华章科技
HUAZHANG TECHNOLOGY

華章科技控股有限公司
Huazhang Technology Holding Limited

(Incorporated in Cayman Islands with limited liability)

Stock code：1673

2018
INTERIM REPORT

CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Zhu Gen Rong *(Chairman)*
Mr. Wang Ai Yan *(Chief Executive Officer)*
Mr. Jin Hao
Mr. Zhong Xin Gang

Independent Non-executive directors

Ms. Chen Jin Mei
Mr. Dai Tian Zhu
Mr. Kong Chi Mo

AUDIT COMMITTEE

Mr. Kong Chi Mo *(Chairman)*
Ms. Chen Jin Mei
Mr. Dai Tian Zhu

REMUNERATION COMMITTEE

Ms. Chen Jin Mei *(Chairlady)*
Mr. Kong Chi Mo
Mr. Dai Tian Zhu

NOMINATION COMMITTEE

Mr. Dai Tian Zhu *(Chairman)*
Mr. Zhu Gen Rong
Mr. Kong Chi Mo
Ms. Chen Jin Mei

COMPANY SECRETARY

Mr. Chan So Kuen

COMPLIANCE OFFICER

Mr. Jin Hao

CORPORATE INFORMATION *(Continued)*

AUTHORIZED REPRESENTATIVES

Mr. Zhu Gen Rong
Mr. Chan So Kuen

LEGAL ADVISOR

As to Hong Kong Law
Stevenson, Wong & Co.

AUDITORS

Ernst & Young

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

REGISTERED ADDRESS

Cricket Square Hutchins Drive PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

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No.2 Industrial Area
Tongxiang Economic & Technical Development Zone
Tongxiang, Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 805A, 8/F
Tower 1, South Seas Centre
75 Mody Road, Tsim Sha Tsui
Kowloon
Hong Kong

CORPORATE INFORMATION *(Continued)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square Hutchins Drive PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1673

WEBSITE

www.hzeg.com

FINANCIAL HIGHLIGHTS

	For the six months ended 31 December 2017		
	2017	**2016**	**Change**
	RMB	RMB	%
Revenue	**242,063,632**	200,560,216	20.7
Gross profit	**66,451,074**	47,801,861	39.0
Gross profit margin	***27.5%***	*23.8%*	*3.7*
Profit for the period	**22,203,479**	14,298,987	55.3
Net profit margin	***9.2%***	*7.1%*	*2.1*
Profit attributable to owners of the Company	**22,044,300**	14,277,890	54.4
Earnings per share attributable to ordinary equity holders of the parent (RMB cents per share)			
– basic	**3.52**	2.38	47.9
– diluted	**3.52**	2.38	47.9
Non-GAAP profit for the period	**27,969,580**	19,223,583	45.5
Non-GAAP net profit margin	***11.6%***	*9.6%*	*2.0*
Non-GAAP earnings per share (RMB cents per share)			
– basic	**4.47**	3.20	39.7

The Board resolved not to declare any interim dividend for the six months ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2017, together with the unaudited comparative figures for the corresponding period in 2016.

BUSINESS REVIEW AND OUTLOOK

In 2017, China's gross domestic production grew by 6.9%, is the first time that China's economic growth has reversed its downward trend since 2011, achieving a steady recovery. The year 2017 has turned out to be a fruitful year for China's paper-making industry, showing signs of revival in the industry with potential of a prolonged boom since the first half of 2017. With the stringent environmental policies implemented by the PRC, its vigorous elimination of outdated production capacities and high entry barriers for new entry production capacity, as well as the demand recovery in the paper-making industry where the demand-supply conditions had seen certain degree of improvement and the paper prices rose, the leading paper-making companies were able to achieve impressive results. The 2017 annual production of machine-made papers and cardboards in China grew 3.1% year-on-year to approximately 125.4 million tonnes, as reported by the National Bureau of Statistics. This suggested that the paper-making companies continued to put new capacity into operation to fill up the gap left by the retired capacity. As such, the overall capacity of the paper-making industry has shown no sign of rapid decline.

Following production suspension and limitation of the paper-making industry over the past few years, which were mostly related to the environmental protection policies, the papermaking companies have enhanced their environmental governance. The paper-making companies in the PRC shall obtain pollutant discharge licenses with effect from 1 July 2017. In December 2017, the General Office of the Ministry of Environmental Protection issued the Provisions on the Environmental Protection Administration of Imported Waste Paper, under which paper-making companies with annual capacity of less than 50,000 tonnes are forbidden to apply for imported waste paper. These new environmental protection standards are conducive to industry consolidation. More efforts were put for restructuring and upgrading of the industry, and focus was on quality improvement rather than quantity expansion. Moreover, strategies of high-end products and industry chain were in place to adjust inventory, improve product quality and grade, and further boost quality and efficiency development. As a result, the demand for the existing production equipment of the papermaking plants has changed, which includes equipment upgrading or retrofitting, in a bid to improve the quality of existing products.

In the second half of 2017, the Group actively facilitated the internal affairs as well as business by upholding the policy principles of "New Huazhang, New Development, New Dream".

"New Huazhang" – In September 2017, the Group completed the acquisition of the MCN Group, a company that owns patents and know-how in the headbox production. The acquisition would be able to diversify the Group's products and grant the Group access to one of the core technologies of paper-making production equipment. In November 2017, the Group completed the acquisition of the 777 Logistics Group. The 777 Logistics Group is principally engaged in logistics and warehouse businesses. Currently, the infrastructure of the logistics and warehouse centre in Yangjiang City, Guangdong Province has been completed and the centre is capable of providing bonded logistics services of raw materials, equipment and supplies for paper-making companies. The 777 Logistics Group allows the Group to establish a one-stop integrated service platform to promote all encompassing services to paper-making companies.

After the acquisitions, the group's business segments can be classified as four types:

Industrial products – including industrial automation systems, headboxes
Project contracting services – including design services, project management services and installation services
Environmental products – including sludge treatment products, wastewater treatment products and refuse derived fuel products ("RDF products")
Supporting services – including after-sales services, machine running services, warehouse and logistic services and renovation services

"New Development" – For the six months ended 31 December 2017, the Group recorded a turnover and profit of approximately RMB242.1 million and approximately RMB22.2 million, respectively, representing an increase of approximately 20.7% and approximately 55.3% as compared with the same period in 2016. The increase was mainly attributable to the Group's successful provision of project contracting services for the paper-making industry to the medium and large paper-making companies.

For the six months ended 31 December 2017, the contracts signed by the Group totaled approximately RMB819.6 million, representing an increase of approximately 2.3 times over those recorded in the same period last year. Among which the contract value of project contracting services for the paper-making industry accounting for the total contract value during the period was about RMB427.4 million, representing an increase of approximately 1.7 times as compared to the same period in 2016. Currently, the market demands for paper-making project and comprehensive solutions for the paper-making industry are strong, because medium and large paper-making companies lack engineers and technical talents. These companies are in need of comprehensive solutions services provider. Leveraging on the accumulated experience in the industry over years, the Group has been providing more extensive services to the paper-making companies, including boot service, paper-making supply chain financing service, with a view to achieve the Group's goal in providing allencompassing services to paper-making plants.

On top of that, the Group secured a master contractor contract in respect of slurry and automation equipment for the 250,000 tonnes paper machine project in Vietnam. It is the performance sample of the Group's export of complete-set equipment under the national "One Belt, One Road" initiative, strengthening the Group's determination to "go global".

"New Dream" – Driven by the favorable industry profit, the major paper-making plants required more machinery and equipment. However, in respect of the growth of equipment for quantity production in paper-making plants in the past, the paper-making industry in China has now entered into a new phase of adjustment, actively resolving overcapacity and seeking for a new balance between supply and demand on the basis of structural optimization, quality development and greater efficiency. In China, there are over 200 papermaking machine manufacturers, but none of them is large-scale. The largest one recorded annual sales of about RMB500 million. A single company has huge difference in terms of scale, technology and quality as compared with international paper-making equipment giants such as Voith GmbH (福伊特集團公司), Metso Corporation (美卓公司)/Valmet Corporation (維美德公司) and Andritz AG (安德里茨公司). In 2017, the standing committee meeting of the State Council pointed out that the PRC was in the process of accelerating the industrialization and that the manufacturing industry was an important pillar and foundation of the national economy. The implementation of the "Made in China 2025" initiative mapped out in this year's government work report is of great significance to promote the transformation of manufacturing in China from big to strong, enabling manufacturing in China to include more China created elements, rely more on Chinese equipment and Chinese brands, ultimately striving to maintain the medium-and-high speed economic growth and head towards a medium-high end level. As the No. 1 paper-making equipment supplier, the Group will step up its efforts in innovation and research and development so that apart from being a large producer of paper, China will become a nation that provides complete equipment for the paper-making industry, enabling paper-making equipment enterprises in China to enjoy a greater competitive advantage as compared with international paper-making equipment giants in developing the paper-making industry under the national "One Belt, One Road" initiative.

Looking forward to the first half of 2018, the positive trend of the paper-making industry in 2017 will sustain. The Group will focus on the problems faced by the paper-making companies and make timely response with appropriate adjustment of strategy so as to take the lead in the market.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased significantly by approximately 20.7% from approximately RMB200.6 million for the six months ended 31 December 2016 to approximately RMB242.1 million for the six months ended 31 December 2017. Gross profit margin increased from approximately 23.8% for the six months ended 31 December 2016 to approximately 27.5% for the six months ended 31 December 2017.

(i) *Industrial products*

Revenue from sales of industrial products increased by approximately 9.2% from approximately RMB40.5 million for the six months ended 31 December 2016 to approximately RMB44.3 million for the six months ended 31 December 2017. Such increase was primarily attributable to acquisition of head-box business in September 2017. The revenue from sales of headbox is approximated RMB10.1 million for the period from acquisition date to 31 December 2017, which is offset by decrease in sales of industrial automation systems. The gross profit margin of industrial products decreased from approximately 31.3% for the six months ended 31 December 2016 to approximately 23.7% for the six months ended 31 December 2017. Such decrease was attributable to sales of industrial automation systems to non-paper industries at a lower gross profit margin in order to explore new markets.

(ii) *Project contracting services*

Revenue from project contracting services decreased slightly by approximately 6.6% from approximately RMB111.3 million for the six months ended 31 December 2016 to approximately RMB104.0 for the six months ended 31 December 2017. Such decrease was affected by the progress of the projects as most of the projects are in the early stage. The gross profit margin of project contracting services increased from approximately 20.3% for the six months ended 31 December 2016 to approximately 29.4% for the six months ended 31 December 2017 due to the Group provided the design services at the early stage during the period which have a higher profit margin.

(iii) Environmental business

Revenue from sales of environmental business increased by approximately 124.7% from approximately RMB28.6 million for the six months ended 31 December 2016 to approximately RMB64.2 million for the six months ended 31 December 2017, primarily attributing to the increase in sales of RDF products for the six months ended 31 December 2017 as there is no such transaction for the six months ended 31 December 2016. The gross profit margin of environmental business decreased from approximately 25.8% for the six months ended 31 December 2016 to approximately 19.3% for the six months ended 31 December 2017 due to the Group promoted the new RDF products which have a lower profit margin.

(iv) Supporting services

Revenue from provision of supporting services increased by approximately 47.4% from approximately RMB20.1 million for the six months ended 31 December 2016 to approximately RMB29.6 million for the six months ended 31 December 2017. The gross profit margin for provision of supporting services increased from approximately 25.6% for the six months ended 31 December 2016 to approximately 43.9% for the six months ended 31 December 2017. Increase in gross profit margin and revenue for provision of supporting services was due to the Group provided a new service, machine running service, to enhance the production efficiency of the customers, such services have a higher profit margin.

Other income and gains

Other income and gains increased by approximately 134.5%from approximately RMB2.0 million for the six months ended 31 December 2016 to approximately RMB4.7 million for the six months ended 31 December 2017, primarily due to the increase in bidding service income of approximately RMB2.1 million for the six months ended 31 December 2017 as compared with six months ended 31 December 2016.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 34.8% from approximately RMB5.0 million for the six months ended 31 December 2016 to approximately RMB6.7 million for the six months ended 31 December 2017, accounting for approximately 2.5% and approximately 2.8% of the Group's revenue for the six months ended 31 December 2016 and 2017 respectively. Increase in selling and distribution expenses is primarily attributing to increase in provision of free repair service to maintain client relationships and increase in transportation and exhibitions costs in order to promote our brand and explore new customers in China and overseas.

Administrative expenses

The administrative expenses increased by approximately 11.9% from approximately RMB16.8 million for the six months ended 31 December 2016 to approximately RMB18.8 million for the six months ended 31 December 2017, accounting for approximately 8.4% and approximately 7.8% of the Group's revenue for the six months ended 31 December 2016 and 2017 respectively. The increase in administrative expenses is mainly attributable to administrative expenses contributed by subsidiaries from the new acquisitions during the period.

Research and development expenses

The research and development expenses significantly increased by approximately 53.3% from approximately RMB6.2 million for the six months ended 31 December 2016 to approximately RMB9.5 million for the six months ended 31 December 2017, accounting for approximately 3.1% and approximately 3.9% of the Group's revenue for the six months ended 31 December 2016 and 2017 respectively. The Group is still continuously investing in research and development activities for new industrial automation systems and sludge treatment products in order to achieve the strategies of the Group called "New Dream".

Finance (costs)/income – net

The net finance costs for the six months ended 31 December 2017 was approximately RMB4.4 million as compared to a net finance income of approximately RMB0.1 million for the six months ended 31 December 2017. Such change was attributing to the interest expenses of approximately RMB7.3 million in relation to issuance of convertible bonds with a coupon rate of 5.0% in March 2017.

Income tax expense

The income tax expense significantly increased by approximately 85.7% from approximately RMB2.9 million for the six months ended 31 December 2016 to approximately RMB5.4 million for the six months ended 31 December 2017. The increase was mainly attributable to increase in the assessable profits as well as increase in the revenue.

The effective tax rates of the Group for the six months ended 31 December 2016 and 2017 were 16.9% and 19.5% respectively. Increase in effective tax rates is attributable to increase in non-deductible expenses in relation to finance costs of the convertible bond for the six months ended 31 December 2017.

Profit for the period and net profit margin

Profit for the period significantly increased by approximately 55.3% from approximately RMB14.3 million for the six months ended 31 December 2016 to approximately RMB22.2 million for the six months ended 31 December 2017. The net profit margin rose approximately 2.1% from approximately 7.1% for the six months ended 31 December 2016 to approximately 9.2% for the six months ended 31 December 2017. Such improvement is primarily attributable to the improvement of the gross profit margins and increase in revenue.

Profit for the period attributable to owners of the parent

Profit for the period attributable to owners of the parent amounted to approximately RMB22.0 million, representing an increase of approximately RMB7.7 million or approximately 54.4% as compared with approximately RMB14.3 million for the corresponding period of last year.

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain additional non-GAAP financial measures (in terms of, profit for the period, net margin, profit attributable to equity holders of the Company, basic earnings per share and diluted earnings per share), have been presented in this announcement. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of discounting of receivables from installment transactions. In addition, non-GAAP adjustments include estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The following tables set forth the reconciliation between the Non-GAAP financial measures and measures prepared in accordance with HKFRS for the six months ended 31 December 2017 and 2016:

	Six months ended 31 December 2017			
	As reported	**Amortised costs of liability component of the Convertible Bond** *(Note 1)*	**Financial components from provision for project contracting services** *(Note 2)*	**Non-GAAP**
	RMB	RMB	RMB	RMB
Profit for the period	**22,203,479**	**5,191,579**	**574,522**	**27,969,580**
Profit attributable to owners of the Company	**22,044,300**	**5,191,579**	**574,522**	**27,810,401**
Earning per shares (RMB cents per share)				
– basic	**3.52**			**4.47**
– diluted	**3.52**			**4.47**

	Six months ended 31 December 2016			
	As reported	Amortised costs of liability component of the Convertible Bond (Note 1)	Financial components from provision for project contracting services (Note 2)	Non-GAAP
	RMB	RMB	RMB	RMB
Profit for the period	14,298,987	–	4,924,596	19,223,583
Profit attributable to owners of the Company	14,277,890	–	4,924,596	19,202,486
Earning per shares (RMB cents per share)				
– basic	2.38			3.20
– diluted	2.38			3.20

Note:

(1) Amortised costs of liability component of convertible bonds is the amount at which the convertible bonds were measured at initial recognitions plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

(2) Financial components from provision for project contracting services combines the difference between the sales price and the present value of the consideration, determined by discounting the installments receivable at the imputed rate of interest, and the difference to be recognised as revenue as interest element using the effective interest method.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources. As at 31 December 2017, the Group have cash and cash equivalent balance amounting to approximately RMB88.4 million (30 June 2017: approximately RMB50.6 million) and interest-bearing loans amounting to approximately RMB52.7 million (30 June 2017: RMB8.6 million). Cash and cash equivalents increased due to the Group obtained cash inflow through the acquisitions.

CONVERTIBLE BONDS

On 29 March 2017, the Company issued Convertible Bonds in principal amount of HK$100.0 million (equivalent to approximately RMB88.8 million) (the "**Convertible Bonds**") to Kaiser Asset Management Limited which can be convertible into 40,000,000 ordinary shares.

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

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

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

The Directors are of the view that the issue of the Convertible Bonds represents a good opportunity for the Company to raise funds to strengthen its financial position as well as to provide further funding to the Group for its development.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The net proceeds from the Convertible Bonds amounted to approximately HK$99.5 million (the "Net Proceeds"). As at six months ended 31 December 2017, the Net Proceeds, after deducting all relevant costs and expenses, had been utilised as to approximately HK$79.6 million for the Group's new intergraded solution projects and as to approximately HK$12.3 million for the Group's general working capital. The unutilised portion of the Net Proceeds of approximately HK$7.6 million as at six months ended 31 December 2017, had been placed into the Group's bank accounts maintained with licensed banks in Hong Kong and is expected to do not have any change to its plan on the use of proceeds as stated in the announcement dated 29 March 2017. As at 31 December 2017, no Convertible Bonds were converted to the shares.

	Use of proceeds	**Actual use of proceeds**	**Unused proceeds**
	HK$ million	*HK$ million*	*HK$ million*
Planning new integrated solutions project	79.6	79.6	–
General working capital	19.9	12.3	7.6
Total	99.5	91.9	7.6

Details of the Convertible Bonds have been disclosed in note 19 to the financial statements and the announcements of the Company dated 29 March 2017 and 15 January 2018.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the six months ended 31 December 2017.

Acquisitions

MCN Group

On 16 May 2017, the Company as purchaser and Zhang Hai Hui, Jiang Yi Dong and Cui Liang Rong as vendors entered into a sale and purchase agreement in relation to the sale and purchase of (1) the entire equity interests in MCN Group and (2) the benefit (subject to the burden) of the contracts entered into by Sunplus Industrial Co., Limited for an initial consideration of RMB34,000,000 (subject to adjustment), which will be settled partly by cash consideration of approximately RMB9,000,000 and partly by issuance of 11,097,942 shares of the Company upon completion of the transaction. In addition, there is also a contingent consideration with the maximum amount of RMB34,000,000 stipulated in the agreement, which is dependent on the amount of profit before tax of the MCN Group during year 2017 and 2018. As at 25 September 2017, the transaction is completed and the Group has paid RMB9.0 million in cash and allotted and issued 9,588,622 new Shares at an issue price of HK$2.55 per share to the vendors.

For more details of the transaction, please refer to the announcements of the Company dated 17 May 2017, 23 May 2017, 24 July 2017, 14 August 2017, 31 August 2017 and 25 September 2017 and the circular of the Company dated 28 July 2017.

777 Logistics Group

On 17 June 2017, the Company entered into a sale and purchase agreement with the Swift Fortune Holdings Limited and 777 Logistics Warehouse Holdings Limited (the "777 Vendors"), pursuant to which the Company conditionally agreed to acquire the entire issued share capital of the 777 Logistics Group and the shareholders loans due from the 777 Logistics Group at an aggregate consideration of HK$205,140,000, which would be satisfied in full by the Company's issue of 80,447,059 shares upon the completion of the acquisition. As at 15 November 2017, the transaction is completed and the Group has allotted and issued 80,447,059 new shares at an issue price of HK$2.55 per share to the 777 Vendors.

For more details of the transaction, please refer to the announcements of the Company dated 18 June 2017, 21 July 2017, 31 August 2017, 29 September 2017, 25 October 2017 and 15 November 2017 and the circular of the Company dated 10 October 2017.

Save as disclosed herewith, the Group did not make any other material mergers or acquisitions for the six months ended 31 December 2017.

Borrowings and charges of assets

As at 31 December 2017, the Group's borrowings were approximately RMB52.7 million (30 June 2017: RMB8.6 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear an interest range of 1.5% to 7.2% per annum (30 June 2017: all denominated in RMB, and bear an interest range of 3.0% to 7.2% per annum).

As at 31 December 2017, the banking facilities granted by the bank was secured by prepaid land lease payments, property, plant and equipment and investment properties of the Group amounting to approximately RMB3.3 million and RMB31.7 million and RMB6.1 million respectively (30 June 2017: approximately RMB3.4 million and RMB32.2 million and RMB6.3 million respectively).

Trade and bills receivables

Trade and bills receivables increased by approximately RMB65.7 million from approximately RMB399.5 million as at 30 June 2017 to approximately RMB465.2 million as at 31 December 2017. The increase was mainly attributable to increase in provision of project contracting service, such revenue was approximately RMB104.0 million for the six months ended 31 December 2017. The repayment period for the provision of integrated solutions service is around 2-3 years. The customers settle the receivable by instalments through the finance lease company. The Group believes that this model will enable the Group to improve market competitiveness, to provide more flexible services to customers. In addition, the Group will strengthen customer credit risk management to guard against the increased in bad debt provision.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISK

The Group's principal business is located in the PRC and its transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars.

The RMB is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 304 employees (30 June 2017: 285 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2017 were approximately RMB20.0 million, as comparable to approximately RMB17.3 million for the six months ended 31 December 2016. 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.

DISCLOSURE OF INTEREST

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which will have to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") under Divisions 7 and 9 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") required to be notified to the Company and the Stock Exchange, are as follows:

LONG POSITIONS IN THE SHARES

Name of director	Company/name of associated company	Natural of interest	Number of securities	Approximate percentage of shareholding
Mr Zhu Gen Rong	The Company	Interest of a controlled corporation	411,854,000 shares (Note 1)	59.63%
		Beneficial owner	608,000 shares (Note 2)	0.09%
		Interest of people acting in concert	200,000 shares (Note 1)	0.03%
	Florescent Holdings Limited	Interest of a controlled corporation	7,790 shares (Note 3)	77.90%
	Lian Shun Limited	Beneficial interest	5,705,500 shares (Note 4)	61.31%
Mr Wang Ai Yan (Note 4)	The Company	Interest of a controlled corporation	411,854,000 shares (Note 5)	59.63%
		Beneficial owner	200,000 shares (Note 6)	0.03%
		Interest of people acting in concert	608,000 shares (Note 5)	0.09%
	Florescent Holdings Limited	Interest of a controlled corporation	7,790 shares (Note 3)	77.90%
	Lian Shun Limited	Beneficial interest	1,930,000 shares (Note 4)	20.74%

DISCLOSURE OF INTERESTS *(Continued)*

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 61.31% by Mr Zhu Gen Rong. Mr Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited. He is also deemed to be interested in the Shares held in the personal name of Mr Wang Ai Yan.

2. The 608,000 shares which Mr Zhu Gen Rong is interested in as beneficial owner.

3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited and as to 22.10% by Qunyu Limited.

4. Lian Shun Limited is owned as to 61.31% by Mr Zhu Gen Rong, as to 20.74% by Mr Wang Ai Yan and as to 17.95% by Mr Liu Chuan Jiang.

5. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 20.74% by Mr Wang Ai Yan. Mr Wang is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is deemed to be interested in the Shares held by Florescent Holdings Limited. He is also deemed to be interested in 608,000 shares held in the personal name of Mr Zhu Gen Rong.

6. The 200,000 shares which Mr Wang Ai Yan is interested in as beneficial owner.

Save as disclosed above, as at 31 December 2017, none of the Directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 31 December 2017, so far as the Directors are aware, the interests and short positions owned by the following persons or institutions (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

DISCLOSURE OF INTERESTS *(Continued)*

LONG POSITIONS IN THE SHARES

Name of Substantial Shareholders	Capacity/Natural of interest	Number of Shares directly or indirectly held	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owner	411,854,000	59.63%
Lian Shun Limited	Interest of a controlled corporation	411,854,000 (Note 1)	59.63%
Mr Zhu Gen Rong	Interest of a controlled corporation/Beneficial owner, person acting in concert	412,662,000 (Note 2)	59.75%
Mr Wang Ai Yan	Interest of a controlled corporation/Beneficial owner, person acting in concert	412,662,000 (Note 3)	59.75%
Mr Liu Chuan Jiang	Interest of a controlled corporation/person acting in concert	412,662,000 (Note 4)	59.75%
Ms Zhu Ling Yun	Person acting in concert	412,662,000 (Note 5)	59.75%
Mr Yan Kam Cheong	Interest of a controlled corporation	43,392,000 (Note 6)	6.28%
Kaiser Asset Management Limited	Beneficial owner	40,000,000 (Note 6)	5.79%
Oceanic Boom Limited	Beneficial owner	3,392,000 (Note 6)	0.49%
Li Chao Wang	Interest of a controlled corporation	60,335,294 (Note 7)	8.74%
Rosy Ease Limited	Interest of a controlled corporation	60,335,294 (Note 7)	8.74%
Swift Fortune Holdings Limited	Beneficial owner	60,335,294 (Note 7)	8.74%
Gain Channel Limited	Interest of a controlled corporation	60,335,294 (Note 7)	8.74%
Song Min	Interest of spouse	60,335,294 (Note 8)	8.74%

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited. Under the SFO, Lian Shun Limited is deemed to be interested in the shares held by Florescent Holdings Limited.

2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 61.31% by Mr Zhu Gen Rong. Under the SFO, Mr Zhu is deemed to be interested in the shares held by Florescent Holdings Limited. And include 608,000 shares which Mr Zhu is interested in as beneficial owner and include 200,000 shares which Mr Wang is interested in as beneficial owner.

DISCLOSURE OF INTERESTS *(Continued)*

3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 20.74% by Mr Wang Ai Yan. Mr Wang is regarded as one of the parties acting in concert with Mr Zhu Gen Rong under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited and Mr. Zhu.

4. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 17.95% by Mr Liu Chuan Jiang. Mr Liu is regarded as one of the parties acting in concert with Mr Zhu Gen Rong under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited, held by Mr Zhu and Mr Wang Ai Yan.

5. The announcement as dated 8 November 2015 (the "Announcement") in relation the Share Transfer (i.e. disposal of 7.52% interests in Lian Shun, one of the controlling shareholders of the Company, by Ms Zhu to Mr Zhu) and the deed of termination of the acting-in-concert arrangement among Mr Zhu, Mr Wang, Mr Liu and Ms Zhu (the "Termination Deed"). As the Company has not yet obtained confirmation from the Executive that it can be accepted that they are no longer acting in concert pursuant to note 3 to the definition of 'acting in concert' of the Takeovers Code. Therefore, Mr Zhu, Mr Wang, Mr Liu and Ms Zhu will continue to be deemed to be interested in the Shares held by each of the other parties under SFO.

6. These 43,392,000 Shares consist of 40,000,000 Shares in which Kaiser Asset Management Limited is interested and 3,392,000 Shares in which Oceanic Boom Limited is interested. Kaiser Asset Management Limited and Oceanic Boom Limited each is owned as to 100.00% by Mr Yan Kam Cheong. Under the SFO, Mr Yan is deemed to be interested in the shares held by Kaiser Asset Management Limited and Oceanic Boom Limited.

7. Swift Fortune Holdings Limited is owned as to 100.00% by Rosy Ease Limited, a wholly owned subsidiary of Gain Channel Limited, which in turn is owned as to 74.21% by Mr. Li Chao Wang. Under SFO, Mr. Li is deemed to be interested in the shares held by Swift Fortune Holdings Limited.

8. Ms. Song Min is the wife of Mr. Li Chao Wang and is deemed to be interested in the Shares which are interested in by Mr. Li Chao Wang under the SFO.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO.

DISCLOSURE OF INTERESTS *(Continued)*

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 31 December 2017 and up to the date of this report, none of the Directors or any of their respective associates, had engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

OTHER INFORMATION

PLACING OF NEW SHARES AND SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 22 December 2017, the Company and the Joint Placing Agents entered into a Placing Agreement pursuant to which placing a maximum of 14,000,000 ordinary shares (the "Placing Shares") of the Company at a placing price of HK$3.60 per share. At the same day, the Company and the Subscriber entered into the Subscription Agreement in relation to the issue of 18,056,000 Subscription Shares to the Subscriber at the Subscription Price of HK$3.6 per share.

On 11 January 2018, a total of 13,882,000 Placing Shares (with aggregate nominal value of HK$138,820) and a total of 18,056,000 subscription shares (with aggregate nominal value of HK$180,560) have been successfully placed by the joint placing agents to two placees, Mr. Li Hongxin (李洪信) and Mr. Li Gueihua (黎桂華), and allotted to the subscriber, Fortune Ever Holdings Limited, respectively, at the share price of HK$3.6 per share pursuant to the terms and conditions of the placing agreement and subscription agreement.

OTHER INFORMATION *(Continued)*

The placing and subscription price of HK$3.60 per share (exclusive of stamp duty, brokerage (if any), Stock Exchange trading fees and SFC transaction levy) represents:

(i) a discount of approximately 4.8% to the closing price of HK$3.78 per share as quoted on the Stock Exchange on 22 December 2017, being the date of the placing and subscription agreement; and

(ii) a discount of approximately 5.0% to the average closing price of approximately HK$3.79 per Share as quoted on the Stock Exchange for the five consecutive trading days prior to the date of the placing and subscription agreement.

The subscription price of HK$3.60 per share is the same as the placing price.

Taking into account the Company's estimated expenses for the placing and the subscription, the net subscription price is approximately HK$3.56 per share.

The Directors consider that the placing and the subscription would be a good opportunity to raise additional funds to strengthen its financial position and to broaden its shareholder base.

The gross proceeds and net proceeds from the Placing are approximately HK$50.0 million and approximately HK$48.6 million respectively while the gross proceeds and net proceeds from the Subscription are approximately HK$65.0 million and approximately HK$65.0 million respectively. The total net proceeds of approximately HK$113.6 million from the Placing and the Subscription are intended to be used: (i) approximately 10.0% for general working capital; (ii) approximately 50.0% for the repayment of debts including that arising from the acquisition of the entire share capital in Fu An 777 Logistics Limited as disclosed in the announcement of the Company dated 15 November 2017; and (iii) approximately 40.0% for potential acquisitions of the Group including but not limited to those disclosed in the announcements of the Company dated on 31 May 2017 and 2 October 2017.

None of the placees or the subscriber has become a substantial shareholder (as defined under the Listing Rules) as a result of the placing or the subscription.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the six months ended 31 December 2017.

SHARE OPTION SCHEME

During the period under review, no option has been granted and there has been no movement of any options granted (if any) under the share option scheme adopted by the Company on 6 May 2013.

CORPORATE GOVERNANCE PRACTICES

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 Rules for the six months ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 2017 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

OTHER INFORMATION *(Continued)*

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2017 (Six months ended 31 December 2016: Nil).

AUDIT COMMITTEE

The audit committee was established on 6 May 2013. The audit committee consists of three independent non-executive Directors namely, Mr. Kong Chi Mo, Ms. Chen Jin Mei and Mr. Dai Tian Zhu. The audit committee is chaired by Mr. Kong Chi Mo.

The Audit Committee of the Company has discussed with the management and external auditors the accounting principles and policies adopted by the Group, and has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 31 December 2017.

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

Zhejiang Province, the PRC, 28 February 2018

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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TO THE BOARD OF DIRECTORS OF HUAZHANG TECHNOLOGY HOLDING LIMITED
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 27 to 66, which comprise the condensed consolidated statement of financial position of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2017 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

28 February 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the six months ended 31 December 2017 (Unaudited) RMB	2016 (Unaudited) RMB
REVENUE	6	**242,063,632**	200,560,216
Cost of sales		**(175,612,558)**	(152,758,355)
GROSS PROFIT		**66,451,074**	47,801,861
Other income and gains	6	**4,664,228**	1,988,928
Selling and distribution expenses		**(6,676,140)**	(4,952,093)
Administrative expenses		**(18,821,302)**	(16,820,385)
Research and development expenses		**(9,524,671)**	(6,213,409)
Other expense		**(4,072,825)**	(4,737,881)
OPERATING PROFIT		**32,020,364**	17,067,021
Finance income	8	**3,131,077**	190,641
Finance costs	8	**(7,558,373)**	(55,719)
Finance (costs)/income – net		**(4,427,296)**	134,922
PROFIT BEFORE TAX	7	**27,593,068**	17,201,943
Income tax expense	9	**(5,389,589)**	(2,902,956)
PROFIT FOR THE PERIOD		**22,203,479**	14,298,987
Attributable to:			
Owners of the parent		**22,044,300**	14,277,890
Non-controlling interests		**159,179**	21,097
		22,203,479	14,298,987

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

	Notes	For the six months ended 31 December 2017 (Unaudited) RMB	2016 (Unaudited) RMB
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		**1,869,476**	861,534
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**1,869,476**	861,534
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**24,072,955**	15,160,521
Attributable to:			
– Owners of the parent		**23,913,776**	15,139,424
– Non-controlling interests		**159,179**	21,097
		24,072,955	15,160,521
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
– Basic earnings per share (RMB cents)		**3.52**	2.38
– Diluted earnings per share (RMB cents)		**3.52**	2.38

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2017 (Unaudited) RMB**	30 June 2017 (Audited) RMB
NON-CURRENT ASSETS			
Property, plant and equipment	12	**177,064,502**	40,141,314
Investment properties		**6,145,165**	6,300,537
Prepaid land lease payments		**72,826,956**	3,248,863
Goodwill	5	**144,749,228**	596,369
Other intangible assets	5	**15,870,838**	–
Deferred tax assets		**5,051,879**	2,762,933
Trade and other receivables	13(i)	**76,852,144**	84,673,706
Prepayments	13(ii)	**215,493**	222,023
Total non-current assets		**498,776,205**	137,945,745
CURRENT ASSETS			
Other current assets		**7,137,212**	–
Prepaid land lease payments		**1,292,172**	104,942
Inventories	14	**88,797,614**	59,511,860
Trade and other receivables	13(i)	**400,544,326**	322,804,478
Prepayments	13(ii)	**80,459,431**	34,880,557
Pledged deposits	15	**16,676,815**	21,515,802
Cash and cash equivalents	15	**88,442,930**	50,554,277
Total current assets		**683,350,500**	489,371,916
CURRENT LIABILITIES			
Interest-bearing loans	17	**52,739,748**	8,626,000
Trade and other payables	16	**369,756,124**	228,067,991
Income tax payable		**4,081,952**	2,683,608
Total current liabilities		**426,577,824**	239,377,599
NET CURRENT ASSETS		**256,772,676**	249,994,317
TOTAL ASSETS LESS CURRENT LIABILITIES		**755,548,881**	387,940,062

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	Notes	31 December 2017 (Unaudited) RMB	30 June 2017 (Audited) RMB
TOTAL ASSETS LESS CURRENT LIABILITIES		**755,548,881**	387,940,062
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**8,100,017**	800,512
Deferred income	18	**18,500,000**	–
Convertible bonds	19	**69,486,319**	66,821,857
Other long-term liabilities	5	**7,617,422**	–
Total non-current liabilities		**103,703,758**	67,622,369
NET ASSETS		**651,845,123**	320,317,693
EQUITY			
Equity attributable to owners of the parent			
Share capital	20	**5,839,835**	5,075,783
Share premium	20	**400,306,041**	93,615,618
Equity component of convertible bonds	19	**23,609,589**	23,609,589
Other reserves	21	**71,123,868**	65,867,660
Retained earnings		**149,606,541**	130,948,973
		650,485,874	319,117,623
Non-controlling interests		**1,359,249**	1,200,070
TOTAL EQUITY		**651,845,123**	320,317,693

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER

		Attributable to owners of the parent							
	Notes	Share capital	Share premium	Equity component of convertible bonds	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 July 2017		**5,075,783**	**93,615,618**	**23,609,589**	**65,867,660**	**130,948,973**	**319,117,623**	**1,200,070**	**320,317,693**
Profit for the period		–	–	–	–	22,044,300	22,044,300	159,179	22,203,479
Other Comprehensive income for the period:									
Exchange differences relation to foreign operations		–	–	–	1,869,476	–	1,869,476	–	1,869,476
Total comprehensive income for the year		–	–	–	1,869,476	22,044,300	23,913,776	159,179	24,072,955
Dividends		–	(12,438,578)	–	–	–	(12,438,578)	–	(12,438,578)
Issue of shares		764,052	319,129,001	–	–	–	319,893,053	–	319,893,053
Profit appropriation to statutory reserves		–	–	–	3,386,732	(3,386,732)	–	–	–
At 31 December 2017(Unaudited)		**5,839,835**	**400,306,041**	**23,609,589**	**71,123,868**	**149,606,541**	**650,485,874**	**1,359,249**	**651,845,123**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER

	Attributable to owners of the parent						
	Share capital RMB	Share premium RMB	Other reserves RMB	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
At 1 July 2016	**2,397,524**	**106,985,471**	**61,029,226**	**104,049,825**	**274,462,046**	**1,481,140**	**275,943,186**
Profit for the period	–	–	–	14,277,890	14,277,890	21,097	14,298,987
Other Comprehensive income for the period:							
Exchange differences relation to foreign operations	–	–	861,534	–	861,534	–	861,534
Total comprehensive income	–	–	861,534	14,277,890	15,139,424	21,097	15,160,521
Dividends declared	–	(10,691,594)	–	–	(10,691,594)	–	(10,691,594)
Issue of shares	2,678,259	(2,678,259)	–	–	–	–	–
Profit appropriation to statutory reserves	–	–	1,596,916	(1,596,916)	–	–	–
At 31 December 2016 (Unaudited)	**5,075,783**	**93,615,618**	**63,487,676**	**116,730,799**	**278,909,876**	**1,502,237**	**280,412,113**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER

	For the six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**27,593,068**	17,201,943
Adjustments for:		
Finance income	**(2,793,693)**	(190,641)
Finance costs	**7,450,389**	55,719
Depreciation of investment properties	**155,372**	155,371
Depreciation of property, plant and equipment	**2,020,467**	2,275,476
Amortisation of other intangible assets	**511,963**	–
Amortisation of prepaid land lease payments	**234,677**	52,472
Impairment of trade receivables	**4,072,825**	4,737,881
(Reversal of provision)/provision for write-down of inventories	**(211,062)**	500,154
	39,034,006	24,788,375
Increase in inventories	**(26,932,559)**	(47,280,320)
Increase in trade and other receivables	**(62,209,803)**	(54,305,970)
Increase in prepayments	**(49,810,434)**	(10,527,898)
Increase in trade and other payables	**107,539,787**	81,203,648
Increase in other current assets	**(227,020)**	–
Decrease/(increase) in pledged deposits	**4,838,987**	(3,166,245)
Cash generated from/(used in) operations	**12,232,964**	(9,288,410)
Income taxes paid	**(5,091,444)**	(3,644,646)
Net cash flows generated from/(used in) operating activities	**7,141,520**	(12,933,056)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER

	For the six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB	RMB
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(137,756)**	(127,756)
Acquisition of a subsidiary	**43,410,909**	–
Interest received	**2,793,693**	181,481
Net cash flows from investing activities	**46,066,846**	53,725
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans from non-controlling shareholders	**–**	1,500,000
Dividends paid to shareholders	**(12,438,578)**	(10,691,594)
Interest paid	**(2,384,810)**	(244,429)
Net cash flows used in financing activities	**(14,823,388)**	(9,436,023)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**38,384,978**	(22,315,354)
Cash and cash equivalents at beginning of period	**50,554,277**	63,359,071
Effect of foreign exchange rate changes, net	**(496,325)**	861,420
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**88,442,930**	41,905,137

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER

1. CORPORATE 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 Company and its subsidiaries (together, the "Group") are principally engaged in the research and development, manufacture and sale of industrial automation, project contracting services, sludge treatment products, and the provision of after-sales services in the People's Republic of China (the "PRC").

During the period, the Group acquired Hangzhou Haorong Technology Co., Ltd. and Hangzhou MCN Paper Technology Co., Ltd. (together, the "MCN Group") and Fu An 777 Logistics Limited, Guangdong 777 Logistics Warehouse Limited and Fu An 777 Logistics Warehouse Limited (together, the "777 Logistics Group"). Further details of these acquisitions are included in notes 5 to the interim condensed consolidated financial statements.

In the opinion of the directors, the ultimate controlling shareholder is Mr Zhu Gen Rong.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 31 December 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2017.

These interim condensed consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These interim condensed consolidated financial statements have not been audited.

2.2 *NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")*

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective in the interim financial statements:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]

[1] Effective for annual periods beginning on or after 1 January 2018.

[2] Effective for annual periods beginning on or after 1 January 2019.

[3] No mandatory effective date yet determined but available for adoption.

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 Company's interim condensed consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in, and basis of, preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 30 June 2017.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) industrial products;
(b) project contracting services;
(c) environmental products; and
(d) supporting services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before income tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that common administrative expenses, other income and gains, finance (cost)/income net and income tax expense are excluded from such measurement.

Segment assets exclude investment property, deferred tax assets, pledged deposits, goodwill, and part of prepaid land lease payments, property, plant and equipment, inventories, trade and other receivables, prepayments and cash and cash equivalents, as these assets are managed on a group basis.

Segment liabilities exclude income tax payable, convertible bonds, other long-term liabilities and part of trade and other payables, as these liabilities are managed on a group basis.

The segment results for the six months ended 31 December 2017:

	Industrial products Unaudited RMB	Project contracting services Unaudited RMB	Environmental products Unaudited RMB	Supporting services Unaudited RMB	Total Unaudited RMB
Segment revenue:					
Sales to external customers	44,266,655	103,994,444	64,171,575	29,630,958	242,063,632
Segment cost of sales	(33,773,387)	(73,421,462)	(51,794,812)	(16,622,897)	(175,612,558)
Segment gross profit	10,493,268	30,572,982	12,376,763	13,008,061	66,451,074
Segment results	996,032	25,917,048	1,161,775	9,231,708	37,306,563
Common administrative expenses					(9,950,427)
Other income and gains					4,664,228
Finance costs- net					(4,427,296)
Profit before tax					27,593,068
Income tax expense					(5,389,589)
Profit for the period					22,203,479

Other segment items included in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 31 December 2017:

	Industrial products Unaudited RMB	Project contracting services Unaudited RMB	Environmental products Unaudited RMB	Supporting services Unaudited RMB	Unallocated Unaudited RMB	Total Unaudited RMB
Capital expenditure	98,631	5,350	37,717	1,067,652	–	1,209,350
Depreciation of property, plant and equipment	440,175	–	1,037,717	–	542,575	2,020,467
Amortisation of prepaid land lease payments	11,787	–	15,639	193,149	14,102	234,677
Depreciation of investment properties	–	–	–	–	155,372	155,372

The segment assets and liabilities as at 31 December 2017 are as follows:

	Industrial products Unaudited RMB	Project contracting services Unaudited RMB	Environmental products Unaudited RMB	Supporting services Unaudited RMB	Unallocated Unaudited RMB	Total Unaudited RMB
Assets	205,704,541	372,722,196	102,161,969	242,742,624	258,795,375	1,182,126,705
Liabilities	137,089,074	152,986,918	33,664,532	77,701,356	128,839,702	530,281,582

The segment results for the six months ended 31 December 2016:

	Industrial products	Project contracting services	Environmental products	Supporting services	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB	RMB
Segment revenue:					
Sales to external customers	40,543,778	111,346,598	28,561,000	20,108,840	200,560,216
Segment cost of sales	27,846,609	88,758,641	21,197,554	14,955,551	152,758,355
Segment gross profit	12,697,169	22,587,957	7,363,446	5,153,289	47,801,861
Segment results	3,024,345	21,637,125	(902,963)	2,945,249	26,703,756
Common administrative expenses					(11,625,663)
Other income and gains					1,988,928
Finance income – net					134,922
Profit before tax					17,201,943
Income tax expense					(2,902,956)
Profit for the period					14,298,987

Other segment items included in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 31 December 2016:

	Industrial products	**Project contracting services**	**Environmental products**	**Supporting services**	**Unallocated**	**Total**
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB	RMB	RMB
Capital expenditure	21,368	–	30,769	–	67,329	119,466
Depreciation of property, plant and equipment	393,572	–	1,029,974	–	851,930	2,275,476
Amortisation of prepaid land lease payments	14,893	–	19,759	–	17,820	52,472
Depreciation of investment properties	–	–	–	–	155,371	155,371

The segment assets and liabilities as at 30 June 2017 are as follows:

	Industrial products	**Project contracting services**	**Environmental products**	**Supporting services**	**Unallocated**	**Total**
	Audited	Audited	Audited	Audited	Audited	Audited
	RMB	RMB	RMB	RMB	RMB	RMB
Assets	87,402,655	311,086,561	93,813,001	6,765,303	128,250,141	627,317,661
Liabilities	85,650,789	74,552,830	45,215,562	261,000	101,319,787	306,999,968

5. BUSINESS COMBINATION

On 25 September 2017, the Group completed the acquisition of 100% of the equity interest in the MCN Group at a consideration of RMB56,698,852. The MCN Group is principally engaged in the business of research, development and distribution of headboxes used in papermaking production lines.

On 15 November 2017, the Group completed the acquisition of 100% of the equity interest in the 777 Logistics Group at a consideration of RMB280,061,152. The 777 Logistics Group's main assets is the warehouse under construction and it is expected to provide logistics and warehousing services to papermaking companies.

The provisional fair values of the identifiable assets and liabilities of all acquired subsidiaries were as follows:

	MCN Group	**777 Logistics Group**	**Total**
	RMB	RMB	RMB
Property, plant and equipment	290,625	137,443,680	137,734,305
Prepaid land lease payments	–	71,000,000	71,000,000
Other intangible assets	16,382,800	–	16,382,800
Deferred tax assets	1,277,937	–	1,277,937
Cash and cash equivalents	10,453,029	32,957,880	43,410,909
Prepayments	4,761,910	176,396	4,938,306
Trade and other receivables	16,766,230	–	16,766,230
Inventories	2,142,133	–	2,142,133
Other current assets	46,992	6,863,200	6,910,192
Trade and other payables	(26,865,905)	(5,635,576)	(32,501,481)
Interest-bearing loans	–	(49,198,441)	(49,198,441)
Deferred income	–	(18,500,000)	(18,500,000)
Deferred tax liabilities	(4,095,700)	(3,292,995)	(7,388,695)
Income tax payable	(616,578)	–	(616,578)
Total identifiable net assets at provisional fair value*	20,543,473	171,814,144	192,357,617
Goodwill on acquisition	35,905,851	108,247,008	144,152,859
Satisfied by			
Cash consideration	9,000,000	–	9,000,000
Shares issued	34,414,763	280,061,152	314,475,915
Shares to be issued	5,417,139	–	5,417,139
Contingent consideration	7,617,422	-	7,617,422

* In accordance with HKFRS 3 (Revised) Business Combinations, the amounts recorded for the acquisitions mentioned above are provisional and are subject to adjustments during the measurement period of not exceeding one year from the acquisition date if new information is obtained about facts and circumstances that existed as of the completion dates of the acquisitions and, if known, would have affected the measurement of the amounts recognised as of those dates.

The fair value of the trade and other receivables as at the date of acquisition amounted to RMB16,766,230. The gross contractual amounts of trade and notes receivables and other receivables were RMB21,877,976, RMB5,111,746 of which are expected to be uncollectible.

The Group incurred transaction costs of RMB301,906 and RMB532,651 for the acquisitions of the MCN Group and the 777 Logistics Group, respectively. These transaction costs have been expensed and are included in administrative expenses.

None of the goodwill recognised is expected to be deductible for income tax purposes.

As part of the purchase agreement of the MCN Group, contingent consideration is payable to former shareholders of the MCN Group, which is dependent on the amount of profit before tax of the MCN Group during year 2017 and 2018. The initial amount recognised was RMB7,617,422, which was determined using the probability weighted expected return method and is within Level 3 fair value measurement. The contingent consideration is measured at fair value with changes in fair value recognized in profit or loss.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

	RMB
Projected profit before tax of the MCN Group(min)	4,784,421
Projected profit before tax of the MCN Group(max)	13,403,182
Discount rate	0.82%

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	MCN Group	777 Logistics Group	Total
	RMB	RMB	RMB
Cash consideration	(9,000,000)	–	(9,000,000)
Cash and cash equivalents acquired	10,453,029	32,957,880	43,410,909
Cash and cash equivalents	1,453,029	32,957,880	34,410,909
Cash consideration already paid in the prior period	9,000,000	–	9,000,000
Net outflow of cash and cash equivalents included in cash flows from investing activities	10,453,029	32,957,880	43,410,909
Transaction costs of the acquisition included in cash flows used in operating activities	(301,906)	(532,651)	(834,557)
	10,151,123	32,425,229	42,576,352

Since the acquisition, the MCN Group contributed RMB10,052,861 to the Group's revenue and RMB438,640 to the consolidated profit for the period ended 31 December 2017. The 777 Logistics Group contributed RMB0 to the Group's revenue and RMB127,256 loss to the consolidated profit for the six months ended 31 December 2017.

Had the combinations taken place at the beginning of the period, the revenue and the net profit of the Group for the six months ended 31 December 2017 would have been RMB21,139,414 and RMB431,148, respectively.

6. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of service rendered for the six months ended 31 December.

	For the six months ended 31 December	
	2017	2016
	Unaudited	Unaudited
	RMB	RMB
Revenue		
Project contracting services	**103,994,444**	111,346,598
Industrial products	**44,266,655**	40,543,778
Environmental products	**64,171,575**	28,561,000
Supporting services	**29,630,958**	20,108,840
	242,063,632	200,560,216
Other income		
Bidding service income	**3,333,253**	1,260,695
Government grant	**817,877**	500,526
Leasing income	**259,480**	83,278
Others	**253,618**	144,429
	4,664,228	1,988,928

7. PROFIT BEFORE INCOME TAX

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

	For the six months ended 31 December	
	2017	2016
	Unaudited	Unaudited
	RMB	RMB
Raw material used	**159,033,163**	118,979,034
Employee benefit expenses	**19,963,615**	17,332,380
Change in inventory of finished goods and work in progress	**5,330,923**	26,960,004
Impairment of trade receivables	**4,072,825**	4,737,881
Professional service fees	**2,074,563**	887,019
Depreciation of property, plant and equipment	**2,020,467**	2,275,476
Amortisation of other intangible assets	**511,963**	–
Amortisation of prepaid land lease payments	**234,677**	52,472
Depreciation of investment properties	**155,372**	155,371
(Reverse of provision)/provision for write-down of inventories	**(211,062)**	500,154

8. FINANCE (COSTS)/INCOME – NET

An analysis of finance (costs)/income is as follows:

	For the six months ended 31 December	
	2017	2016
	Unaudited	Unaudited
	RMB	RMB
Finance Income		
Interest income	**2,793,693**	181,481
Exchange gain	**337,384**	9,160
	3,131,077	190,641
Finance Costs		
Interest on convertible bonds	**(7,321,341)**	–
Interest on loans	**(129,048)**	(55,719)
Exchange loss	**(107,984)**	–
	(7,558,373)	(55,719)

9. INCOME TAX EXPENSE

	For the six months ended 31 December	
	2017	2016
	Unaudited	Unaudited
	RMB	RMB
Current – PRC		
Charged for the period	**6,489,788**	3,725,985
Deferred tax	**(1,100,199)**	(823,029)
Income tax expense	**5,389,589**	2,902,956

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 625,814,636 (2016: 600,648,000) in issue during the period, as adjusted to reflect the rights issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the period ended 31 December 2017 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 31 December 2016.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 31 December	
	2017	2016
	Unaudited	Unaudited
	RMB	RMB
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**22,044,300**	14,277,890
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**625,814,636**	600,648,000
Basic and diluted earnings per share (RMB cents)	**3.52**	2.38

11. DIVIDENDS

The dividends of 2.4 HK cents per share declared and approved in the six months ended 31 December 2017 represents the final dividend for the year ended 30 June 2017 (six months ended 31 December 2016: 4.0 HK cents per share), an amount of RMB12,438,579 was paid during the six months ended 31 December 2017 (six months ended 31 December 2016: RMB10,691,594).

On 28 February 2018, the Board resolved not to declare any interim dividend for the six months ended 31 December 2017 (six months ended 31 December 2016: nil).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2017, the Group contributed RMB1,040,490 to construction in progress and acquired machinery and office equipments with a cost of RMB168,860 (six months ended 31 December 2016: RMB119,466) excluding property, plant and equipment acquired through the business combination.

There are no disposal of assets during the six months ended 31 December 2017 (six months ended 31 December 2016: nil).

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(i) Trade and other receivables

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Warranty receivables *(note a)*	**25,827,953**	21,608,760
Amounts due from contract customers	**69,187,267**	72,896,612
Other trade receivables *(note b)*	**317,734,458**	265,060,443
	412,749,678	359,565,815
Less: provision for impairment of trade receivables	**14,579,785**	6,529,385
Trade receivables – net	**398,169,893**	353,036,430
Bills receivable *(note c)*	**66,996,987**	46,441,408
Trade and bills receivables	**465,166,880**	399,477,838
Due from a related party *(note 23)*	**17,428**	17,428
Performance guarantee	**5,872,302**	3,979,787
Due from shareholders *(note d)*	**3,485,965**	–
Others	**4,806,744**	5,955,980
Other receivables	**14,182,439**	9,953,195
Less: provision for impairment of other receivables	**1,952,849**	1,952,849
Other receivables – net	**12,229,590**	8,000,346
Total trade and other receivables	**477,396,470**	407,478,184
Less: trade receivables – non-current portion	**76,852,144**	84,673,706
	400,544,326	322,804,478

Notes:

(a) Warranty receivables represent the approximately 5% to 10% of the contract value 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 aged analysis of the warranty receivables is as follows:

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Warranty receivables		
Up to 3 months	**10,267,279**	7,520,636
3 months to 6 months	**1,574,366**	3,475,779
6 months to 1 year	**2,271,617**	2,012,519
1 year to 2 years	**2,701,527**	3,318,363
Over 2 years	**9,013,164**	5,281,463
	25,827,953	21,608,760

(b) The aged analysis of the other trade receivables (including non-current portion) is as follows:

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Other trade receivables		
Up to 3 months	**157,602,577**	102,246,206
3 months to 6 months	**23,551,969**	1,750,061
6 months to 1 year	**21,252,576**	125,882,640
1 year to 2 years	**93,186,035**	24,801,412
Over 2 years	**22,141,301**	10,380,124
	317,734,458	265,060,443

(c) Bills receivable

Transfer of financial assets that are not derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB43,258,747 to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB43,258,747 as at 31 December 2017.

Transfer of financial assets that are derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount of RMB28,447,177. The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the six months ended 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The endorsement has been made evenly throughout the period.

(d) Due from shareholders

The receivables is in the nature of enterprise income tax that the Group paid on behalf of former shareholders of the 777 Logistics Group, arising from the acquisition mentioned in note 5.

(ii) Prepayments

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Prepayments for raw materials	**78,416,078**	23,697,260
Prepayments for services	**1,403,709**	1,810,710
Investment down payment	**–**	9,000,000
Others	**855,137**	594,610
Total prepayments	**80,674,924**	35,102,580
Less: prepayments – non-current portion	**215,493**	222,023
	80,459,431	34,880,557

14 INVENTORIES

As at 31 December 2017, raw materials with a cost of RMB9,333,640 were considered as obsolete (30 June 2017: RMB10,201,151) and a provision of RMB5,622,755 (30 June 2017: RMB5,833,817) to write down to their net realisable value was made. The Group made a reverse to inventory provision amounted to RMB211,062 (30 June 2017: RMB111,947) for the six months ended 31 December 2017. The amount charged has been included in 'cost of sales' in profit or loss.

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Raw materials	**45,990,090**	24,118,765
Work in progress	**37,386,739**	23,941,706
Finished goods	**11,043,540**	17,285,206
Provision for write-down of inventories	**(5,622,755)**	(5,833,817)
	88,797,614	59,511,860

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Cash at banks and on hand	**105,119,745**	72,070,079
Less: pledged deposits	**(16,676,815)**	(21,515,802)
Cash and cash equivalents	**88,442,930**	50,554,277

The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable and letter of credit.

16. TRADE AND OTHER PAYABLES

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Trade payables	**117,304,071**	84,326,082
Bills payable	**27,337,549**	41,413,968
	144,641,620	125,740,050
Advances from customers	**185,376,249**	66,347,155
Other taxes payables	**23,021,926**	18,558,419
Payables for property, plant and equipment	**6,390,460**	–
Employee benefit payables	**3,617,921**	5,266,456
Accrual	**1,941,528**	2,801,397
Provision for warranty expenses	**755,791**	570,470
Deposit	**109,000**	2,135,426
Others	**3,901,629**	6,648,618
	225,114,504	102,327,941
	369,756,124	228,067,991

16. TRADE AND OTHER PAYABLES

The aged analysis of the trade payables is as follows:

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Up to 3 months	**78,048,093**	43,113,547
3 months to 6 months	**22,530,275**	14,216,652
6 months to 1 year	**7,040,725**	14,102,033
1 year to 2 years	**7,558,157**	8,992,629
Over 2 years	**2,126,821**	3,901,221
	117,304,071	84,326,082

17. INTEREST-BEARING LOANS

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Loan from a third party (note i)	**49,239,748**	–
Loan from non-controlling shareholders (note ii)	**3,500,000**	3,626,000
Bank borrowings (note iii)	**–**	5,000,000

(i) The Group assumed a on-demand loan from its acquisition of the 777 Logistics Group (note 5), with a principal of RMB48,310,576 and accrued interest RMB929,172 as at 31 December 2017. The loan is due to Jiang Men 777 Logistics Warehouse Limited, a related party to former shareholders of the 777 Logistics Group and the interest rate is 1.5% per annum.

(ii) As at 31 December 2017, the Group's borrowings were approximately RMB3,500,000 (30 June 2017: RMB3,626,000) which will be repayable within 1 year. Such borrowing is denominated in RMB and bears interest of 7.2% per annum (30 June 2017: 7.2% per annum). The Company entered into a trade receivable factoring arrangement at 3% per annum and the proceeds received from bank are recognised as a loan on 30 June 2017 and settled in the subsequent period.

(iii) As at 30 June 2017, the Company recognized a bank loan amounted to RMB5,000,000 by entering into a trade receivable factoring arrangement at 3% per annum. As of 31 December 2017, related trade receivable has been collected by the bank and we derecognized the bank loan.

As at 31 December 2017, the banking facilities granted by the bank was secured by prepaid land lease payments, property, plant and equipment and investment properties of the Group amounting to approximately RMB3,301,335, RMB31,749,133 and RMB6,145,165 respectively (30 June 2017: RMB3,353,804, RMB32,199,445 and RMB6,300,537 respectively).

As at 31 December 2017, the Group has the following unutilised banking facilities:

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Authorised banking facilities – expiring within three years	**70,000,000**	77,000,000
Less: utilised banking facilities	**(36,972,511)**	(23,206,104)
	33,027,489	53,793,896

18. DEFERRED INCOME

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Government grant	**18,500,000**	–

Guangdong FuAn 777 Logistics Warehouse Limited received RMB18,500,000 from Yangjiang local government to support the construction of the warehouse. The Group assumed the deferred income through its acquisition of the 777 Logistics Group.

19. CONVERTIBLE BONDS

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

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

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

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

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

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

The proceeds from the issuance of Convertible Bonds of HK$100,000,000 have been split into liability and equity components on 29 March 2017 (the issuance date). On the issuance date, the fair value of the liability component of the Convertible Bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk. And it will be measured on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds are allocated to the equity component of Convertible Bonds. Transaction cost are apportioned between liability and equity components of the Convertible Bonds based on the allocation of proceeds to the liability and equity components on the issuance date.

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

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

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	Liability component of Convertible Bonds RMB	Equity component of Convertible Bonds RMB	Total RMB
At 29 March 2017	65,051,769	23,728,231	88,780,000
Transaction cost allocation	(325,258)	(118,642)	(443,900)
Interest expense	3,584,698	–	3,584,698
Currency translation differences	(1,489,352)	–	(1,489,352)
At 30 June 2017	66,821,857	23,609,589	90,431,446
Interest expense	7,321,341	–	7,321,341
Interest paid	(2,129,762)	–	(2,129,762)
Currency translation differences	(2,527,117)	–	(2,527,117)
At 31 December 2017	69,486,319	23,609,589	93,095,908

20. SHARE CAPITAL AND SHARE PREMIUM

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
Issued and fully paid: 690,683,681 (30 June 2017: 600,648,000) ordinary shares	**5,839,835**	5,075,783

A summary of movements in the Company's share capital is as follows:

	Number of issued shares	Ordinary shares	Share premium	Total
		Unaudited	Unaudited	Unaudited
		RMB	RMB	RMB
At 1 July 2017	**600,648,000**	**5,075,783**	**93,615,618**	**98,691,401**
Issue of shares (i)	90,035,681	764,052	319,129,001	319,893,053
Dividends (ii)/(iii)	–	–	(12,438,578)	(12,438,578)
At 31 December 2017 (Unaudited)	**690,683,681**	**5,839,835**	**400,306,041**	**406,145,876**

(i) On 25 September 2017 and 15 November 2017, the Company issued 9,588,622 and 80,447,059 ordinary shares respectively to complete the acquisition of MCN Group and 777 Logistics Group.

(ii) The Company distributed HK 2.4 cents per share, amounting to a total dividend of RMB12,438,579 based on the number of issued shares outstanding at relevant time to qualifying shareholders.

(iii) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.

21. OTHER RESERVES

	Reorganisation reserves Unaudited RMB	Merger reserves Unaudited RMB	Statutory reserves Unaudited RMB	Translation reserves Unaudited RMB	Total Unaudited RMB
At 1 July 2017	**2,335,540**	**33,028,254**	**17,631,185**	**12,872,681**	**65,867,660**
Translation differences	–	–	–	1,869,476	1,869,476
Appropriation to statutory reserves	–	–	3,386,732	–	3,386,732
At 31 December 2017 (Unaudited)	**2,335,540**	**33,028,254**	**21,017,917**	**14,742,157**	**71,123,868**

22. COMMITMENTS

(a) *Operating lease commitments – group company as lessee*

The Group leases a warehouse, an office and motor vehicles under non-cancellable operating lease agreement. The lease terms are within 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The minimum lease payments under operating lease as at 30 June 2017 and 31 December 2017 are summarised as follows:

	As at 31 December 2017 **Unaudited** **RMB**	As at 30 June 2017 Audited RMB
No later than 1 year	**1,429,202**	2,803,227
Later than 1 year and no later than 5 years	**869,580**	1,177,428
	2,298,782	3,980,655

(b) *Operating leases rental receivables – group company as lessor*

The future minimum lease receivables under non-cancellable operating lease as at 30 June 2017 and 31 December 2017 are summarised as follows:

	As at 31 December 2017 Unaudited RMB	As at 30 June 2017 Audited RMB
No later than 1 year	**252,508**	541,089

23. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 31 December 2017 and 2016, and balances arising from related party transactions as at 31 December 2017 and 30 June 2017.

(a) *Name and relationship with related parties*

Name	**Relationships**
Mr. Zhu Gen Rong ("Mr. Zhu") (i)	One of the Controlling Shareholders, chairman of the Company
Mr. Wang Ai Yan ("Mr. Wang") (i)	One of the Controlling Shareholders
Mr. Liu Chuan Jiang ("Mr. Liu") (i)	One of the Controlling Shareholders
Mr. Zhu Genyi	Brother of Mr. Zhu
Mr. Zhong Xin Gang	Key management
Mr. Jin Hao	Key management
Mr. Chan So Kuen	Key management

(i) Mr. Zhu, Mr. Wang, Mr. Liu are bound to act in concert by contracts and collectively are regarded as the 'Controlling Shareholders' of the Group.

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(b) Transactions with related parties

	For the six months ended 31 December	
	2017	2016
	Unaudited	Unaudited
	RMB	RMB
Key management compensation		
– Salaries	**2,151,903**	1,821,204
– Bonus	**87,797**	78,534
– Other benefits	**39,741**	25,750

(c) Balances with related parties

(i) Due from a related party (note 13):

	As at 31 December 2017	As at 30 June 2017
	Unaudited	Audited
	RMB	RMB
Mr. Zhu Genyi		
– Included in other receivables	**17,428**	17,428

The receivables from a related party as at 31 December 2017 arise mainly from ordinary course of business and are unsecured, bear no interest and are repayable on demand. There are no provisions made against receivables from a related party.

24. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 28 February 2018.