost structure, profit margin, transaction amount, market condition and past performance of historical transactions between Environmental Resources and the Customer in determining the rate for the amounts payable for the goods or services contemplated under for the Master Sales Agreement. |
| Payment terms: | <p>Same payment terms as normally applicable to sale and purchase of metal scraps to an independent third party in the PRC.</p> <p>Such terms may include payment on delivery, by way of letter of credit, set-off or payment through other generally acceptable means.</p> <p>The payment terms will be set out in the implementation agreements.</p> |

Annual Caps: The anticipated maximum aggregate charges to be paid and payable by the Customer and/or its subsidiaries to Environmental Resources are as follows:

| <i>Period</i> | <i>Annual Cap (in HK\$)</i> |
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| (a) The date of the Master Sales Agreement to 30 June 2021 | HK\$18 million |
| (b) 1 July 2021 to 30 June 2022 | HK\$18 million |

The above annual caps are arrived at with reference to the following factors:

- (a) The anticipated sales volumes of metal scraps of Environmental Resources in the next two years.
- (b) The permitted level of sales Environmental Resources can make to the Customer per year without obtaining the approval of its independent shareholders.

Based on the anticipated sales volumes of Environmental Resources, the Company believes there is a good chance that the Annual Cap may be breached. Accordingly, the Company intends to seek the approval of its independent shareholders for higher Annual Caps at a future date.

INFORMATION REGARDING THE GROUP AND THE CUSTOMER

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 PRC.

The Customer is an established trader of metal scraps in the PRC with over four years of history. The Customer holds a AQSIQ permit which allows it to import and export metal scraps. The Customer is owned as to 51% by Ms. Fang Aiping and 49% by Mr. Fang Anlin. Ms. Fang Aiping and Mr. Fang Anlin are respectively an aunt and an uncle of Mr. Fang Hui, the executive Director and a substantial shareholder of the Company.

REASONS AND BENEFITS FOR THE MASTER SALES AGREEMENT

Pursuant to the Subscription of Shares which was completed on 10 May 2021, the Company raised HK\$100 million to expand the Group's environmental services business including participating in the Dubai waste metal recycling project first announced by the Company on 11 January 2019.

As the first step towards expanding this business, the Group needs to build a wider suppliers and customers base globally and for a larger variety of waste materials.

Through the contacts of Mr. Fang Hui, the Group has begun to sign up new suppliers and customers (both within the PRC and internationally) of scrap materials especially metals.

The Customer is one of the new customers which the Group intends to establish a relationship. It holds a AQSIQ permit which the Group currently lacks. AQSIQ permit is needed by the Group to export metal scraps into the PRC.

The Master Sales Agreement will allow the Group to sell metal scraps to the Customer in the same way the Group is able to sell to non-connected persons of the Company.

INTERNAL CONTROL MEASURES

The Company has adopted the following internal control measures to ensure that the continuing connected transactions are and will be conducted in accordance with the pricing policies and the terms of the Master Sales Agreement, and in compliance with the relevant Listing Rules:

- the finance department shall monitor from time to time and ensure that the transactions are and will be conducted in accordance with the terms of the Master Sales Agreement and the annual caps are not exceeded; and
- the recycling and resources department of the Group will review, among other things, the pricing involved in the transactions contemplated under the Master Sales Agreement and compare with the other independent customers on regular basis to ensure that the pricing and the major terms of such transactions are fair and reasonable.

Furthermore, the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the transactions contemplated under the Master Sales Agreement and annual caps in accordance with the requirements of the Listing Rules. The Board will continue to periodically review the Company's internal control systems and their effectiveness.

IMPLICATION UNDER THE LISTING RULES

As at the date of this announcement, the Customer is owned as to 51% by Ms. Fang Aiping and 49% by Mr. Fang Anlin. As Ms. Fang Aiping and Mr. Fang Anlin are respectively an aunt and an uncle of Mr. Fang Hui, the executive Director and a substantial shareholder of the Company, the Customer is a connected person of the Company under the Listing Rules and the transactions contemplated under the Master Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the Master Sales Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Master Sales Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Board (including the independent non-executive Directors) is of the view that the Master Sale Agreement was entered into in the ordinary and usual course of business of the Company, and on normal commercial terms (in accordance with the terms determined after arm's length negotiation or no less favourable than those offered by the Company to independent third parties). It is further considered that the terms of the Master Sales Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 14A.68(8) of the Listing Rules, Mr. Fang Hui has abstained from voting on the board resolutions in respect of the entering into of the Master Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps) by reason of his relationship with Ms. Fang Aiping and Mr. Fang Anlin. The relevant resolutions were voted and approved by Directors who are not connected to the transactions contemplated under the Master Sales Agreement.

CHANGE IN USE OF PROCEEDS FROM SUBSCRIPTION UNDER SPECIFIC MANDATE

Reference is made to the announcements of the Company dated 2 March 2021, 28 April 2021 and 10 May 2021 and the circular of the Company dated 13 April 2021 in relation to the Subscription under Specific Mandate that the total net proceeds raised from the Subscription amounted to approximately HK\$100 million would be utilised towards the costs of purchasing and leasing plants and machineries for the Dubai Recycling Project. As at the date of this announcement, none of the proceeds from the Subscription has been used.

Due to the continuing travel restrictions imposed for COVID-19, the Company cannot yet make progress on the development of the Dubai Recycling Project. Hence, in the short term, it is unlikely that the Company will need to spend the proceeds from the Subscription on capital expenditure for the Dubai Recycling Project.

For now, the Company will therefore focus on widening its suppliers and customers base for a larger variety of waste materials. As the Company has not yet established additional trade credit to trade waste materials, the Board has therefore resolved to temporarily use the proceeds from the Subscription as working capital to purchase waste material for processing and/or re-sale.

The temporary use of the proceeds from the Subscription as additional working capital should not affect the ability of the Company to deploy the funds for capital expenditure for the Dubai Recycling Project when required.

DEFINITIONS

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| “Annual Caps” | the maximum aggregate annual values of the sales to the Customer; |
| “AQSIQ” | The General Administration of Quality Supervision, Inspection and Quarantine approval issued by the PRC for the importation and exportation of products; |

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| “associate(s)” | has the meaning as ascribed to it under the Listing Rules; |
| “Board” | the board of directors of the Company; |
| “Company” | Huazhang Technology Holding Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange (stock code: 1673); |
| “connected person(s)” | has the meaning as ascribed to it under the Listing Rules; |
| “Customer” | 台州恒晟天悦金属有限公司(Taizhou Hengshengtianyue Metal Co., Ltd.*), a company incorporated in the PRC with limited liability; |
| “Director(s)” | the director(s) of the Company; |
| “Dubai Recycling Project” | the project to establish sold waste-recycling plant(s) in Dubai which is being initiated and implemented by Mr. Fang Ankong (the father of Mr. Fang Hui, the executive Director) and members of management team appointed by him; |
| “Environmental Resources” | Huazhang Environmental Resources Investment Limited, a company incorporated in Hong Kong with limited liability; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollars, the lawful current of Hong Kong; |
| “Hong Kong” | The Hong Kong Special Administrative Region of the People’s Republic of China; |
| “independent shareholder(s)” | the independent shareholder(s) of the Company; |
| “Listing Rules” | The Rules Governing the Listing of Securities on the Stock Exchange; |
| “Master Sales Agreement” | the master sales agreement dated 8 June 2021 entered into between Environmental Resources and the Customer for the sale and purchase of metal scraps; |
| “Mr. Fang Hui” | Mr. Fang Hui, an executive Director and substantial Shareholder of the Company; |

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| “PRC” | the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan; |
| “Shares” | share(s) of HK\$0.01 each in the share capital of the Company; |
| “Shareholder(s)” | the shareholder(s) of the Company; |
| “Specific Mandate” | the specific mandate granted by the then Shareholders to the Board at the extraordinary general meeting of the Company held on 28 April 2021 for allotment and issue of Shares under the Subscription; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Subscription” | subscription of Shares under Specific Mandate by Dao He Investment Limited pursuant to the subscription agreement dated 2 March 2021 as set out in the announcement of the Company dated 2 March 2021 and circular of the Company dated 13 April 2021 and the poll result announcement of the Company dated 28 April 2021; |
| “substantial shareholder(s)” | has the meaning as ascribed to it under the Listing Rules; and |
| “%” | per cent. |

* *For identification purpose only*

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

Hong Kong, 8 June 2021

As at the date of this announcement, the executive directors are Mr. Zhu Gen Rong, Mr. Wang Ai Yan and Mr. Fang Hui, the non-executive Director is Mr. Shi Chenghu, and the independent non-executive directors are Mr. Kong Chi Mo, Mr. Heng, Keith Kai Neng and Mr. Tao Yang Yang.