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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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

	For the six months ended 31 December		
	2021	2020	Change
	RMB	RMB	%
Revenue	175,848,317	292,730,691	(39.9)
Gross profit	16,352,655	59,141,122	(72.3)
Gross profit margin	9.3%	20.2%	(10.9)
(Loss)/profit for the period	(76,228,226)	18,292,867	(516.7)
Net (loss)/profit margin	(43.3)%	6.2%	(49.5)
(Loss)/profit attributable to owners of the parent	(76,273,080)	18,563,277	(510.9)
(Losses)/earnings per share attributable to the ordinary equity holders of the parent (RMB cents per share)			
— basic	(8.60)	2.53	
— diluted	(8.60)	2.53	

The Board resolved not to declare any interim dividend for the six months ended 31 December 2021.

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 2021, together with the unaudited comparative figures for the corresponding period in 2020.

Condensed consolidated statement of profit or loss and other comprehensive income

		For the six months ended	
		31 December	
		2021	2020
	Notes	(Unaudited)	(Unaudited)
		RMB	RMB
REVENUE	4	175,848,317	292,730,691
Cost of sales		(159,495,662)	(233,589,569)
Gross profit		16,352,655	59,141,122
Selling and distribution expenses		(8,373,285)	(6,382,508)
Administrative expenses		(47,206,766)	(22,755,155)
Research and development expenses		(28,510,416)	(12,797,889)
Net impairment losses on financial and contract assets		(20,779,680)	(253,739)
Other income and gains, net	5	8,814,692	16,538,783
OPERATING (LOSS)/PROFIT		(79,702,800)	33,490,614
Finance income		446,000	256,798
Finance costs		(10,360,580)	(11,431,283)
Finance costs — net	7	(9,914,580)	(11,174,485)
(LOSS)/PROFIT BEFORE INCOME TAX	6	(89,617,380)	22,316,129
Income tax credit/(expense)	8	13,389,154	(4,023,262)
(LOSS)/PROFIT FOR THE PERIOD		(76,228,226)	18,292,867
(Loss)/profit is attributable to:			
— Owners of the parent		(76,273,080)	18,563,277
— Non-controlling interests		44,854	(270,410)
		(76,228,226)	18,292,867

		For the six months ended	
		31 December	
		2021	2020
	<i>Notes</i>	(Unaudited)	(Unaudited)
		RMB	RMB
(LOSSES)/EARNINGS PER SHARE			
ATTRIBUTABLE TO THE ORDINARY			
EQUITY HOLDERS OF THE PARENT			
— Basic (losses)/earnings per share	<i>10</i>	(8.60)	2.53
— Diluted (losses)/earnings per share	<i>10</i>	(8.60)	2.53
		<u><u>(8.60)</u></u>	<u><u>2.53</u></u>
(LOSS)/PROFIT FOR THE PERIOD		(76,228,226)	18,292,867
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		242,892	8,055,025
		<u><u>242,892</u></u>	<u><u>8,055,025</u></u>
OTHER COMPREHENSIVE INCOME		242,892	8,055,025
FOR THE PERIOD, NET OF TAX		<u><u>242,892</u></u>	<u><u>8,055,025</u></u>
TOTAL COMPREHENSIVE (LOSS)/INCOME		(75,985,334)	26,347,892
FOR THE PERIOD		<u><u>(75,985,334)</u></u>	<u><u>26,347,892</u></u>
TOTAL COMPREHENSIVE (LOSS)/INCOME			
FOR THE PERIOD IS ATTRIBUTABLE TO:			
— Owners of the parent		(76,030,188)	26,618,302
— Non-controlling interests		44,854	(270,410)
		<u><u>(76,030,188)</u></u>	<u><u>26,618,302</u></u>
		<u><u>44,854</u></u>	<u><u>(270,410)</u></u>
		<u><u>(75,985,334)</u></u>	<u><u>26,347,892</u></u>

Condensed consolidated statement of financial position

		31 December 2021 (Unaudited) RMB	30 June 2021 (Audited) RMB
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	76,083,663	73,441,278
Other right-of-use assets		7,851,744	5,830,519
Investment properties		96,141,649	104,021,068
Prepaid land lease payments		77,023,589	75,375,942
Goodwill	12	39,934,884	39,934,884
Other intangible assets		9,394,089	10,668,801
Deferred tax assets		29,347,253	16,260,156
Investments in an associate		4,943,686	4,947,538
Financial assets at fair value through profit or loss		5,253,942	5,447,433
Trade and other receivables	13(i)	14,457,610	23,744,860
Prepayments	13(iii)	163,252	169,782
		<u>360,595,361</u>	<u>359,842,261</u>
CURRENT ASSETS			
Inventories		143,532,941	156,144,094
Trade and other receivables	13(i)	487,969,952	550,390,302
Prepayments	13(iii)	122,232,457	89,226,697
Financial assets at fair value through other comprehensive income (“FVOCI”)		69,591,164	43,493,570
Pledged deposits		30,558,702	23,922,992
Contract assets	13(ii)	21,730,238	16,325,135
Cash and cash equivalents		66,224,231	145,299,486
		<u>941,839,685</u>	<u>1,024,802,276</u>
Total current assets		<u>941,839,685</u>	<u>1,024,802,276</u>
Total assets		<u>1,302,435,046</u>	<u>1,384,644,537</u>

		31 December	30 June
		2021	2021
	<i>Notes</i>	(Unaudited)	(Audited)
		RMB	RMB
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities		5,175,424	5,477,481
Deferred income		22,162,500	22,837,500
Lease liabilities		5,781,978	4,430,761
Trade and other payables		–	2,101,412
		<u> </u>	<u> </u>
Total non-current liabilities		33,119,902	34,847,154
CURRENT LIABILITIES			
Trade and other payables	14	312,845,798	343,430,172
Contract liabilities		222,097,875	181,819,504
Interest-bearing loans		36,983,924	53,046,324
Income tax payable		5,559,684	6,287,003
Lease liabilities		2,081,036	1,086,252
Convertible bonds	15	82,918,267	81,314,234
		<u> </u>	<u> </u>
Total current liabilities		662,486,584	666,983,489
		<u> </u>	<u> </u>
Total liabilities		695,606,486	701,830,643
		<u> </u>	<u> </u>
NET ASSETS		606,828,560	682,813,894
		<u> </u>	<u> </u>
EQUITY			
Share capital		7,471,631	7,471,631
Share premium		589,857,286	589,857,286
Equity component of convertible bonds		6,199,604	6,199,604
Other reserves		106,047,737	105,804,845
Accumulated deficits		(100,855,456)	(24,582,376)
		<u> </u>	<u> </u>
Capital and reserves attributable to the owners of the parent		608,720,802	684,750,990
Non-controlling interests		(1,892,242)	(1,937,096)
		<u> </u>	<u> </u>
Total equity		606,828,560	682,813,894
		<u> </u>	<u> </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 is 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 25 February 2022.

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 2021 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 2021, 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 2021, as described in those annual financial statements.

3.1 New and amended standards adopted by the Group

The Group has applied no standards and amendments for the first time for their annual reporting period commencing 1 July 2021.

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 2021 and relevant to the Group and have not been early adopted by the Group.

Standards, amendments and interpretations	Key requirements	Effective for annual periods beginning on or after
Accounting Guideline 5 (Amendments)	Merger Accounting for Common Control Combination	1 January 2022
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
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17 (Amendments)	Insurance Contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 (Amendments) and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020)	Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause	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

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 condensed consolidated interim 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:

- industrial products;
- project contracting services;
- environmental products; and
- 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, net, finance costs — net and income tax credit/(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 2021:

	Unaudited				
	Industrial products <i>RMB</i>	Project contracting services <i>RMB</i>	Environmental products <i>RMB</i>	Supporting services <i>RMB</i>	Total <i>RMB</i>
Segment revenue from external customers	88,693,933	42,053,928	8,484,923	36,615,533	175,848,317
Timing of revenue recognition					
At a point in time	88,693,933	–	1,335,409	33,162,316	123,191,658
Over time	–	42,053,928	7,149,514	3,453,217	52,656,659
Segment cost of sales	<u>(68,882,379)</u>	<u>(52,354,079)</u>	<u>(6,155,325)</u>	<u>(32,103,879)</u>	<u>(159,495,662)</u>
Segment gross profit	19,811,554	(10,300,151)	2,329,598	4,511,654	16,352,655
Segment results	<u>(6,649,495)</u>	<u>(37,892,606)</u>	<u>(3,183,741)</u>	<u>(13,387,077)</u>	<u>(61,112,919)</u>
Common administrative expenses					(27,404,573)
Other income and gains, net					8,814,692
Finance costs — net					<u>(9,914,580)</u>
Loss before income tax					(89,617,380)
Income tax credit					<u>13,389,154</u>
Loss for the period					<u><u>(76,228,226)</u></u>

Other segment information:

	Unaudited					Total RMB
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	
	Capital expenditure	1,300,152	46,239	-	2,388,359	
Depreciation of property, plant and equipment (Note 6)	556,769	26,407	374,259	2,483,980	-	3,441,415
Depreciation of right-of-use assets (Note 6)	-	-	-	-	1,151,562	1,151,562
Depreciation of investment properties (Note 6)	-	-	-	2,821,849	-	2,821,849
Amortisation of prepaid land lease payments (Note 6)	38,377	-	50,919	768,210	145,624	1,003,130
Amortisation of other intangible assets (Note 6)	<u>1,320,233</u>	<u>-</u>	<u>-</u>	<u>5,364</u>	<u>-</u>	<u>1,325,597</u>

The segment assets and liabilities as at 31 December 2021 are as follows:

	Unaudited					Total RMB
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	
	Segment assets	<u>325,441,628</u>	<u>409,146,082</u>	<u>67,673,379</u>	<u>350,773,577</u>	
Segment liabilities	<u>270,853,451</u>	<u>206,644,382</u>	<u>31,480,022</u>	<u>89,649,671</u>	<u>96,978,960</u>	<u>695,606,486</u>

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

	Unaudited				
	Industrial products <i>RMB</i>	Project contracting services <i>RMB</i>	Environmental products <i>RMB</i>	Supporting services <i>RMB</i>	Total <i>RMB</i>
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, 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><u>18,292,867</u></u>

Other segment information:

	Unaudited					Total RMB
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	
	Capital expenditure	35,516	–	24,275	135,127	
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 30 June 2021 are as follows:

	Audited					Total RMB
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	
	Segment assets	<u>297,048,596</u>	<u>447,870,231</u>	<u>85,056,488</u>	<u>358,128,717</u>	
Segment liabilities	<u>267,007,692</u>	<u>203,447,045</u>	<u>26,441,117</u>	<u>108,782,810</u>	<u>96,151,979</u>	<u>701,830,643</u>

5 Other income and gains, net

	For the six months ended	
	31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB	RMB
Interest income recognised from project contracting services	3,785,037	5,981,952
Government grants	2,640,212	3,326,712
Tax refund	956,711	797,439
Rental income	560,091	482,427
Service income	463,021	1,037,735
Interest income from customer delaying on payment	428,007	266,700
Debt relief	–	4,099,961
Penalty income	–	301,050
Interest income from loan to a customer	–	199,971
Others	(18,387)	44,836
	<u>8,814,692</u>	<u>16,538,783</u>

6 (Loss)/profit before income tax

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

	For the six months ended	
	31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB	RMB
Raw materials used	185,480,525	259,294,913
Employee benefit expenses	44,621,948	24,327,022
Provision for legal claims	32,416,633	–
Change in inventory of finished goods and work in progress	(23,713,774)	(33,987,668)
Net impairment losses on financial and contract assets	20,779,680	253,739
Depreciation of property, plant and equipment (Note 11)	3,441,415	3,164,198
Professional service fees	3,392,165	2,667,218
Reversal/addition of provision for write-down of inventories	(3,234,284)	2,194,800
Depreciation of investment properties	2,821,849	2,977,221
Amortisation of other intangible assets	1,325,597	1,281,879
Depreciation of other right-of-use assets	1,151,562	662,057
Amortisation of prepaid land lease payments	1,003,130	855,796

7 Finance costs — net

	For the six months ended	
	31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB	RMB
Finance costs		
Interest on convertible bonds (<i>Note 15</i>)	(7,999,795)	(3,616,043)
Interest on loans	(2,126,360)	(2,772,949)
Interest paid/payable for lease liabilities	(227,030)	(148,881)
Exchange losses, net	(7,395)	(3,152,510)
Upfront commitment fee on convertible bond	—	(1,740,900)
	<u>(10,360,580)</u>	<u>(11,431,283)</u>
Finance income		
Interest income	<u>446,000</u>	<u>256,798</u>
Finance costs — net	<u><u>(9,914,580)</u></u>	<u><u>(11,174,485)</u></u>

8 Income tax credit/(expense)

	For the six months ended	
	31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB	RMB
Current income tax		
PRC enterprise income tax (ii)	—	(3,489,768)
Hong Kong profits tax (i)	—	(940,180)
Deferred income tax	<u>13,389,154</u>	<u>406,686</u>
Income tax credit/(expense)	<u><u>13,389,154</u></u>	<u><u>(4,023,262)</u></u>

(i) *Hong Kong profits tax*

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax. Pursuant to Inland Revenue (Amendment) (No.7) Bill, for a year of assessment commencing on or after 1 April 2018, Hong Kong profits tax is chargeable at the rate of 8.25% on assessable profits up to HKD2,000,000 and at the rate of 16.5% on any part of assessable profits over HKD2,000,000 for a corporation.

(ii) *PRC enterprise income tax ("EIT")*

EIT is provided on the assessable income of entities within the Group incorporated in the PRC. Pursuant to the PRC Enterprise Income Tax Law (the "**New EIT Law**"), the EIT of companies established in the PRC is unified at 25%, effective from 1 January 2008.

Under the relevant regulations of the New EIT Law, Zhejiang Huazhang Technology Limited ("**Zhejiang Huazhang**") had obtained the qualification of High and New Technology Enterprise in the calendar year of 2020 with a validation period of three years. The applicable EIT rate of Zhejiang Huazhang is 15% from 2020 till 2022. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the six months period ended 31 December 2021 (six months period ended 31 December 2020: 15%).

9 Dividends

No dividends was paid during the six months ended 31 December 2021 (six months ended 31 December 2020: nil).

On 25 February 2022, the Board resolved not to declare any interim dividend for the six months ended 31 December 2021 (six months ended 31 December 2020: nil).

10 Earnings per share

The calculation of the basic earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 886,741,378 (2020: 733,074,613) 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 2021 and 2020. For the six months ended 31 December 2021, the Group had no potential dilutive ordinary shares in issue (six months ended 31 December 2020: nil).

	For the six months ended	
	31 December	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB	RMB
<u>Basic</u>		
Earnings		
(Losses)/earnings attributable to ordinary equity holders of the parent	<u>(76,273,080)</u>	<u>18,563,277</u>
Number of shares		
Weighted average number of ordinary shares in issue during the period	<u>886,741,378</u>	<u>733,074,613</u>
Basic (losses)/earnings per share (<i>RMB cents</i>)	<u>(8.60)</u>	<u>2.53</u>
<u>Diluted</u>		
Earnings		
(Losses)/earnings attributable to ordinary equity holders of the parent	<u>(76,273,080)</u>	<u>18,563,277</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>886,741,378</u>	<u>733,074,613</u>
Diluted (losses)/earnings per share (<i>RMB cents</i>)	<u>(8.60)</u>	<u>2.53</u>

11 Property, plant and equipment

	Buildings (Unaudited) <i>RMB</i>	Machinery and vehicles (Unaudited) <i>RMB</i>	Furniture, fittings and equipment (Unaudited) <i>RMB</i>	Total (Unaudited) <i>RMB</i>
Six months ended				
31 December 2021				
Opening net book amount as at 1 July 2021	60,607,404	11,256,426	1,577,448	73,441,278
Additions	2,851,375	90,336	742,154	3,683,865
Disposals	–	(3,820)	(3,038)	(6,858)
Depreciation charge (<i>Note 6</i>)	(2,276,747)	(927,240)	(237,428)	(3,441,415)
Transfer from investment properties	2,406,793	–	–	2,406,793
	<u>63,588,825</u>	<u>10,415,702</u>	<u>2,079,136</u>	<u>76,083,663</u>
Closing net book amount as at 31 December 2021				
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 (<i>Note 6</i>)	(1,939,923)	(1,038,334)	(185,941)	(3,164,198)
	<u>62,550,616</u>	<u>12,290,541</u>	<u>1,668,872</u>	<u>76,510,029</u>
Closing net book amount as at 31 December 2020				

12 Goodwill

	Headbox business (Unaudited) RMB	Logistics and warehousing services (Unaudited) RMB	Others (Unaudited) RMB	Total (Unaudited) RMB
Six months ended 31 December 2021				
Opening net book amount as at 1 July 2021	<u>36,155,379</u>	<u>3,183,135</u>	<u>596,370</u>	<u>39,934,884</u>
Closing net book amount as at 31 December 2021	<u>36,155,379</u>	<u>3,183,135</u>	<u>596,370</u>	<u>39,934,884</u>
Six months ended 31 December 2020				
Opening net book amount as at 1 July 2020	<u>36,155,379</u>	<u>3,183,135</u>	<u>596,370</u>	<u>39,934,884</u>
Closing net book amount as at 31 December 2020	<u>36,155,379</u>	<u>3,183,135</u>	<u>596,370</u>	<u>39,934,884</u>

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 Logistics 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 2021

Sales (% annual growth rate)	2%–3%
Budgeted gross margin (%)	28.6%–34%
Long term growth rate (%)	2.5%
Pre-tax discount rate (%)	19.4%

30 June 2021

Sales (% annual growth rate)	2%–3%
Budgeted gross margin (%)	28%–34%
Long term growth rate (%)	2.5%
Pre-tax discount rate (%)	19.4%

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 2021, no impairment charge arose in the aforesaid CGUs (30 June 2021: nil).

13 Trade and other receivables, contract assets and prepayments

(i) Trade and other receivables

	As at 31 December 2021 (Unaudited) RMB	As at 30 June 2021 (Audited) RMB
Warranty receivables (a)	14,866,589	14,405,121
Other trade receivables (b)	<u>485,609,980</u>	<u>510,358,827</u>
	500,476,569	524,763,948
Less: provision for impairment of trade receivables (c)	<u>(117,036,238)</u>	<u>(96,219,937)</u>
Trade receivables — net	383,440,331	428,544,011
Bills receivable	<u>28,461,010</u>	<u>49,097,554</u>
Trade and bills receivables	<u>411,901,341</u>	<u>477,641,565</u>
Payment on behalf of an independent third party	87,287,538	87,287,538
Deductible input value added tax	9,368,495	9,624,065
Loan to related parties	7,000,000	—
Other receivables — guarantee	5,304,988	4,158,422
Loan to customers	2,397,531	5,312,236
Other receivables due from related parties	—	11,297,003
Others	<u>6,831,079</u>	<u>6,865,375</u>
	<u>118,189,631</u>	<u>124,544,639</u>
Less: provision for impairment of other receivables (c)	<u>(27,663,410)</u>	<u>(28,051,042)</u>
Other receivables — net	<u>90,526,221</u>	<u>96,493,597</u>
Total trade and other receivables	502,427,562	574,135,162
Less: trade and other receivables — non-current portion	<u>(14,457,610)</u>	<u>(23,744,860)</u>
	<u><u>487,969,952</u></u>	<u><u>550,390,302</u></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 2021 (Unaudited) RMB	As at 30 June 2021 (Audited) RMB
Warranty receivables		
1 year to 2 years	2,629,609	3,678,837
Over 2 years	12,236,980	10,726,284
	<u>14,866,589</u>	<u>14,405,121</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 2021 (Unaudited) RMB	As at 30 June 2021 (Audited) RMB
Other trade receivables		
Up to 3 months	57,694,061	115,150,537
3 months to 6 months	8,255,210	9,839,748
6 months to 1 year	57,162,373	3,197,708
1 year to 2 years	168,948,262	195,188,791
Over 2 years	193,550,074	186,982,043
	<u>485,609,980</u>	<u>510,358,827</u>

- (c) As at 31 December 2021, provisions amounting to RMB99,648,835 (30 June 2021: RMB79,154,496) and RMB24,585,572 (30 June 2021: RMB24,585,572) 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 2021 (Unaudited) RMB	As at 30 June 2021 (Audited) RMB
Contract assets	22,361,956	16,833,275
Less: provision for impairment of contract assets	(631,718)	(508,140)
	<u>21,730,238</u>	<u>16,325,135</u>

(iii) *Prepayments*

	As at 31 December 2021 (Unaudited) RMB	As at 30 June 2021 (Audited) RMB
Prepayments for procurement	122,126,617	89,012,131
Others	269,092	384,348
Total prepayments	122,395,709	89,396,479
Less: prepayments — non-current portion	(163,252)	(169,782)
	<u>122,232,457</u>	<u>89,226,697</u>

14 Trade and other payables

	As at 31 December 2021 (Unaudited) RMB	As at 30 June 2021 (Audited) RMB
Trade payables	149,820,900	166,489,237
Bills payable	<u>27,799,571</u>	<u>52,868,655</u>
Trade and bills payables	<u>177,620,471</u>	<u>219,357,892</u>
Other taxes payables	44,661,359	42,233,017
Provision for legal claims	37,600,000	7,447,420
Deposits for project contracting services	17,972,549	35,295,556
Interest-free loan from independent third parties	13,580,800	13,580,800
Amount due to suppliers on a customer's behalf	13,419,622	13,419,622
Accruals	3,363,545	5,980,742
Provision for warranty expenses	725,240	523,838
Other deposits	634,452	581,402
Employee benefit payables	471,339	3,496,196
Payables for property, plant and equipment	5,309	77,716
Amounts due to related parties	–	5,920
Others	<u>2,791,112</u>	<u>3,531,463</u>
Other payables	<u>135,225,327</u>	<u>126,173,692</u>
Total trade and other payables	312,845,798	345,531,584
Less: trade and other payables — non-current portion		
— Employee benefit payables	–	(2,101,412)
	<u>312,845,798</u>	<u>343,430,172</u>

- (i) In December 2021, a legal claim made by an independent third party against the Group in respect of a construction contract was sentenced at the first trial, and the Group has lodged an appeal thereafter. The recognised provision reflects the directors' best estimate of the most likely outcome.

The ageing analysis of the trade payables is as follows:

	As at 31 December 2021 (Unaudited) RMB	As at 30 June 2021 (Audited) RMB
Up to 3 months	99,780,218	88,015,427
3 months to 6 months	6,207,377	9,185,944
6 months to 1 year	5,517,618	16,991,364
1 year to 2 years	11,010,532	31,631,302
Over 2 years	27,305,155	20,665,200
	<u>149,820,900</u>	<u>166,489,237</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**”).

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.

On the maturity date, the investor did not exercise its conversion rights, nor the bond was redeemed as well. Pursuant to the bond subscription agreement, the conversion right attaching to this bond is revived and will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such bond has been duly received by the investor. The default interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on which full payment is made to the investor.

	Liability component of Convertible Bonds (Unaudited) RMB	Equity component of Convertible Bonds (Unaudited) RMB	Total (Unaudited) RMB
At 1 July 2021	81,314,234	6,199,604	87,513,838
Interest expense (<i>Note 7</i>)	7,999,795	–	7,999,795
Interest paid	(4,952,100)	–	(4,952,100)
Currency translation differences	(1,443,662)	–	(1,443,662)
	<u>82,918,267</u>	<u>6,199,604</u>	<u>89,117,871</u>
At 31 December 2021	82,918,267	6,199,604	89,117,871
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 (<i>Note 7</i>)	3,616,043	–	3,616,043
Interest paid	(2,176,125)	–	(2,176,125)
Currency translation differences	(7,155,964)	–	(7,155,964)
	<u>79,329,629</u>	<u>6,199,604</u>	<u>85,529,233</u>
At 31 December 2020	79,329,629	6,199,604	85,529,233

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

According to the National Bureau of Statistics, China's Gross Domestic Product (“GDP”) in 2021 was RMB114.3 trillion with the GDP growth rate of 8.1%, which was the fastest growth rate in the past few years. However, the current China and overseas situation remains complex and severe, which has led to new downward pressure on the Chinese economy. In particular, in the second half of 2021, the tight power and coal supply and the debt crisis of real estate companies caused GDP to fall to 4% in the fourth quarter of 2021, well below the 4.9% in the third quarter of 2021 and an even bigger drop from the eye-popping 18.3% in the first quarter of 2021. The paper industry was also affected by the downward economic pressure.

According to data released by the National Bureau of Statistics, the national output of machine-made paper and paperboard in 2021 was 13,583.9 million tonnes, an increase of 8.833 million tonnes or 6.8%, surpassing the 13 million tonnes mark for the first time and reaching a new record high. However, national machine-made paper and board output rose 1.2% year-on-year to 12.344 million tonnes in December 2021, showing a positive year-on-year growth after three consecutive months of decline from September to November. The economic downturn and the tightening nationwide environmental requirements had slowed down the pace of new mill capacity in the second half of 2021.

In December 2021, the China Paper Association released the “Outline of the 14th Five-Year Plan and Medium- and Long-term High-Quality Development of Paper Manufacturing Industry (《造紙行業「十四五」及中長期高質量發展綱要》)” to formulate the industry's roadmap, guidelines, policies and strategies for medium- and long-term planning to create a low-carbon, environmentally sustainable green paper industry, which refers to energy saving and emission reduction and technological progress by advocating consolidation of emission reduction achievements, maintaining low emission levels of pollutants, and increasing the integrated utilisation of solid waste and the energy utilisation of biomass in solid, liquid and gas waste, while strengthening the construction of independent innovation capacity of paper-making equipment manufacturing enterprises. We increased the research and development of a new generation of pulp and paper manufacturing and paper products technical equipment, improved the level of technical equipment autonomy, and strive to key backbone paper manufacturing enterprises of the technical level and equipment manufacturing capabilities close to the international advanced level.

BUSINESS REVIEW

For the six months ended 31 December 2021, the Group's revenue decreased by 39.9% to approximately RMB176 million, which was mainly affected by the delay of certain contracting service projects by customers.

Paper Industry Related Business

Newly Signed Contracts

For the six months ended 31 December 2021, benefiting from the overall recovery of the paper manufacturing industry in the first half of 2021, the value of the Group's newly signed contracts grew by 11.72% to approximately RMB260.0 million. Among which, the Group obtained the turnkey project of 6600/1200 paper machine from Shanying International, which is the largest scale paper machine manufactured by a paper machine supplier in the PRC. In addition, the Group obtained the turnkey contract for two special paper machines of Minfeng Special Paper.

Project Innovation

The Group has a well-organised design and project implementation team, which developed a rigorous technical path for elaborating design and implementation solutions for customers through repeated discussions and demonstrations with clients and experts. For the six months ended 31 December 2021, the Group completed most of the renovation projects of Qiangwei Paper, and eventually established a solid foundation for significant improvement on the stability and speed of the customer's paper machines through substantial changes in equipment configuration and a series of design optimisations. The Group has once again proven to be an industry leader in design and installation expertise in the paper manufacturing industry.

The Group started to promote its new product (i.e. conical mill and hydraulic pulper) in the financial year 2020 and received good response from the market during the period. Over 50 sets of conical mill and hydraulic pulper have been supplied to customers for installation in 300,000-ton household paper project of Shaoneng Group's Leiyang Cailun Paper, with acceptance expected in the first half of 2022. The completion of the project will be a strong proof of the Group's new product technology and application capability, which will be further promoted to potential customers more effectively. Currently, the eccentric design of the rotor of the Group's hydraulic pulper has a high efficiency with a low energy consumption rate, which reduces energy consumption by 30% compared with the conventional design, and can be widely used in the processing of commercial wood pulp, and has been highly recognised by customers.

Technology Innovation

For the six months ended 31 December 2021, the Group continued to invest substantial resources in product research and development, with the relevant expenses amounting to approximately RMB28.5 million. During the six months ended 31 December 2021, the Group has filed 70 new patents during the period. As at 31 December 2021, the Group has registered a total of 126 patents (including 22 invention patents, 75 utility model patents and 29 software copyrights).

In December 2021, the Group's "High Efficiency Molding Linkage Line for Paper Solid Waste Derived Fuel Preparation (用於造紙固體廢棄物衍生燃料製備的高效成型聯動線)" was selected as the first set of products in the key areas of Jiaying's equipment manufacturing industry in 2021. The recognition of the product has not only encouraged the research staff of the Group, but also confirmed the Group's strategy to establish the research institute. As a research institute of the Group, it also takes care of the concept of leading the Group's future products, the research results should be applied to the products, and at the same time, it can cooperate with major universities to carry out scientific and technological projects, cultivate talents for the paper-making equipment industry, and lead China's paper-making equipment technology to approach the international advanced level.

Environmental Related Business

The Group has been looking for opportunities to diversity its business, more particularly, to set up waste recycling treatment plants outside of China since 2019 to capture the opportunities of expanding global waste recycling treatment. With China announcing that it will strive to reach peak carbon emissions by 2030 and work towards carbon neutrality by 2060, there is a large potential market for waste recycling services. According to the China Nonferrous Metals Industry Association, the prices of bulk non-ferrous metals continued to run at a high level in 2021, with the average spot prices of copper, aluminum, lead and zinc at RMB68,490 per tonne, RMB18,946 per tonne, RMB15,278 per tonne and RMB22,579 per tonne respectively, representing increases of 40.5%, 33.5%, 3.4% and 22.1% year-on-year. If this opportunity is realised, it will bring in an exciting expansion of the Group's environmental services business. As of 31 December 2021, the Group is still looking for opportunities in overseas and negotiating with overseas governments to secure the best investment terms.

In order to participate in environmental related business, the Group has started trading activities of waste materials, especially metal scraps since 2021. For the six months ended 31 December 2021, the trading volume from waste trading business was approximately RMB24.89 million and recognized income of RMB0.4 million. The Group will allocate further resources to environmental related business and believe that the business in the sector will grow further.

FUTURE PROSPECTS

In February 2021, the State Council promulgated the Guidelines on Accelerating the Establishment and Improvement of a Green and Low-Carbon Circular Economic Development System (《關於加快建立健全綠色低碳循環發展經濟體系的指導意見》) to elevate the green upgrade of the paper industry to the national level. Green upgrade and transformation are inevitable for the development of the paper industry, which is also an opportunity for paper-making equipment enterprises to win development. The Group will continue to increase the number of intelligent and digital applications of its equipment to assist customers in refining the management of their production processes, promoting product upgrades and developing new products.

On the other hand, fueled by China's implementation of its 14th Five-Year Plan that circular economy is the priority focus for the country's development, the Group believes that it will bring positive market prospect to the recycling industry. The Group will continue to explore business opportunities within the business chains of the recycling industry. Looking ahead, the Group is optimistic about the business potential in the recycling business and committed to become a significant player in the recycling industry.

Meanwhile, the Group will further strengthen its internal management and enhance management efficiency to ensure effective cost control and improve the Group's financial position.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased significantly by approximately 39.9% from approximately RMB292.7 million for the six months ended 31 December 2020 to approximately RMB175.8 million for the six months ended 31 December 2021, primarily attributing to the delay of certain contracting service projects by customers in project contracting services segment. The gross profit margin also decreased sharply from approximately 20.2% for the six months ended 31 December 2020 to approximately 9.3% for the six months ended 31 December 2021, primarily attributing to provisions for the loss incurred from a project were recognised.

(i) Industrial products

Revenue from sales of industrial products decreased by approximately 18.2% from approximately RMB108.4 million for the six months ended 31 December 2020 to approximately RMB88.7 million for the six months ended 31 December 2021. Such decrease was primarily attributable to slowdown of the project progress led by the customers and shortage of supply of the parts from the suppliers. The sales of industrial automation systems and headbox business decreased by approximately RMB12.1 million to approximately RMB46.5 million and approximately RMB7.6 million to approximately RMB42.2 million, respectively, for the six months ended 31 December 2021 as compared to that for the six months ended 31 December 2020. The gross profit margin of industrial products decreased from approximately 27.2% for the six months ended 31 December 2020 to approximately 22.3% for the six months ended 31 December 2021.

(ii) Project contracting services

Revenue from project contracting services decreased significantly by approximately 72.7% from approximately RMB153.8 million for the six months ended 31 December 2020 to approximately RMB42.1 million for the six months ended 31 December 2021. Such decrease was mainly due to the installation work of a mega contracting project in Vietnam was completed in first half of 2021 and several contracting projects were delayed by the customers. The gross profit margins of project contracting services decreased sharply from approximately 16.2% for the six months ended 31 December 2020 to approximately -24.5% for the six months ended 31 December 2021, such change was primarily due to attributing to a loss from an Engineering Procurement Construction (“EPC”) project was recognised.

The Group undertook an EPC project (the “**EPC Project**”) for Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) amounting to approximately RMB320.0 million which is started in April 2018. The project was suspended nearly 3 years. Zhejiang Huazhang Technology Limited (“**Zhejiang Huazhang**”), a wholly owned subsidiary of the Group, received a first instance judgment dated 24 December 2021 (the “**Judgment**”) handed down by the Intermediate People’s Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the “**Court**”) in the People’s Republic of China (the “**PRC**”) in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) (the “**Plaintiff**”) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) (the “**Defendant**” or “**Yunnan Yunhong**”) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. According to the Judgment, the Defendant and Zhejiang Huazhang were ordered, among others, to pay an aggregate amount of approximately RMB37.6 million to the Plaintiff. For the six months ended 31 December 2021, the Group recognised a further provision for the litigation amounting to RMB12.9 million which recorded in administrative expenses. In addition, Zhejiang Huazhang received a first instance judgment dated 28 January 2022 (the “**2nd Judgement**”) handed down by the People’s Court of Tongxiang City (桐鄉人民法院) (the “**Tongxiang Court**”) in relation to a claim from a supplier (the “**2nd Plaintiff**”) for the settlement of the purchase of equipment (the “**Purchase**”) due to the project was suspended for a long time. According to the 2nd judgement, Zhejiang Huazhang were ordered, among others, to pay an aggregate amount of approximately RMB0.9 million to the 2nd Plaintiff. As the Group have similar purchases with the same terms in this project, the management considered that other suppliers probably will make the same claim after the 2nd Judgement, therefore, the Group estimated a loss for the claims from other suppliers amounting to RMB17.7 million and recognised in the costs of sales.

(iii) Environmental business

Revenue from sales of environmental business decreased significantly by approximately 41.5% from approximately RMB14.5 million for the six months ended 31 December 2020 to approximately RMB8.5 million for the six months ended 31 December 2021. 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 increased from approximately 24.5% for the six months ended 31 December 2020 to approximately 27.5% for the six months ended 31 December 2021, primarily attributing to increase in sales of parts of sludge treatment products which have a higher profit margin.

(iv) Supporting services

Revenue from the provision of supporting services increased by approximately 128.2% from approximately RMB16.0 million for the six months ended 31 December 2020 to approximately RMB36.6 million for the six months ended 31 December 2021. The revenue from the provision of support services increased significantly mainly due to increase in demand and size of the renovation projects, among others, the Group recognised a revenue of RMB12.0 million from a renovation project under the project progress for the six months ended 31 December 2021. The gross profit margin for the provision of supporting services increased from approximately 7.8% for the six months ended 31 December 2020 to approximately 12.3% for the six months ended 31 December 2021, primarily attributing to the increase in provision for renovation service which have a higher profit margin.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 31.2% from approximately RMB6.4 million for the six months ended 31 December 2020 to approximately RMB8.4 million for the six months ended 31 December 2021, accounting for approximately 2.2% and approximately 4.8% of the Group's revenue for the six months ended 31 December 2020 and 2021, respectively. Increase in selling and distribution expenses is mainly attributable to an increase in staff costs in relation to increment of staff salaries and an incentive paid for the improved performance.

Administrative expenses

The administrative expenses increased by approximately 107.5% from approximately RMB22.8 million for the six months ended 31 December 2020 to approximately RMB47.2 million for the six months ended 31 December 2021, accounting for approximately 7.8% and approximately 26.80% of the Group's revenue for the six months ended 31 December 2020 and 2021 respectively. Increase in administrative expenses is mainly attributable to (i) an increase in staff costs due to an increase in headcount of management team and incentive payment and increment of staff salaries, and (ii) an increase in entertainment fee for the six months ended 31 December 2021 as compared with the respective period in 2020; and (iii) a provision for the litigation amounting to RMB12.9 million in relation to the EPC project was recognised for the six months ended 31 December 2021 as no such provision for the six months ended 31 December 2020.

Research and development expenses

The research and development expenses increased by approximately 122.8% from approximately RMB12.8 million for the six months ended 31 December 2020 to approximately RMB28.5 million for the six months ended 31 December 2021, accounting for approximately 4.4% and approximately 16.2% of the Group's revenue for the six months ended 31 December 2020 and 2021 respectively. Increase in research and development expenses is mainly attributable to (i) an increase in staff costs due to increment of staff salaries and an incentive paid to staff for their contribution, and (ii) an increase in usage of the raw materials as the Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes and new products. 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 increased significantly by approximately RMB20.5 million from approximately RMB0.3 million for the six months ended 31 December 2020 to approximately RMB20.8 million for the six months ended 31 December 2021. Due to the Group's loss in the litigations under the EPC Projects and Yunnan Yunhong have liquidity issue, the Group made further impairment losses on the receivables from Yunnan Yunhong amounting to RMB19.0 million for the six months ended 31 December 2021. Besides, for the six months ended 31 December 2021, the situation of other customers did not have any significant change, therefore, the Group did not make further impairment and considered that the impairment provision was relatively sufficient as at 31 December 2021. 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, net

Other income and gains, net decreased by approximately 46.7% from approximately RMB16.5 million for the six months ended 31 December 2020 to approximately RMB8.8 million for the six months ended 31 December 2021, primarily attributing to (i) a debt relief of RMB4.1 million was recorded for the six months ended 31 December 2020 while no such transaction was incurred for the six months ended 31 December 2021; (ii) a decrease in interest income recognised from project contracting service of approximately RMB2.2 million for six month ended 31 December 2021 as compared with the corresponding period in 2020.

Finance costs — net

The finance costs — net decreased by approximately 11.3% from RMB11.2 million for the six months ended 31 December 2020 to approximately RMB9.9 million for the six months ended 31 December 2021, primarily attributing to a decrease in exchange losses of approximately RMB3.2 million and a decrease in upfront commitment fee on convertible bond of approximately RMB1.7 million, which is offset by an increase in finance costs of RMB4.4 million on convertible bonds, for the six months ended 31 December 2021 as compared with the corresponding period in 2020.

Income tax credit/(expense)

The Group recorded an income tax credit of approximately RMB13.4 million for the six months ended 31 December 2021 while there was an income tax expense of approximately RMB4.0 million for the six months ended 31 December 2020. Such change is attributable to (i) a decrease in the PRC enterprise income tax as our subsidiaries recorded a taxation loss; and (ii) an increase in deferred income tax in relation to the provision for impairment and loss incurred from the EPC Project.

The effective tax rate of the Group decreased from approximately 18.0% for the six months ended 31 December 2020 to approximately 14.9% for the six months ended 31 December 2021.

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

As a result of the foregoing, the Group recorded a loss for the period of approximately RMB76.2million for the six months ended 31 December 2021 as compared with the profit of approximately RMB18.3 million for the six months ended 31 December 2020. The net margin was changed from net profit margin of 6.2% for the six months ended 31 December 2020 to net loss margin of 43.3% for the six months ended 31 December 2021.

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

As a result of the foregoing, the Group recorded a loss for the period attributable to owners of the parent of approximately RMB76.3 million for the six months ended 31 December 2021 as compared with a profit for the period attributable to owners of the parent of approximately RMB18.6 million for the six months ended 31 December 2020.

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 2021, the Group had cash and cash equivalent balance amounting to approximately RMB66.2 million (30 June 2021: approximately RMB145.3 million) and interest-bearing loans amounting to approximately RMB37.0 million (30 June 2021: RMB53.0 million).

Convertible Bonds

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

The net proceeds from the above issue have been used to repay the old Convertible Bonds.

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 Stock Exchange of Hong Kong Limited on the last trading day, and (ii) the average closing price of HK\$0.71 per Share as quoted on The Stock Exchange of Hong Kong Limited 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 Bonds 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 it is subject to the Company's discretion to extend one additional year.

Dao He Investment Limited is the investor of new Convertible Bonds and Mr. Fang Hui is the ultimate beneficial owner of Dao He Investment Limited. Since 29 April 2021, Mr. Fang Hui, the ultimate beneficial owner, has been appointed to act as executive Director of the Company.

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

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.

On the maturity date, the investor did not exercise its conversion rights, nor the bond was redeemed as well. Pursuant to the bond subscription agreement, the conversion right attaching to this bond is revived and will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such bond has been duly received by the investor. The default interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on which full payment is made to the investor.

On the date of this announcement, the Group is still negotiating with the bondholder to seek for extension of repayment terms of the convertible bonds.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the six months ended 31 December 2021.

Borrowings and charges of assets

As at 31 December 2021, the Group's interest-bearing loans were approximately RMB37.0 million (30 June 2021: RMB53.0 million), which will be repayable within 1 year. Such loans were all denominated in RMB, and bear an interest range of 5.0% to 8.4% per annum (30 June 2021: all denominated in RMB, and bear an interest range of 5.1% to 8.4% per annum).

As at 31 December 2021, the new Convertible Bonds was approximately RMB82.9 million (30 June 2021: RMB81.3 million) and the interest rate is at 12.0% per annum (with an additional default interest rate of 5% per annum for the overdue sum).

As at 31 December 2021, 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 RMB32.9 million and RMB96.1 million and RMB59.6 million, respectively (30 June 2021: approximately RMB59.5 million and RMB104.0 million and RMB75.4 million, respectively).

Trade and other receivables

Trade and bills receivables decreased by approximately RMB65.7 million from approximately RMB477.6 million as at 30 June 2021 to approximately RMB411.9 million as at 31 December 2021, primarily due to most of customers settled the receivables in accordance with the contract terms and decrease in revenue for the six months ended 31 December 2021. The provision for impairment of trade receivables was increased by approximately RMB20.8 million to approximately RMB117.0 million for the six months ended 31 December 2021. 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 2021, 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 2021, the Group had 310 employees (30 June 2021: 301 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2021 were approximately RMB44.6 million, as comparable to approximately RMB24.3 million for the six months ended 31 December 2020. 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 2021.

SHARE OPTION SCHEME

A new share option scheme of the Company (“**New Share Option Scheme**”) was approved and adopted by the shareholders of the Company at its extraordinary general meeting held on 10 February 2022 in replacement of the existing share option scheme adopted on 6 May 2013 and effective on 16 May 2013 (“**2013 Share Option Scheme**”) and that no further options of the Company shall be offered or granted under the 2013 Share Option Scheme, but the options which had already been granted and remain outstanding shall continue to be valid and exercisable in accordance with their terms of issue.

No option was granted under the 2013 Share Option Scheme during the period of six months ended 31 December 2021. As at 31 December 2021, the total number of ordinary shares in respect of which share options had been granted and remained outstanding under the 2013 Share Option Scheme was 19,000,000 (representing approximately 2.14% of all the Shares in issue as at 31 December 2021).

Particulars of the movement of the options held by the employees under the 2013 Share Option Scheme during the period of six months ended 31 December 2021 were as follows:

For the six months ended 31 December 2021

Name or category of participant	Number of share options					At 31 December 2021
	At 1 July 2021	Granted during the period	Exercised during the period	Lapsed/ expired during the period	Cancelled/ forfeited during the period	
Employees	19,000,000	–	–	–	–	19,000,000
In aggregate	<u>19,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,000,000</u>

During the period under review, there has been no movement of options granted under the 2013 Share Option Scheme.

As at the date of this announcement, no share option is exercised. Further details of the options will be disclosed in the interim report.

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 announcements dated 10 January 2021 and 17 December 2021.

EVENTS AFTER THE REPORTING PERIOD

Legal Proceeding

Zhejiang Huazhang, a wholly owned subsidiary of the Company, received a first instance judgment dated 24 December 2021 handed down by the Intermediate People’s Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. Details of the legal proceedings have been set out in the Company’s announcement dated 21 January 2022.

Placing of new shares under general mandate

On 24 January 2022, a placing agent and the Company entered into a conditional placing agreement pursuant to which the Company has conditionally agreed to place through the placing agent, on a best effort basis, a maximum of 177,348,275 new ordinary shares of the Company (“**Placing Shares**”) at the placing price of HK\$0.48 per placing share (the “**Placing**”). If the Placing Shares are fully placed, the gross and net proceeds from the Placing will be approximately HK\$85.1 million and HK\$83.8 million, respectively. The Company intends to use such net proceeds to partially redeem the new Convertible Bonds. Details of the Placing are set out in the announcement of the Company dated 24 January 2022. Further details will be disclosed upon completion of the Placing.

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 2021, except that in respect of the then code provision E.1.2 of the CG Code, due to other business commitment, Mr. Zhu Gen Rong, the then chairman of the Board, was unavailable to participate the annual general meeting of the Company held on 24 November 2021.

The Company has not appointed chairman since 7 January 2022 and the company is searching for a suitably qualified candidate to fill the vacancy of the chairman as soon as practicable.

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 2021 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 2021 (six months ended 31 December 2020: Nil).

AUDIT COMMITTEE

The audit committee was established on 6 May 2013. The audit committee consists of three independent non-executive Directors namely, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang. The audit committee is chaired by Mr. Heng, Keith Kai Neng. The audit committee of the Company has reviewed and discussed with the management regarding the accounting principles and practices adopted for the Group's unaudited interim condensed consolidated financial statements for the six months ended 31 December 2021.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hzeg.com), and the interim report of the Company for the six months ended 31 December 2021 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in due course.

By order of the Board
Huazhang Technology Holding Limited
Mr. Fang Hui
Executive Director

Zhejiang Province, the PRC, 25 February 2022

As at the date of this announcement, the executive Directors are Mr. Fang Hui, Mr. Wang Ai Yan, Mr. Gan Jun, the non-executive Director is Mr. Shi Chenghu and the independent non-executive Directors are Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang.