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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 2023

FINANCIAL HIGHLIGHTS

	For the six months ended 31 December		
	2023	2022	Change
	RMB	RMB	%
Revenue	166,969,868	157,068,849	6.3
Gross profit	27,845,454	31,288,624	(11.0)
<i>Gross profit margin</i>	<i>16.7%</i>	<i>19.9%</i>	<i>(3.2)</i>
Loss for the period	(18,659,745)	(27,667,141)	(32.6)
<i>Net loss margin</i>	<i>(11.2)%</i>	<i>(17.6)%</i>	<i>6.4</i>
Loss attributable to the shareholders of the Company	(18,341,933)	(27,309,171)	(32.8)
Loss per share attributable to the shareholders of the Company (RMB cents per share)			
— basic	(1.72)	(2.57)	
— diluted	(1.72)	(2.57)	

The Board resolved not to declare any interim dividend for the six months ended 31 December 2023.

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 2023, together with the unaudited comparative figures for the corresponding period in 2022.

Condensed consolidated statement of profit or loss

	<i>Notes</i>	For the six months ended	
		31 December	
		2023 (Unaudited) RMB	2022 (Unaudited) RMB
REVENUE	4	166,969,868	157,068,849
Cost of sales		<u>(139,124,414)</u>	<u>(125,780,225)</u>
Gross profit		27,845,454	31,288,624
Selling and distribution expenses		(6,459,874)	(3,983,140)
Administrative expenses		(30,668,353)	(37,712,256)
Research and development expenses		(10,688,619)	(14,525,499)
Net impairment losses on financial and contract assets		(1,588,988)	(2,615,639)
Other income and gains, net	5	<u>5,029,077</u>	<u>3,560,765</u>
OPERATING LOSS		<u>(16,531,303)</u>	<u>(23,987,145)</u>
Finance income		870,341	2,528,813
Finance costs		<u>(2,685,934)</u>	<u>(5,895,498)</u>
Finance cost — net	6	<u>(1,815,593)</u>	<u>(3,366,685)</u>
LOSS BEFORE INCOME TAX	7	(18,346,896)	(27,353,830)
Income tax expense	8	<u>(312,849)</u>	<u>(313,311)</u>
LOSS FOR THE PERIOD		<u>(18,659,745)</u>	<u>(27,667,141)</u>
Loss attributable to:			
— Shareholders of the Company		(18,341,933)	(27,309,171)
— Non-controlling interests		<u>(317,812)</u>	<u>(357,970)</u>
		<u>(18,659,745)</u>	<u>(27,667,141)</u>
LOSS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY			
— Basic loss per share	10	(1.72)	(2.57)
— Diluted loss per share	10	<u>(1.72)</u>	<u>(2.57)</u>

Condensed consolidated statement of comprehensive income

	For the six months ended	
	31 December	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB	RMB
LOSS FOR THE PERIOD	(18,659,745)	(27,667,141)
OTHER COMPREHENSIVE (LOSS)/INCOME		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>(22,767)</u>	<u>1,328,972</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(22,767)</u>	<u>1,328,972</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(18,682,512)</u>	<u>(26,338,169)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:		
— Shareholders of the Company	<u>(18,364,700)</u>	(25,980,199)
— Non-controlling interests	<u>(317,812)</u>	<u>(357,970)</u>
	<u>(18,682,512)</u>	<u>(26,338,169)</u>

Condensed consolidated statement of financial position

		As at 31 December 2023 (Unaudited) RMB	As at 30 June 2023 (Audited) RMB
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	59,645,314	62,548,161
Other right-of-use assets		1,807,884	6,193,168
Investment properties		80,795,267	83,536,088
Prepaid land lease payments		71,185,297	72,040,922
Other intangible assets		4,477,845	5,610,299
Goodwill	12	29,902,783	29,902,783
Financial assets at fair value through profit or loss		6,196,647	6,196,647
Prepayments	13(iii)	130,602	143,662
Deferred tax assets		842,536	842,536
		<u>254,984,175</u>	<u>267,014,266</u>
CURRENT ASSETS			
Inventories		200,506,809	153,647,680
Trade and other receivables	13(i)	154,521,978	175,290,217
Contract assets	13(ii)	73,996,125	102,243,112
Prepayments	13(iii)	94,173,323	95,212,255
Financial assets at fair value through other comprehensive income (“FVOCI”)		44,264,909	33,342,049
Pledged deposits		57,732,094	63,050,840
Restricted deposits		37,599,411	38,523,211
Cash and cash equivalents		37,429,987	43,983,025
		<u>700,224,636</u>	<u>705,292,389</u>
Total assets		<u>955,208,811</u>	<u>972,306,655</u>

		As at 31 December 2023 (Unaudited) RMB	As at 30 June 2023 (Audited) RMB
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities		4,489,392	4,779,177
Deferred income		19,462,500	20,137,500
Lease liabilities		810,227	3,236,971
		<u>24,762,119</u>	<u>28,153,648</u>
CURRENT LIABILITIES			
Trade and other payables	14	393,388,268	390,255,878
Contract liabilities		132,364,516	123,064,299
Interest-bearing loans		63,000,800	68,990,000
Income tax payable		7,129,426	7,334,046
Lease liabilities		1,061,641	2,908,538
		<u>596,944,651</u>	<u>592,552,761</u>
Total liabilities		<u>621,706,770</u>	<u>620,706,409</u>
NET ASSETS		<u>333,502,041</u>	<u>351,600,246</u>
EQUITY			
Share capital		8,907,761	8,907,761
Share premium		663,145,447	663,145,447
Other reserves		131,017,865	130,456,325
Accumulated losses		(462,746,181)	(444,404,248)
Capital and reserves attributable to the shareholders of the Company		<u>340,324,892</u>	<u>358,105,285</u>
Non-controlling interests		(6,822,851)	(6,505,039)
Total equity		<u>333,502,041</u>	<u>351,600,246</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 27 February 2024.

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 2023 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 2023, 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 3.1.

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 2023, as described in those annual financial statements.

3.1 New and amended standards adopted by the Group

The Group has applied the new standards, amendments to standards and interpretation that has been issued and effective for the annual reporting period commencing 1 July 2023. The adoption of these new standards and amendments to standards has no material impact on the Group's results and financial position.

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

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for the financial year beginning 1 July 2023 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
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2021)	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024
HKFRS 16 (Amendments)	Lease liability in a Sale and Leaseback	1 January 2024
HKFRS 7 and HKAS 7 (Amendments)	Supplier Finance Arrangements	1 January 2025
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
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 and operating segments as follows:

Industrial products — sales and manufacturing of industrial automation systems and headboxes;

Project contracting services — provision of design, procurement, installation and project management services of production line in paper production factories;

Environmental products — sales and manufacturing of sludge treatment products, wastewater treatment products and refuse derived fuel products; and

Supporting services — including after-sales services, machine running services, warehouse and logistic services, supply chain services and renovation 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, share of net loss of associates, 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 and restricted deposits, cash and cash equivalents and certain prepayments, right-of-use assets and investment properties, as these assets are managed on a group basis.

Segment liabilities include all liabilities of the Group except, 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 2023:

	Unaudited				Total <i>RMB</i>
	Industrial products <i>RMB</i>	Project contracting services <i>RMB</i>	Environmental products <i>RMB</i>	Supporting services <i>RMB</i>	
Segment revenue from external customers	91,453,220	54,049,362	4,595,969	16,871,317	166,969,868
Timing of revenue recognition					
At a point in time	91,453,220	–	2,633,541	16,871,317	110,958,078
Over time	–	54,049,362	1,962,428	–	56,011,790
Segment cost of sales	<u>(75,072,254)</u>	<u>(45,183,569)</u>	<u>(3,405,405)</u>	<u>(15,463,186)</u>	<u>(139,124,414)</u>
Segment gross profit	16,380,966	8,865,793	1,190,564	1,408,131	27,845,454
Segment results	<u>790,543</u>	<u>(3,934,228)</u>	<u>(785,371)</u>	<u>(12,054,771)</u>	<u>(15,983,827)</u>
Common administrative expenses					(5,576,553)
Other income and gains, net					5,029,077
Finance costs — net					<u>(1,815,593)</u>
Loss before income tax					(18,346,896)
Income tax expense					<u>(312,849)</u>
Loss for the period					<u><u>(18,659,745)</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	19,373	-	-	515,983	-	535,356
Depreciation of property, plant and equipment	677,798	11,384	483,805	2,099,777	-	3,272,764
Depreciation of right-of-use assets	-	-	-	-	889,677	889,677
Depreciation of investment properties	-	-	-	2,585,452	155,369	2,740,821
Loss on disposal of property, plant and equipment	891	-	-	2,619	-	3,510
Amortisation of prepaid land lease payments	53,193	-	70,576	668,210	63,646	855,625
Amortisation of other intangible assets	<u>1,256,915</u>	<u>-</u>	<u>-</u>	<u>5,364</u>	<u>-</u>	<u>1,262,279</u>

The segment assets and liabilities as at 31 December 2023 are as follows:

	Unaudited					Total RMB
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	
Segment assets	<u>341,813,770</u>	<u>211,184,089</u>	<u>27,755,512</u>	<u>234,632,206</u>	<u>139,823,234</u>	<u>955,208,811</u>
Segment liabilities	<u>271,304,606</u>	<u>150,688,798</u>	<u>19,213,777</u>	<u>102,191,727</u>	<u>78,307,862</u>	<u>621,706,770</u>

The segment results for the six months ended 31 December 2022:

	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	83,904,048	38,316,797	5,833,178	29,014,826	157,068,849
Timing of revenue recognition					
At a point in time	83,904,048	–	3,347,601	29,014,826	116,266,475
Over time	–	38,316,797	2,485,577	–	40,802,374
Segment cost of sales	<u>(63,496,540)</u>	<u>(36,682,240)</u>	<u>(3,442,450)</u>	<u>(22,158,995)</u>	<u>(125,780,225)</u>
Segment gross profit	20,407,508	1,634,557	2,390,728	6,855,831	31,288,624
Segment results	<u>583,290</u>	<u>(9,436,338)</u>	<u>(2,379,123)</u>	<u>(10,888,352)</u>	<u>(22,120,522)</u>
Common administrative expenses					(5,427,388)
Other income and gains, net					3,560,765
Finance costs — net					<u>(3,366,685)</u>
Loss before income tax					(27,353,830)
Income tax expense					<u>(313,311)</u>
Loss for the period					<u><u>(27,667,141)</u></u>

Other segment information:

	Unaudited					
	Industrial products	Project contracting services	Environmental products	Supporting services	Unallocated	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Capital expenditure	28,628	222,596	–	242,723	–	493,947
Depreciation of property, plant and equipment	739,474	15,804	499,885	2,303,909	–	3,559,072
Depreciation of right-of-use assets	–	–	–	–	592,078	592,078
Depreciation of investment properties	–	–	–	2,821,851	155,370	2,977,221
Amortisation of prepaid land lease payments	31,444	–	41,720	668,209	37,623	778,996
Amortisation of other intangible assets	<u>1,301,550</u>	<u>–</u>	<u>–</u>	<u>5,359</u>	<u>–</u>	<u>1,306,909</u>

The segment assets and liabilities as at 30 June 2023 are as follows:

	Audited					
	Industrial products	Project contracting services	Environmental products	Supporting services	Unallocated	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Segment assets	<u>330,511,003</u>	<u>210,461,872</u>	<u>34,041,858</u>	<u>240,119,390</u>	<u>157,172,532</u>	<u>972,306,655</u>
Segment liabilities	<u>255,257,412</u>	<u>151,668,186</u>	<u>19,566,425</u>	<u>103,260,486</u>	<u>90,953,900</u>	<u>620,706,409</u>

5 Other income and gains, net

	For the six months ended	
	31 December	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB	RMB
Interest income recognised from project contracting services	–	1,032,390
Government grants	734,750	1,192,711
Other tax refund	1,104,412	519,490
Rental income	151,685	687,019
Sales of scrap materials	448,201	67,506
Write back of trade and other payables	2,365,898	–
Early termination of lease agreement	276,857	–
Others	(52,726)	61,649
	<u>5,029,077</u>	<u>3,560,765</u>

6 Finance costs — net

	For the six months ended	
	31 December	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB	RMB
Finance costs		
Interest on loans	(1,710,257)	(1,501,837)
Interest on other payables	(92,210)	(4,270,264)
Interest paid/payable for lease liabilities	(167,898)	(123,397)
Exchange losses, net	(715,569)	–
	<u>(2,685,934)</u>	<u>(5,895,498)</u>
Finance income		
Exchange gains, net	–	1,443,010
Interest income	870,341	1,085,803
	<u>870,341</u>	<u>2,528,813</u>
Finance costs — net	<u>(1,815,593)</u>	<u>(3,366,685)</u>

7 Loss before income tax

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

	For the six months ended	
	31 December	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB	RMB
Raw materials used	43,048,172	44,542,938
Employee benefit expenses	24,614,032	32,124,262
Change in inventory of finished goods and work in progress	9,141,281	(51,382,163)
Depreciation of property, plant and equipment	3,272,764	3,559,072
Professional service fees	4,116,380	7,068,596
Depreciation of investment properties	2,740,821	2,977,221
Amortisation of other intangible assets	1,262,279	1,306,909
Depreciation of other right-of-use assets	889,677	592,078
Amortisation of prepaid land lease payments	855,625	778,996

8 Income tax expense

	For the six months ended	
	31 December	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB	RMB
Current income tax		
PRC enterprise income tax	(602,634)	(603,096)
Deferred income tax	289,785	289,785
Income tax expense	(312,849)	(313,311)

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 from 1 December 2020 till 30 November 2023, and subsequently renewed for another three years in 2023 from 8 December 2023 till 7 December 2026. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the six months ended 31 December 2023 (six months ended 31 December 2022: 15%).

9 Dividends

No dividends was paid during the six months ended 31 December 2023 (six months ended 31 December 2022: nil).

The Board resolved not to declare any interim dividend for the six months ended 31 December 2023 (six months ended 31 December 2022: nil).

10 Loss per share

The calculation of the basic loss per share amount is based on the loss for the period attributable to the shareholders of the Company and the weighted average number of ordinary shares of 1,064,089,378 (six months ended 31 December 2022: 1,064,089,378) which represents the shares in issue during the period.

The Company has dilutive potential ordinary shares from share options. The diluted loss per share is same as the basic loss per share as any potential ordinary shares would have anti-dilutive effect for the six months ended 31 December 2023 and 2022.

	For the six months ended 31 December	
	2023 (Unaudited) RMB	2022 (Unaudited) RMB
Basic		
Loss		
Loss attributable to the shareholders of the Company	<u>(18,341,933)</u>	<u>(27,309,171)</u>
Number of shares		
Weighted average number of ordinary shares in issue during the period	<u>1,064,089,378</u>	<u>1,064,089,378</u>
Basic loss per share (<i>RMB cents</i>)	<u>(1.72)</u>	<u>(2.57)</u>
Diluted		
Loss		
Loss attributable the shareholders of the Company	<u>(18,341,933)</u>	<u>(27,309,171)</u>
Number of shares		
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating diluted loss per share during the period	<u>1,064,089,378</u>	<u>1,064,089,378</u>
Diluted loss per share (<i>RMB cents</i>)	<u>(1.72)</u>	<u>(2.57)</u>

11 Property, plant and equipment

	Buildings <i>RMB</i>	Machinery and vehicles <i>RMB</i>	Furniture, fittings and equipment <i>RMB</i>	Total <i>RMB</i>
Six months ended				
31 December 2023				
Opening net carrying amount as at 1 July 2023 (Audited)	52,944,072	7,874,297	1,729,792	62,548,161
Additions	–	28,319	377,212	405,531
Disposals	–	–	(43,998)	(43,998)
Depreciation charge	(2,177,098)	(830,839)	(264,827)	(3,272,764)
Depreciate written-back	–	–	40,488	40,488
Exchange difference	(17,971)	(9,425)	(4,708)	(32,104)
	<u>50,749,003</u>	<u>7,062,352</u>	<u>1,833,959</u>	<u>59,645,314</u>
Closing net carrying amount as at 31 December 2023 (Unaudited)				
	<u>50,749,003</u>	<u>7,062,352</u>	<u>1,833,959</u>	<u>59,645,314</u>
Six months ended				
31 December 2022				
Opening net carrying amount as at 1 July 2022 (Audited)	60,106,852	8,780,274	1,886,803	70,773,929
Additions	–	222,596	271,351	493,947
Depreciation charge	(2,329,366)	(950,169)	(279,537)	(3,559,072)
Exchange difference	56,288	27,887	15,243	99,418
	<u>57,833,774</u>	<u>8,080,588</u>	<u>1,893,860</u>	<u>67,808,222</u>
Closing net carrying amount as at 31 December 2022 (Unaudited)				
	<u>57,833,774</u>	<u>8,080,588</u>	<u>1,893,860</u>	<u>67,808,222</u>

12 Goodwill

	Headbox business RMB	Others RMB	Total RMB
Opening net carrying amount as at 1 July 2022 (Audited)	<u>29,306,413</u>	<u>596,370</u>	<u>29,902,783</u>
Closing net carrying amount as at 30 June 2023 (audited) 31 December 2023 (unaudited)	<u><u>29,306,413</u></u>	<u><u>596,370</u></u>	<u><u>29,902,783</u></u>

Goodwill of the Group mainly arose from the acquisition of Hangzhou Haorong Technology Co., Ltd. (“**Haorong**”) and Hangzhou MCN Paper Tech Co., Ltd. (“**MCN**”).

MCN

MCN is a company established under the laws of the PRC and principally engaged in the research, development and distribution of headbox. Since its establishment in 2001, MCN has developed various kinds of stainless headboxes including rectifier roll headbox, hydraulic headbox, turbulence channel headbox, inclined wire and cylinder former headbox and turbulent flow away headbox etc which were customised for its customers. It also provides equipment installation, operation instruction and consultation services for its customers. Customers of MCN are located across the PRC and are primarily engaged in paper manufacturing.

Haorong

Haorong is a company established under the laws of the PRC. Since its establishment in 2006, it has principally engaged in the business of research, development and distribution of headboxes. It has developed various kinds of high frequency shake, headbox control system, etc. and provided equipment installation, operation instruction and consultation services in accordance with the specifications and requirements provided by its customers, which are primarily engaged in paper manufacturing in the PRC. Haorong was regarded as a “High-tech Enterprise in Hangzhou City” (杭州市高新技術企業) and a “Medium and Small Technology Enterprise in Zhejiang Province” (浙江省科技型中小企業).

Goodwill is allocated to the cash generating unit (“**CGU**”) of headbox business under the business segment of industrial products for impairment test.

13 Trade and other receivables, contract assets and prepayments

(i) Trade and other receivables

	As at 31 December 2023 (Unaudited) RMB	As at 30 June 2023 (Audited) RMB
Trade receivables	269,560,633	292,770,950
Less: provision for impairment of trade receivables	<u>(181,153,700)</u>	<u>(179,566,793)</u>
Trade receivables	88,406,933	113,204,157
Bills receivables	<u>43,644,672</u>	<u>39,906,657</u>
	<u>132,051,605</u>	<u>153,110,814</u>
Deductible input value added tax	173,520	28,983
Loan to a customer	851,126	3,601,624
Other receivables — guarantee	333,908	188,300
Others (<i>note</i>)	<u>21,111,819</u>	<u>18,360,496</u>
Other receivables	<u>22,470,373</u>	<u>22,179,403</u>
Total trade and other receivables	<u><u>154,521,978</u></u>	<u><u>175,290,217</u></u>

Note:

As at 31 December 2023, included in others are the gross carrying amounts of RMB49,103,484 (30 June 2023: RMB49,103,484), RMB39,541,029 (30 June 2023: RMB39,541,029) and RMB6,999,500 (30 June 2023: RMB7,128,458) due from Tongxiang Yuxin Electric Co., Ltd. (“Yuxin Electric”), Tongxiang Jiafu Papermaking Equipment Co., Ltd. (“Jiafu Paper”) and Zhejiang Hua Zhang Fibertech Co., Ltd. (“Fibertech”) respectively, and provision for impairment of RMB49,103,484 (30 June 2023: RMB49,103,484), RMB39,541,029 (30 June 2023: RMB39,541,029), and RMB6,999,500 (30 June 2023: RMB7,128,458) respectively.

- (a) The ageing analysis of the net amount of trade receivables based on the date of the invoice is as follows:

	As at 31 December 2023 (Unaudited) RMB	As at 30 June 2023 (Audited) RMB
Up to 3 months	34,415,445	78,399,641
3 months to 6 months	12,940,417	7,664,258
6 months to 1 year	11,044,787	4,675,122
1 year to 2 years	10,587,943	9,632,173
Over 2 years	19,418,341	12,832,963
	<u>88,406,933</u>	<u>113,204,157</u>

- (b) As at 31 December 2023, provisions amounting to RMB181,153,700 (30 June 2023: RMB179,566,793) and RMB182,314,463 (30 June 2023: RMB182,315,965) 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 2023 (Unaudited) <i>RMB</i>	As at 30 June 2023 (Audited) <i>RMB</i>
Retention receivables	35,411,875	31,137,525
Contract assets relating to sales of goods	40,580,549	72,227,038
Contract assets relating to project contracting services	12,113,020	13,030,969
	88,105,444	116,395,532
Less: provision for impairment of contract assets	(14,109,319)	(14,152,420)
	73,996,125	102,243,112

(iii) *Prepayments*

	As at 31 December 2023 (Unaudited) <i>RMB</i>	As at 30 June 2023 (Audited) <i>RMB</i>
Prepayments for procurement	93,718,365	94,789,330
Others	585,560	566,587
	94,303,925	95,355,917
Less: prepayments — non-current portion	(130,602)	(143,662)
	94,173,323	95,212,255

14 Trade and other payables

	As at 31 December 2023 (Unaudited) RMB	As at 30 June 2023 (Audited) RMB
Trade payables	215,420,880	204,050,587
Bills payable	53,809,761	59,541,901
	<u>269,230,641</u>	<u>263,592,488</u>
Trade and bills payables		
Other taxes payables	41,739,506	40,123,900
Provision for legal claims (<i>note</i>)	14,799,444	14,799,444
Deposits for project contracting services	6,553,958	6,553,958
Interest-free loan from independent third parties	13,080,800	13,080,800
Amount due to suppliers on a customer's behalf	13,177,942	13,177,942
Accruals	4,523,694	5,263,774
Provision for warranty expenses	523,838	523,838
Other deposits	607,068	600,568
Employee benefit payables	2,662,013	5,451,620
Payables for property, plant and equipment	–	325,418
Interest payable for loans	–	591,666
Others	26,489,364	26,170,462
	<u>124,157,627</u>	<u>126,663,390</u>
Sub-total		
Total trade and other payables	<u>393,388,268</u>	<u>390,255,878</u>

Note:

As at 31 December 2023, provision for legal claims amounted to RMB12,659,277 (30 June 2023: RMB12,659,277) was related to a legal claim made by a supplier in July 2020 against the Group in respect of a construction contract.

As at 31 December 2023, a provision for legal claims amounted to RMB2,140,167 (30 June 2023: RMB2,140,167) was related to a legal claim made by a supplier.

No payment has been made to the above claimants pending outcome of the decision. 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 2023 (Unaudited) RMB	As at 30 June 2023 (Audited) RMB
Up to 3 months	100,666,576	90,752,703
3 months to 6 months	10,024,004	38,541,414
6 months to 1 year	37,749,973	9,427,424
1 year to 2 years	9,453,308	30,921,474
Over 2 years	57,527,019	34,407,572
	<u>215,420,880</u>	<u>204,050,587</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the year 2023, the global economy had gradually emerged from the haze of the pandemic and began to fully recover. According to the data published by the National Bureau of Statistics of China, the year-on-year growth of China's gross domestic product (GDP) in 2023 was 5.2%. Driven by the moderate recovery of the economy, there were signs of bottoming out and rebounding in the paper-making industry. However, in 2023, due to factors such as sluggish downstream demand, fluctuations in raw material prices and inventory consumption, paper-making enterprises faced multiple difficulties in production and operation, and the overall performance was weakening. According to the National Bureau of Statistics of China, the national output of machine-made papers and paperboards (excluding purchased base papers for processing) in 2023 was 144.1 million tonnes, representing a year-on-year increase of 6.6%. The operating revenue of large-scale paper and paper products enterprises was RMB1,392.62 billion, a year-on-year decrease of 2.4%.

The development time of China's paper-making equipment is relatively short. Although there are many domestic paper-making equipment enterprises, the industry is small in market scale with a lower level of technical equipment, showing a small and fragmented market. In recent years, as the state and enterprises have pushed ahead with research and development of core technologies such as paper-making equipment, some domestic enterprises have developed rapidly and the technologies of some companies have reached world-leading levels, accelerating the process of localization of the industry. In the future, as the paper-making industry continues to deepen the supply-side structural reform, the industrial concentration will continue to improve, and large-scale advanced production capacity will replace the outdated production capacity.

In July 2023, the Ministry of Industry and Information Technology, the National Development and Reform Commission, and the Ministry of Commerce jointly issued the "Work Plan for Stabilizing Light Industry Growth (2023–2024)" (《輕工業穩增長工作方案(2023–2024年)》) (the "Plan"). The Plan proposes that the average growth rate of value increase of light industry from 2023 to 2024 will be around 4%, and the scale of enterprise operating income will exceed RMB25 trillion. The Plan proposes to focus on stabilising the paper-making industry, promote the integration of forestry and paper, and scientifically utilize bamboo pulp, bagasse, crop residues and other non-wood raw materials, and to develop care and hygiene products for infants, young children and the elderly.

As the economy and residents' income maintain steady growth and international exchanges and cooperation become more frequent, we expect that domestic consumption will continue to offer strong support for the paper-making industry. In 2024, the paper-making industry will continue to move forward based on the stable development in 2023, and the industry demand is expected to continue its mild recovery, with the peak period of production capacity release coming to an end as a whole, while paper enterprises will also face many new challenges and opportunities. With the improvement of environmental awareness and the continuous advancement of technology, the paper-making industry will develop in a more environmentally friendly, efficient and smart direction in the future. In the next year, following the trend of green development, 2024 will be a critical year for the transformation of the development of the paper-making industry.

After the period of pandemic dividend, China's non-woven fabric industry is in a critical period of structural adjustment and industrial upgrading. Traditional advantages, such as demographic dividend and factor resources, are gradually weakening, while new advantages, such as technology, talent, management, capital and brand, are being built. In terms of manufacturing, actively promoting intelligent manufacturing and green manufacturing is an important development direction of China's non-woven fabric industry. Through the introduction of advanced automatic equipment and intelligent technology, the precise control and efficient coordination of the production process can be achieved, and production efficiency and product quality can be improved. Looking ahead, China's non-woven fabric industry will usher a broader development and more intense market competition. With the recovery of the global economy and the rise of emerging markets, the demand for non-woven fabrics will continue to grow. Meanwhile, the continuous emergence of new materials, technologies and processes will bring more development opportunities to the non-woven fabric industry.

BUSINESS REVIEW

For the six months ended 31 December 2023, the Group's revenue increased by approximately 6.3% to approximately RMB167.0 million but the gross profit decreased by approximately 11.0% to approximately RMB27.8 million, as compared with the corresponding period last year, due to the impact of the weak industry. For the six months ended 31 December 2023, the Group recorded a loss of approximately RMB18.7 million, representing a significant decrease of approximately 32.6% as compared to a loss of approximately RMB27.7 million for the corresponding period last year, primarily due to a decrease in administrative expenses and research and development expenses.

Paper-making Related Business

Contracts

For the six months ended 31 December 2023, although the Group continued to adopt active marketing strategies, the Group's new contract amount decreased by approximately 8.8% to approximately RMB178.0 million and the outstanding contract amount was approximately RMB468.6 million, which was due to the adverse impact of the industry and macro environment. During the period under review, the Group joined hands with Yadu Paper (雅都紙業) three times to provide it with the master driving control system, master driving electric motor and the MCS system contract for 6800/1000 Two-Folded Fourdrinier Machine (T Paper) (6800/1000二疊網長網紙機 (T紙)). In addition, Huazhang Technology and Pingfeng Paper (萍鋒紙業) have opened a new chapter of win-win cooperation by supplying it the master driving control system and Distributed Control System (DCS) of 5260/950 Corrugated Paper Production Line. Zhaolong Paper (兆隆紙業) and Huazhang Technology continued to work closely and formally signed contracts for the driving control system, the master driving electric motor and MCS system of 5480/850 High-strength Corrugated Paper Machine (5480/850高強瓦楞紙機). A series of influential orders demonstrate that the customers highly recognise the products, technologies and services of Huazhang Technology.

Win-win cooperation to improve services

The Company is committed to becoming an integrated platform for first-class domestic and international products, technologies and services in the paper-making industry. We choose to strategically cooperate with first-class suppliers at home and abroad to jointly provide customers with the most cost-effective and cost-reducing solutions, improve the degree of automation, informatization, digitization and intelligence in the industry, and achieve win-win cooperation among all parties.

In August 2023, Huazhang Technology was honored with “2023 Long-term Strategic Partner Award for the Paper Industry” (2023年度造紙行業長期戰略合作夥伴獎) at the 30th China International Paper-making Technology Exhibition and Conference, in which Rockwell, Siemens and Huazhang Technology jointly participated. In addition, the Group became one of the first companies in China to obtain Rockwell's highest level of certification — Platinum System Integrator. The Group cooperated more closely with Siemens and Innometrics, signed cooperation agreements with Danfoss, SKF and other companies, and reached in-depth cooperation intentions with first-class brand manufacturers of different categories such as racks, dryers, rollers, reducers, hydraulics, lubrication, paper primers and spraying, opening a new chapter of long-term friendly cooperation.

Technological innovation to reach new heights

In the face of the new business model of green, low-carbon and high-quality development of the paper-making industry, the demand for the better technicality of paper-making industrial equipment has increased. The Group has continued to increase investment in research and development and has obtained a number of high-value scientific and technological achievements. As a “High and New Technology Enterprise”, the Group received award support from the “Provincial Key Industrial Internet Platform” (省重點工業互聯網平台) project. “The First (Set) Product Engineering Research Project in Zhejiang Province” passed the acceptance inspection. “Headboxes for High-Speed Special Paper Machines” (特種紙高速造紙機用流漿箱) was selected into the second batch of “made-in-Zhejiang” standard identification list. “Conical Refiners” were certified by the Standard for made-in-Zhejiang and Tongxiang City Key Science and Technology Project (桐鄉市重點科技計劃項目) was successfully established.

The Group continued to invest substantial resources in product research and development, and strive for breakthroughs in the paper-making equipment market in China. For the six months ended 31 December 2023, the Group’s research and development expenses amounted to approximately RMB10.7 million with 18 new patent applications. As at 31 December 2023, the Group has registered a total of 174 patents (including 65 invention patents, 73 utility model patents and 36 software copyrights).

Steady Progress in Management Efficiency

the Group adhered to lean management, cost reduction and efficiency enhancement, facing challenges with a new image. During the period under review, the management of Tongxiang Intelligent Manufacturing Factory (桐鄉智能製造工廠) was further standardized; The newly-built company exhibition center and large Internet platform display screen became the Company’s biggest highlight. We promoted the launch of the project management software, namely Qiguanbao (企管寶), to facilitate the construction of a digital platform. We passed the internal and external audits of the information security system, the annual factory inspection of “CQC Certified Products”, and the annual supervision and inspections of QES three systems. We completed the compilation of the Company’s full-product manual and organized relevant training and learning and convened monthly meetings to improve the management ability of middle and senior management. The Company established an intelligent manufacturing technology center to focus on R&D and engineer training and held the second Huazhang Cup Education Award (華章杯崇學育人獎) to actively fulfill its corporate social responsibility.

During the period under review, the Group made concerted efforts to address the outstanding historical issues. On 10 August 2023, the Group successfully resumed trading on the Hong Kong Stock Exchange. The Group will continue to improve its internal management system and strengthen risk management, so as to cope with the ever-changing market changes and enable the Group to operate more efficiently.

Breakthroughs in non-woven fabrics

Hangzhou MCN Paper Tech Co., Ltd. (“**Hangzhou MCN**”), a wholly-owned subsidiary of Huazhang Technology, is a leading supplier of key forming equipment in China’s paper-making industry. In recent years, Hangzhou MCN’s entry into the field of non-woven fabric hydroforming has relied on the superb technologies and mature techniques accumulated over the years, which could provide our customers with a full set of world-leading engineering solutions.

During the period under review, Hangzhou MCN successfully launched two non-woven fabric projects, including the flushable wet wipe project of Sateri Tongling* (賽得利銅陵) and the first production line of Xiezhuo (Wuhan) Medical Products Co., Ltd.* (Xiezhuo Medical). The key equipment that Hangzhou MCN has provided to Sateri Tongling for its flushable wet wipes project was the inclined wire former (斜網成型器). After the project is put into operation, Sateri will produce the best quality flushable wet wipes (wet toilet paper) with high efficiency. The production line of Xiezhuo Medical* (協卓醫療) is provided by Hangzhou MCN with key equipment such as pulp preparation system, flow system, hydroforming system and control system, which is the first production line for flushable products that Hangzhou MCN has provided to customers as a general contract, and also the first demonstration for the full set solutions that Hangzhou MCN provides jointly with top suppliers in the non-woven industry.

Renewable Resources Related Business

The Group has been committed to the development of green business, in particular, to set up waste recycling treatment plants outside of China since 2019 to capture the opportunities of expanding global waste recycling treatment. As at 31 December 2023, the Group is still looking for opportunities overseas and negotiating with overseas governments and business partners to secure the best investment terms.

The Group has started the trading of waste materials, especially metal scraps since 2021. For the six months ended 31 December 2023, the trading volume of waste trading business was approximately RMB0.2 million. In the future, considering the market potential of global waste recycling treatment, the Group will allocate further resources to environmental-related business and believes that the business in the sector will grow further.

FUTURE PROSPECTS

Looking forward to 2024, under the guidance of the national “dual carbon” strategy, the paper-making industry must effectively strengthen technological innovation, accelerate the R&D of high and new technologies and industrialization, build an independent, controllable, safe yet efficient industrial chain and supply chain, enhance competitive advantages, and promote the green, low-carbon and high-quality development of the industry. The pulp and paper-making equipment made in China needs to continue to improve in terms of grading and adaptability, and companies have to work with upstream and downstream companies to solve bottlenecks in basic common areas such as materials and control, accelerate the process of equipment digitization, intelligentization and premiumization, and continue to promote the automation and localization of major paper-making equipment.

To better seize industry opportunities, the Group will continue to satisfy customers through quality assurance, delivery guarantee and service guarantee. Secondly, we will continue our strategic cooperation with more first-class domestic and foreign suppliers, place more good products on the Company’s integrated platform for customers to choose from, provide more cost-effective solutions to customers, and improve the degree of automation, information, digitalization and intelligentization of the industry. Thirdly, the Company will continue to optimise its management, consolidate our skills, improve our service capabilities, and never stop the pace of progress. Lastly, we will closely follow the direction of national policies and continue to explore opportunities in the environmental protection industry and expand the environmental services business, thereby increasing the Group’s revenue.

In order to provide financial support for the expansion of the Group’s business and further enhance the Group’s competitiveness, the Board proposes to offer an aggregate of 532,044,689 open offer shares by way of open offer to the Shareholders at the price of HK\$0.20 per open offer share. The net proceeds from the open offer, after the deduction of related expenses, are estimated to be approximately HK\$104.5 million. The Board has considered the allocation of approximately 30.0% of the net proceeds for marketing and execution of the Group’s investments or acquisitions in relation to industrial automation products and for potential business expansion focusing on industries other than the paper industry in China. For further details of the open offer, please refer to (i) the announcements of the Company dated 1 December 2023 and 15 February 2024; and (ii) the circular of the Company dated 12 January 2024.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased by approximately 6.3% from approximately RMB157.1 million for the six months ended 31 December 2022 to approximately RMB167.0 million for the six months ended 31 December 2023, primarily attributing to sales efforts contributed by the whole management team under the worsen economic environments. The gross profit margin decreased from approximately 19.9% for the six months ended 31 December 2022 to approximately 16.7% for the six months ended 31 December 2023, primarily attributing to the keen competition under the current economic environment.

(i) *Industrial products*

Revenue from sales of industrial products increased by approximately 9.0% from approximately RMB83.9 million for the six months ended 31 December 2022 to approximately RMB91.5 million for the six months ended 31 December 2023. Such increase was primarily attributable to an increase in sales of industrial automation system after the steady recovery of the supply-chain from the aftermath of the COVID-19 pandemic. The gross profit margin of industrial products decreased from approximately 24.3% for the six months ended 31 December 2022 to approximately 17.9% for the six months ended 31 December 2023.

(ii) *Project contracting services*

Revenue from project contracting services increased by approximately 41.1% from approximately RMB38.3 million for the six months ended 31 December 2022 to approximately RMB54.0 million for the six months ended 31 December 2023. Such increase was mainly due to an increase in numbers and scale of the project under sales efforts contributed by the whole management team. The gross profit margin of project contracting services increased from approximately 4.3% for the six months ended 31 December 2022 to approximately 16.4% for the six months ended 31 December 2023, such increase was primarily due to the Group strengthened its costs control in provision for the project contracting services for the six months ended 31 December 2023.

(iii) *Environmental business*

Revenue from sales of environmental business decreased by approximately 21.2% from approximately RMB5.8 million for the six months ended 31 December 2022 to approximately RMB4.6 million for the six months ended 31 December 2023. 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 decreased from approximately 41.0% for the six months ended 31 December 2022 to approximately 25.9% for the six months ended 31 December 2023.

(iv) Supporting services

Revenue from the provision of supporting services decreased by approximately 41.9% from approximately RMB29.0 million for the six months ended 31 December 2022 to approximately RMB16.9 million for the six months ended 31 December 2023, mainly due to the decreased demands on supporting service under the current economic environment. The gross profit margin for the provision of supporting services decreased from approximately 23.6% for the six months ended 31 December 2022 to approximately 8.3% for the six months ended 31 December 2023, primarily attributing to the decrease in proportion of the sales of spare parts and on-site services in the supporting service, which had a higher profit margin.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 62.2% from approximately RMB4.0 million for the six months ended 31 December 2022 to approximately RMB6.5 million for the six months ended 31 December 2023 and accounted for approximately 2.5% and approximately 3.9% of the Group's revenue for the six months ended 31 December 2022 and 2023, respectively. Increase in selling and distribution expenses was mainly attributable to an increase in marketing activities during the period.

Administrative expenses

The administrative expenses decreased by approximately 18.7% from approximately RMB37.7 million for the six months ended 31 December 2022 to approximately RMB30.7 million for the six months ended 31 December 2023 and accounted for approximately 24.0% and approximately 18.4% of the Group's revenue for the six months ended 31 December 2022 and 2023, respectively. Decrease in administrative expenses was mainly attributable to (i) a decrease in staff costs due to a decrease in staff salaries and incentive payment; and (ii) a decrease in professional fee in relation to the investigation and handling of the unusual transactions and resumption of the shares trading.

Research and development expenses

The research and development expenses decreased by approximately 26.4% from approximately RMB14.5 million for the six months ended 31 December 2022 to approximately RMB10.7 million for the six months ended 31 December 2023 and accounted for approximately 9.2% and approximately 6.4% of the Group's revenue for the six months ended 31 December 2022 and 2023, respectively. Decrease in research and development expenses was mainly attributable to a decrease in material used in research and development activities. The Group aimed to improve and enhance the technology and quality of the paper equipment to international standards including the intelligence production process in manufacturing of the paper, such as fault detection and classification, predictive maintenance, run-to-run control.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets decreased by approximately 39.3% million from approximately RMB2.6 million for the six months ended 31 December 2022 to approximately RMB1.6 million for the six months ended 31 December 2023. Such decrease is primarily due to the Group have made its efforts to recover the long outstanding trade receivables during the period. 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 increased by approximately 41.2% from approximately RMB3.6 million for the six months ended 31 December 2022 to approximately RMB5.0 million for the six months ended 31 December 2023, primarily attributing to a written back of the trade and other payables of approximately RMB2.4 million for the six months ended 31 December 2023 as no such income recorded for the six months ended 31 December 2022.

Finance costs — net

The finance costs — net decreased by approximately 46.1% from approximately RMB3.4 million for the six months ended 31 December 2022 to approximately RMB1.8 million for the six months ended 31 December 2023, primarily attributing to a decrease in finance costs of approximately RMB3.2 million primarily due to a decrease in interest on other payable, for the six months ended 31 December 2023 as compared with the six months ended 31 December 2022.

Income tax expense

The Group recorded an income tax expense of approximately RMB0.3 million and RMB0.3 million for the six months ended 31 December 2022 and 2023, respectively.

The effective tax rate of the Group increased from approximately 1.1% for the six months ended 31 December 2022 to approximately 1.7% for the six months ended 31 December 2023.

Loss for the period and net loss margin

As a result of the foregoing, the loss for the period decreased significantly by approximately 32.6% from approximately RMB27.7 million for the six months ended 31 December 2022 to approximately RMB18.7 million for the six months ended 31 December 2023. The net loss margin was reduced from approximately 17.6% for the six months ended 31 December 2022 to approximately 11.2% for the six months ended 31 December 2023.

Loss for the period attributable to the shareholders of the Company

As a result of the foregoing, the loss for the period attributable to the shareholders of the Company decreased by approximately 32.8% from approximately RMB27.3 million for the six months ended 31 December 2022 to approximately RMB18.3 million for the six months ended 31 December 2023.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources, bank loans as well as equity financing. As at 31 December 2023, the Group had cash and cash equivalent balance amounting to approximately RMB37.4 million (30 June 2023: approximately RMB44.0 million) and interest-bearing loans amounting to approximately RMB63.0 million (30 June 2023: RMB69.0 million).

BORROWINGS AND CHARGES OF ASSETS

As at 31 December 2023, the Group's borrowings were approximately RMB63.0 million (30 June 2023: RMB69.0 million), which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an average interest rate of 4.03% per annum (30 June 2023: all denominated in RMB, and bore an average interest rate of 4.87% per annum).

As at 31 December 2023, the banking facilities granted to the Group were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB37.6 million and RMB78.4 million and RMB70.1 million, respectively (30 June 2023: approximately RMB39.2 million and RMB81.1 million and RMB70.7 million, respectively).

GEARING RATIO

The gearing ratios as at 31 December 2023 and 30 June 2023 were approximately 15.9% and 16.4%, respectively. The decrease in gearing ratio was mainly attributable to a decrease in the interest-bearing loans from approximately RMB69.0 million as at 30 June 2023 to approximately RMB63.0 million as at 31 December 2023. Based on the gearing ratio as at 31 December 2023, the Group still maintained a good financial position.

Gearing ratio is calculated based on the total interest-bearing loans at the end of the period/year divided by total interest-bearing loans plus total equity at the end of the respective period/year and multiplied by 100%.

TRADE AND OTHER RECEIVABLES

Trade and bills receivables decreased by approximately RMB21.0 million from approximately RMB153.1 million as at 30 June 2023 to approximately RMB132.1 million as at 31 December 2023, primarily due to the Group have strengthened the collection of the receivables and credit control. The provision for impairment of trade receivables and other receivables for the six months ended 31 December 2023 increased slightly by approximately RMB1.6 million to approximately RMB181.2 million as at 31 December 2023, due to the worsen economic environment and liquidity issues of certain customers, but it remained relatively stable. The Group will strengthen customer credit risk management to guard against the increase in bad debt provision, and will take legal action if necessary.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group (i) did not perform any material acquisition or disposal of subsidiaries, associates or joint ventures or investments during the six months ended 31 December 2023; and (ii) did not hold any significant investment as at 31 December 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have future plans for material investments and capital assets during the six months ended 31 December 2023 and up to the date of this announcement.

CAPITAL EXPENDITURE

For the six months ended 31 December 2023, the Group's capital expenditure amounted to approximately RMB0.5 million (2022: RMB0.5 million).

CAPITAL COMMITMENTS

As at 31 December 2023, the Group had no material capital commitments (30 June 2023: Nil).

CONTINGENT LIABILITIES

Save as disclosed elsewhere in this announcement, the Group had no material contingent liabilities as at 31 December 2023 (30 June 2023: Nil).

TREASURY POLICY

The Group had a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business during the six months ended 31 December 2023. The management will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of any future growth opportunities.

FOREIGN CURRENCY RISK

The Group's transactions are mainly denominated in Renminbi ("**RMB**"), United States Dollars, and Hong Kong Dollars. The exchange rate changes of such currencies were monitored regularly and managed appropriately.

The RMB is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group 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 2023, the Group had 239 employees (30 June 2023: 245 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2023 were approximately RMB24.6 million, as comparable to approximately RMB32.1 million for the six months ended 31 December 2022. 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. In addition to cash compensation and benefits, we may issue share options to our employees in accordance with our equity plans. 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 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

2021 PLACING OF NEW SHARES AND SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

On 2 March 2021, the Company and Dao He Investment Limited (the "Subscriber"), a company incorporated in the British Virgin Islands with limited liability, entered into a subscription agreement pursuant to which the Company has agreed to allot and issue, and the Subscriber has agreed to subscribe for, an aggregate of 153,846,153 ordinary shares as subscription shares (with a nominal value of HK\$1,538,461.53) at the subscription price of HK\$0.65 per subscription share, which was already approved at an extraordinary general meeting held on 28 April 2021. The subscription price of HK\$0.65 per subscription share represented a discount of approximately 22.62% to the closing price of HK\$0.84 per share as quoted on the Stock Exchange on the date of the subscription agreement. Taking into account the Company's expenses for the subscription, the net price was approximately HK\$0.65 per share. On 29 April 2021, Mr. Fang Hui, the ultimate beneficial owner of the Subscriber, was appointed as executive director of the Company.

The net proceeds from the issue of the subscription shares were approximately HK\$100 million. As disclosed in the Company's announcement dated 2 March 2021 and the circular dated 13 April 2021, the Company intended to utilise the proceeds from such subscription towards the costs of purchasing and leasing plants and machineries for the Dubai Recycling Project. Subsequently, as disclosed in the announcement of the Company dated 8 June 2021, such proceeds would temporarily be used as working capital to purchase waste material for processing and/or re-sale.

As at 31 December 2023, the Group has temporarily used the proceeds from the subscription of approximately HK\$3.8 million as working capital to purchase waste material for processing and/or re-sale and the unused balance of approximately HK\$96.2 million was currently placed into deposits and/or money market instruments, which will remain for potential acquisition by the Group in the future. The expected timeline for use of unutilised proceeds is based on the Group's best estimate of future market conditions, subject to current and future changes of market developments.

Details in relation to the subscription of new shares under specific mandate are disclosed in the announcements of the Company dated 2 March 2021, 28 April 2021, 10 May 2021 and 8 June 2021, and the circular of the Company dated 13 April 2021.

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

The shares of the Company were listed on the Stock Exchange on 16 May 2013 (the "**Listing Date**") by way of placing, raising total net proceeds of approximately HK\$48.1 million after deducting professional fees, underwriting commissions and other related listing expenses (the "**Net Proceeds**").

References are made to (i) the prospectus of the Company dated 9 May 2013 in relation to the listing on the GEM of the Stock Exchange (the "**Listing**"), which sets out the intended use of the Net Proceeds from the Listing; and (ii) the announcement of the Company dated 23 December 2014 in relation to the transfer of listing from the GEM to the Main Board of the Stock Exchange and (iii) the announcement of the Company dated 31 March 2022 regarding the change in use of the Net Proceeds. Since the Listing Date and up to 31 December 2021, the Company has utilised approximately RMB26.3 million out of the Net Proceeds. The amount of Net Proceeds which remains unutilised (the "**Unutilised Net Proceeds**") as at 31 December 2021 was approximately RMB21.8 million. Having carefully considered the business environment and development needs of the Group, on 31 March 2022, the Board has resolved to change the proposed use of the Unutilised Net Proceeds in the amount of approximately RMB21.8 million, which was originally allocated for the purposes of (i) increasing production capacity; (ii) cost saving construction; and (iii) increasing market awareness and image of the Group, to the following purposes: (i) approximately RMB8 million for the repayment of bank loan and other borrowings; (ii) approximately RMB5 million for research and development expenses; and (iii) approximately RMB8.8 million for administrative and management expenses, of which approximately RMB3 million, approximately RMB1.5 million, approximately RMB3 million and approximately RMB1.3 million will be used for salary adjustment of key employees, hiring additional employees, settling legal and professional advisers' expenses and other corporate purposes, respectively.

Set out below is the original and revised allocation of the Net Proceeds and the actual use of the Net Proceeds from the Listing Date to 31 December 2023:

	Original planned use of the Net Proceeds RMB'000	Reallocation of Unutilised Net Proceeds as at 31 March 2022 RMB'000	Revised use of the Net Proceeds RMB'000	Actual use of Net Proceeds from the Listing Date to 31 December 2023 RMB'000	Unused Net Proceeds as at 31 December 2023 RMB'000	Expected date of full utilisation of unused Net Proceeds
Increase production capacity	23,521	(5,222)	18,299	18,299	-	-
Cost saving construction	15,709	(15,709)	-	-	-	-
Continuous product development and innovation	5,208	-	5,208	5,208	-	-
Increase market awareness and image of the Group	3,385	(869)	2,516	2,516	-	-
Improve the current information management system	260	-	260	260	-	-
Repayment of bank loan and other borrowings	-	8,000	8,000	8,000	-	-
Research and development expenses	-	5,000	5,000	5,000	-	-
Administrative and management expenses						
— Salary adjustment for key employees	-	3,000	3,000	-	3,000	On or before 31 December 2024
— Hiring of additional employees	-	1,500	1,500	320	1,180	On or before 31 December 2024
— Legal and professional advisers' expenses	-	3,000	3,000	3,000	-	-
— Other general corporate purposes	-	1,300	1,300	1,300	-	-
	<u>48,083</u>	<u>-</u>	<u>48,083</u>	<u>43,903</u>	<u>4,180</u>	

Note: The expected date of full utilisation of the unused Net Proceeds was based on the best estimation of the future market conditions made by the Group. It would be subject to change based on the current and future development of market conditions.

The unused Net Proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and the PRC.

The Directors will constantly evaluate the business targets of the Group and adjust their plans according to the ever-changing market conditions, so as to ensure the growth of Group's business.

SHARE OPTION SCHEME

A share option scheme of the Company (the “**Share Option Scheme**”) was approved and adopted by the shareholders of the Company at its extraordinary general meeting held on 10 February 2022 (the “**Adoption Date**”).

During the six months ended 31 December 2023, no Share Options were granted and exercised. As at 31 December 2023, the total number of ordinary shares that may be issued in respect of which Share Options had been granted and remained outstanding under the Share Option Scheme was 33,080,000 (representing approximately 3.11% of the Company’s Shares in issue as at 31 December 2023). The number of Share Options available for grant under the Share Option Scheme as at 1 July 2023 and 31 December 2023 was 52,734,137 and 52,734,137, respectively.

The principal terms of the Share Option Scheme and details of the grant of Share Options are set out in the circular of the Company dated 21 January 2022 and the announcement of the Company dated 31 May 2022.

Particulars of the movement of the Share Options held by the Directors and employees of the Group during the six months ended 31 December 2023 were as follows:

Name or category of participants	Date of Grant (Note a)	Exercise price	Vesting & exercise period	At 1 July 2023	Granted during the period	Number of share options			At 31 December 2023
						Exercised during the period	Lapsed/ expired during the period	Cancelled/ forfeited during the period	
Directors									
Mr. Chen Hongwei	31 May 2022	HK\$0.51	Note a	500,000	-	-	-	-	500,000
Mr. Shi Chenghu	31 May 2022	HK\$0.51	Note a	1,000,000	-	-	-	-	1,000,000
Mr. Heng, Keith Kai Neng	31 May 2022	HK\$0.51	Note a	300,000	-	-	-	-	300,000
Mr. Yao Yang Yang	31 May 2022	HK\$0.51	Note a	300,000	-	-	-	-	300,000
Ms. Zhang Dong Fang	31 May 2022	HK\$0.51	Note a	300,000	-	-	-	-	300,000
Other Employees	31 May 2022	HK\$0.51	Note a	31,010,000	-	-	(330,000)	-	30,680,000
Mr. Wang Ai Yan	31 May 2022	HK\$0.51	Note a	1,000,000	-	-	(1,000,000)	-	-
(Note b)									
In aggregate				34,410,000	-	-	(1,330,000)	-	33,080,000

Notes:

- (a) The validity period of the Share Options granted on 31 May 2022 is from 31 May 2022 to 30 May 2032.

The Share Options granted on 31 May 2022 shall be vested and are exercisable in the following manners:

- (i) 30% of the Share Options may be exercisable at any time commencing from the Date of Grant up to 30 May 2032;
- (ii) 30% of the Share Options and the first 30% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2023 up to 30 May 2032; and
- (iii) the remaining 40% of the Share Options and the first 60% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2024 up to 30 May 2032.

The closing price of the Company's shares immediately before the date on which the Share Options were granted was HK\$0.49 per share.

- (b) Being an ex-executive Director (resigned on 1 December 2022) of the Company.

If all such Share Options were exercised, there would be a dilution effect on the shareholdings of shareholders of approximately 3.02% as at 31 December 2023.

The estimated value of the Share Options granted under the Share Option Scheme, calculated using the binomial lattice model, as at the Date of Grant of the Share Options was approximately HK\$9,034,000.

The binomial lattice model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the Share Options were risk-free rate of interest, dividend yield, volatility and early exercise multiple. The measurement date used in the valuation calculations was the date on which the options were granted.

Share price (HK\$)	0.51
Exercise price (HK\$)	0.51
Expected volatility (%)	70.1
Expected dividend yield (%)	0.0
Risk-free interest rate (%)	2.8

The expected volatility is based on the historical volatility (calculated based on the expected life of the share options), adjusted for any expected changes to future volatility due to public available information. The expected dividends are based on historical dividends. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes with a maturity life equal to the life of the share option.

The fair value calculated for the Share Options is inherently subjective due to the assumptions made and the limitations of the model utilised.

LEGAL PROCEEDINGS

Zhejiang Huazhang received a first instance judgment (the “**Judgement**”) 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) (the “**Court**”) 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. Zhejiang Huazhang had lodged an appeal application (the “**Appeal Application**”) with the Higher People’s Court of Yunnan Province (雲南省高級人民法院) (the “**Appeal Court**”) against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the Judgment and the legal proceedings in question be retried at the Court. The Judgment has been set aside and will not be enforced, but the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts will remain in full force for a period of one year until January 2023 as ordered thereunder. The order made on 12 January 2022 has remained in full force as the plaintiff had applied to have the RMB37.6 million in the bank accounts of Zhejiang Huazhang in the PRC remained frozen. Details of the legal proceedings were set out in the Company’s announcements dated 21 January 2022 and 9 September 2022.

The above legal proceedings had no material adverse impact on the business operation and financials of the Group. The Company will continue to monitor the progress of the legal proceedings and assess the impact of the proceedings on the Group.

COMPETING INTERESTS

For the six months ended 31 December 2023, the Directors are not aware of any business or interest of the Directors, the substantial shareholders of the Company or any of their respective associates had engaged in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests which any such person has or may have with the Company.

CORPORATE GOVERNANCE PRACTICES

The Board reported that the Company has complied with the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Part 2 of Appendix C1 to the Listing Rules for the six months ended 31 December 2023, except the following deviations:

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Following the removal of the former chairman of the Company and the resignation of the Chief Executive Officer (the “**CEO**”) of the Company, the Company has not appointed an individual to take up the vacancy of the Chairman and the CEO, respectively, and the roles and functions of the Chairman and the CEO have been performed by all the executive Directors collectively.

Under code provision C.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors. Such meeting was not held due to the current vacancy of the chairman of the Company.

Under code provision C.2 of the CG Code, there are certain roles and responsibilities to be carried out by the chairman of the Company. Due to the vacancy of the chairman of the Company, such roles are delegated to the executive Directors except the roles and responsibilities as stated in code provision C.2.7 of the CG Code.

Under code provision F.2.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company and invite the chairman of the Board committees to attend. However, due to the current vacancy of the chairman of the Company, no person as chairman of the Company had attended the annual general meeting held on 30 November 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix C3 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 2023 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 2023 (six months ended 31 December 2022: Nil).

AUDIT COMMITTEE

The audit committee (the “**Audit Committee**”) of the Company 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 has reviewed and discussed with the management about the accounting principles and practices adopted by the Group, and has reviewed the Group’s unaudited interim condensed consolidated financial statements for the six months ended 31 December 2023.

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.lzcg.com), and the interim report of the Company for the six months ended 31 December 2023 containing all the information required by the Listing Rules will be published on the above websites in due course and despatched to the shareholders of the Company, upon request.

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

Hong Kong, 27 February 2024

As at the date of this announcement, the executive Directors are Mr. Fang Hui and Mr. Chen Hongwei, 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.