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

INTERIM REPORT 2020

CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Zhu Gen Rong *(Chairman)*
Mr. Wang Ai Yan *(Chief Executive Officer)*
Mr. LIU Chuan Jiang
Mr. Jin Hao

Independent Non-executive directors

Mr. Dai Tian Zhu
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng

AUDIT COMMITTEE

Mr. Kong Chi Mo *(Chairman)*
Mr. Dai Tian Zhu
Mr. Heng, Keith Kai Neng

REMUNERATION COMMITTEE

Mr. Heng, Keith Kai Neng *(Chairman)*
Mr. Kong Chi Mo
Mr. Dai Tian Zhu

NOMINATION COMMITTEE

Mr. Dai Tian Zhu *(Chairman)*
Mr. Zhu Gen Rong
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng

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

PricewaterhouseCoopers

REGISTERED ADDRESS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

1360 Zhenhua Road
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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE INFORMATION *(Continued)*

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, 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		
	2019	2018	Change
	RMB	*RMB*	*%*
Revenue	**237,130,960**	427,778,117	(44.6)
Gross profit	**56,537,885**	59,057,728	(4.3)
Gross profit margin	***23.8%***	*13.8%*	*10.0*
Loss for the period	**(35,785,017)**	(35,943,825)	(0.4)
Net loss margin	***(15.1)%***	*(8.4)%*	*(6.7)*
Loss attributable to owners of the parent	**(36,364,900)**	(35,478,472)	2.5
Losses per share attributable to the ordinary equity holders of the parent (RMB cents per share)			
– basic	**(4.96)**	(4.91)	
– diluted	**(4.96)**	(4.91)	

The Board resolved not to declare any interim dividend for the six months ended 31 December 2019.

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 2019, together with the unaudited comparative figures for the corresponding period in 2018.

INDUSTRY REVIEW

Looking back to the second half of 2019, China's economy has faced unprecedented challenges. Hindered by the unresolved Sino-US trade conflicts, along with the complex and changing domestic and international economic situations, the economic growth in China has been slowed down. In 2019, China's GDP recorded a growth rate of 6.1%, hitting its record low since 1990. The paper manufacturing industry kick-started its previous booming cycle during the second half of 2016; yet, its performance started sliding since mid-2018, with many domestic paper manufacturing enterprises even slowed down their investment pace in fixed assets in view of narrowing profits later in 2019. Since the second half of 2019, the declining import of waste paper has, however, driven the upward growth of the industry, in return not only the profits seized by industrial paper enterprises have seen a recovery, but also the industry itself. As reported by the National Bureau of Statistics, in 2019, the production of machine-made papers and cardboards in China grew 3.5% year-on-year to 125.15 million tonnes, which was also a rebound from the 2018 decline.

Despite the lingering downward pressure on the Chinese economy and the paper manufacturing industry, top-notch paper manufacturing enterprises in the industry have accelerated their planning efforts for their capacity layout in overseas markets. In the meantime, the robust economic development in Southeast Asia has propelled the growth in paper demand. Take Vietnam as an example, with the "Comprehensive and Progressive Agreement for Trans-Pacific Partnership" ("CPTPP") being taken into effect in Vietnam in January 2019, the country then officially signed the "EU-Vietnam Free Trade Agreement" ("EVFTA") and "EU-Vietnam Investment Protection Agreement" ("EVIPA") with the European Union in June of the same year. The signing and commencement of these free trade agreements are expected to ignite the expansion of the Vietnamese enterprises' export markets, which in turn will further boost the demand for papers and cardboards, and draw in fixed asset investments. Since the entire paper manufacturing market in Southeast Asia is still at the initial stage of development, we expect to still see a certain demand and growth in paper machines and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW

The Group's business segments can be classified as four types:

Industrial products – including industrial automation systems and 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, supply chain services and renovation services

Affected by the downward pressure on the Chinese economy and paper manufacturing industry, the performances of the Group have been significant affected. Although the gross profit margin was improved from 13.8% for the six months ended 31 December 2018 to 23.8% for the six months ended 31 December 2019, the Group still recorded a turnover and a loss of approximately RMB237.1 million and approximately RMB35.8 million respectively, representing a decrease of approximately 44.6% and approximately 0.4% respectively as compared with the same period in 2018.

During the period under review, the Group has (1) continued its efforts in actively exploring the overseas markets, in particular the Southeast Asian market, in response to the strategy of the "Belt and Road" initiative; (2) expanded new business and launched new products; and (3) enhanced internal management. For the six months ended 31 December 2019:

Successful commencement of operation of the turnkey project with high value
After 24 months of efforts, the Group completed the turnkey project of Anhui Linping Paper in December 2019. The project was related to the contracted construction of a production line for two high-ended wrapping paper machines of the same specification by Anhui Linping Paper. The paper machines have a net paper width of 5600 millimeters, with a designed speed of 900 meters/minute. The turnkey contract had a value of RMB350.0 million, with a total production capacity of 500,000 tonnes. The smooth ignition of one of these 5600 paper machines of the project marks the success of Huazhang Technology to have its turnkey project commissioned, which is an individual project with the highest order value since the commencement of its paper machine turnkey business. For such project involving the two paper machines of Linping Paper, Huazhang Technology provided a comprehensive solution for slurry and paper manufacturing, with the utilization of key components and services such as the headboxes and fully automation systems manufactured by the Group. The success of the project has provided highly valuable experience to improve the full-time all-encompassing services of paper manufacturing enterprises in the future.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Reputation among the industry draws in projects from major clients

With the completion of the first entire paper machine production line transformation project in the last financial year, the Group has created a positive ripple in the market. During this period, the Group successfully obtained the entire paper machine production line project of Sun Paper, with a contract value of approximately RMB23.9 million. The Group believes that its experience and technologies will both guarantee it to achieve continuous breakthrough and competitiveness in the market.

During the period under review, the Group participated the "2019 China Specialty Papers Conference, the 14th Annual Meeting of Specialty Papers Commission, and China International Specialty Papers Expo" as well as the "2019 China International Paper Technology Exhibition", allowing it to exchange ideas and establish good relationships with the domestic paper-making equipment industry peers. With a well-established reputation planted among the industry together with its extensive customer network, the Group will continue to snatch up projects of excellent quality.

Steady business growth under the "Belt and Road" initiative

In the overseas markets, the Group had undertaken the project that was signed with a Vietnamese customer last year with a value of US$19.0 million (approximately RMB130.9 million). At present, the progress of the project is satisfactory. With part of the infrastructure facilities still being under construction, it is expected that the Group will successively provide machinery, equipment and installation services during the current financial year. The Group expected that the completion of the Vietnamese project will facilitate the promotion of the products and services of the Group in the Southeast Asian market. In addition, the overseas business division of the Group actively explored the overseas markets, especially for the headbox business.

FUTURE PROSPECTS

Upholding the vision and principles of "Integrating Together, Creating Together, Benefiting Together", the Group will persist in playing the role of providing all-encompassing services to maximize the interests by sharing, creating together and working together for win-win situation. The Group will proactively drive its corporate affairs and business to leap forward, in order to maintain its competitiveness and mitigate the impact from the industry downturn cycle.

Looking ahead to 2020, the epidemic is expected to put pressure on China's macro-economy in the short term, not to mention many uncertainties in the Sino-US trade negotiations still remain. The risk of macro-economic downturn will affect the production and sales of the paper manufacturing industry to a certain extent and also hamper the fixed asset investments of the industry. On the other hand, the progressive emergence of the Southeast Asian paper manufacturing industry has attracted domestic and foreign paper enterprises to set foot in the region by building factories, with enormous potential in the overseas markets. As a leading paper-making equipment supplier in China, the Group will step up its efforts in innovation as well as in research and development, so that more elements of Chinese creativity can be incorporated in the products being made in China. The Group will also maintain its existing business development while actively explore its overseas businesses.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 44.6% from approximately RMB427.8 million for the six months ended 31 December 2018 to approximately RMB237.1 million for the six months ended 31 December 2019. Gross profit margin increased from approximately 13.8% for the six months ended 31 December 2018 to approximately 23.8% for the six months ended 31 December 2019.

(i) *Industrial products*

Revenue from sales of industrial products decreased significantly by approximately 60.3% from approximately RMB135.5 million for the six months ended 31 December 2018 to approximately RMB53.8 million for the six months ended 31 December 2019. Such decrease was primarily attributable to decrease in demand on industrial automation system from the supporting service. The sales of industrial automation systems decreased by approximately RMB101.3 million to RMB29.2 million for the six months ended 31 December 2019 as compared with for the six months ended 31 December 2018. However, the gross profit margin of industrial products increased from approximately 26.4% for the six months ended 31 December 2018 to approximately 34.3% for the six months ended 31 December 2019. Such increase was attributable to the Group reduced its profit margin in industrial products to support the supporting services for the six months ended 31 December 2018 as no such strategy was implemented for the six months ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

(ii) Project contracting services

Revenue from project contracting services increased significantly by approximately 104.4% from approximately RMB58.3 million for the six months ended 31 December 2018 to approximately RMB119.1 million for the six months ended 31 December 2019. Such increase was mainly due to a mega project was completed for the six months ended 31 December 2019, which contributed a revenue of approximately RMB102.2 million. The gross profit margin of project contracting services increased from approximately 13.6% for the six months ended 31 December 2018 to approximately 17.5% for the six months ended 31 December 2019.

(iii) Environmental business

Revenue from sales of environmental business increased significantly by approximately 51.2% from approximately RMB23.0 million for the six months ended 31 December 2018 to approximately RMB34.8 million for the six months ended 31 December 2019. Such increase was primarily due to an increase in revenue from wastewater treatment business of approximately RMB19.3 million for the six months ended 31 December 2019 after the Group strengthened the promotion and adjusted the sales strategies. As a result, the gross profit margin of environmental business increased from approximately 22.8% for the six months ended 31 December 2018 to approximately 30.2% for the six months ended 31 December 2019.

(iv) Supporting services

Revenue from the provision of supporting services decreased significantly by approximately 86.0% from approximately RMB211.0 million for the six months ended 31 December 2018 to approximately RMB29.5 million for the six months ended 31 December 2019. The revenue from the provision of support services decreased significantly mainly due to the Group provided a new service in relation to the transformation work of an entire paper machine production line for the six months ended 31 December 2018, such service was generated a revenue of RMB159.8 million as no such service was incurred for the six months ended 31 December 2019. The gross profit margin for the provision of supporting services increased significantly from approximately 4.8% for the six months ended 31 December 2018 to approximately 22.7% for the six months ended 31 December 2019. The gross profit margin increased due to the gross profit margin of the new service in 2018 was low.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately 14.3% from approximately RMB7.6 million for the six months ended 31 December 2018 to approximately RMB6.5 million for the six months ended 31 December 2019, accounting for approximately 1.8% and approximately 2.7% of the Group's revenue for the six months ended 31 December 2018 and 2019 respectively. Decrease in selling and distribution expenses was primarily attributing to decrease in traveling expenses and transportation costs as compared with same period of 2018.

Administrative expenses

The administrative expenses increased by approximately 21.1% from approximately RMB27.1 million for the six months ended 31 December 2018 to approximately RMB32.8 million for the six months ended 31 December 2019, accounting for approximately 6.3% and approximately 13.8% of the Group's revenue for the six months ended 31 December 2018 and 2019 respectively. Increase in administrative expenses is mainly attributable to the Group invested amounts of approximately RMB8.5 million for the preparation work of the waste recycling and treatment project, such as hiring a project team and holding a global conference for the project, for the six months ended 31 December 2019 as no such project for the six months ended 31 December 2018.

Research and development expenses

The research and development expenses increased by approximately 9.4% from approximately RMB10.4 million for the six months ended 31 December 2018 to approximately RMB11.3 million for the six months ended 31 December 2019, accounting for approximately 2.4% and approximately 4.8% of the Group's revenue for the six months ended 31 December 2018 and 2019 respectively. The Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes, the Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment (losses)/written back on financial assets

Net impairment (losses)/written back on financial assets changed from a written back of approximately RMB1.8 million for the six months ended 31 December 2018 to a losses of approximately RMB48.7 million for the six months ended 31 December 2019. Such change was primarily due to several customers have difficulties, such as suspension or liquidities issues. As a result, the customers cannot repay the receivables timely in such an economic environment. The management of the Group has actively monitored the settlement of the receivables and made prudent assessments and made an impairment loss on financial assets of approximately RMB48.7 million. The Group will take more actions, such as negotiation with the customers for the repayment and even legal action, to reduce the loss.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Other income and gains/(losses), net

Other income and gains/(losses), net changed from a loss of approximately RMB44.8 million for the six months ended 31 December 2018 to a gain of approximately RMB13.3 million for the six months ended 31 December 2019. For the six months ended 31 December 2019, the Group recorded interest incomes from customers for late payments and amortised financial income from the project contracting services with aggregated amounts of approximately RMB10.8 million, as compared with the six months ended 31 December 2018, the Group recorded non-recurring expenditure in relation to change in fair value of contingent consideration from acquisition of headbox business of approximately RMB28.6 million and impairment of goodwill from acquisition of the logistic business of approximately RMB21.6 million.

Finance costs – net

The finance costs – net increased by approximately 40.2% from RMB3.0 million for the six months ended 31 December 2018 to approximately RMB4.2 million for the six months ended 31 December 2019, primarily attributing to a decrease in interest income of approximately RMB6.3 million and an increase in interest on loans of approximately RMB1.2 million for the six months ended 31 December 2019, which offsetting by a decrease in interest on convertible bonds of approximately RMB6.5 million for the six months ended 31 December 2019.

Income tax expense

The income tax expense decreased by approximately 48.4% from approximately RMB4.0 million for the six months ended 31 December 2018 to approximately RMB2.1 million for the six months ended 31 December 2019. The decrease was mainly attributable to decrease in operating profits of the Group for the six months ended 31 December 2019.

The effective tax rates of the Group decreased from approximately -12.5% for the six months ended 31 December 2018 to approximately -6.1% for the six months ended 31 December 2019.

Loss for the period and net loss margin

The loss for the period remain stable at approximately RMB35.9 million and RMB35.8 million for the six months ended 31 December 2018 and 2019. The net loss margin increased from approximately -8.4% for the six months ended 31 December 2018 to approximately -15.1% for the six months ended 31 December 2019, primarily due to a decrease in turnover for the six months ended 31 December 2019.

Loss for the period attributable to owners of the parent

The loss for the period attributable to owners of the parent remain stable at approximately RMB35.5 million and RMB36.4 million for the six months ended 31 December 2018 and 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources interest-bearing loans and convertible bonds. As at 31 December 2019, the Group had cash and cash equivalents balance amounting to approximately RMB27.4 million (30 June 2019: approximately RMB24.2 million) and interest-bearing loans amounting to approximately RMB73.5 million (30 June 2019: RMB54.8 million).

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) ("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; and

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

The net proceeds from the Convertible Bonds amounted to approximately HK$99.5 million (the "Net Proceeds"). As at 30 June 2018, the Net Proceeds, after deducting all relevant costs and expenses, had been fully utilised as to approximately HK$79.6 million for the Group's new intergraded solution projects and as to approximately HK$19.9 million for the Group's general working capital, respectively.

On 25 March 2019, the Company received a notice from the investor requesting to extend the maturity date of the Convertible Bonds for 6 months after the maturity date, i.e., to 29 September 2019 under the same terms and conditions of the Convertible Bonds (the "First Extension"). On 21 May 2019, the First Extension has been approved by extraordinary general meeting in the form of an ordinary resolution.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

On 29 September 2019, the Company executed a supplemental deed to further extend the maturity date of the Convertible Bonds to 28 September 2020 under the same terms and conditions of the Convertible Bonds (the "Second Extension") and Convertible Bonds holder has an option to extend the maturity date for one additional year. On 20 December 2019, the Second Extension has been approved at the extraordinary general meeting in the form of an ordinary resolution. For more details, please refer to the related announcements of the Company dated 29 September 2019 and the related circular of the Company dated 3 December 2019.

No Convertible Bonds has been converted into ordinary shares during the period.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the six months ended 31 December 2019.

Borrowings and charges of assets

As at 31 December 2019, the Group's borrowings were approximately RMB73.5 million (30 June 2019: RMB54.8 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear an interest range of 4.35% to 10.0% per annum (30 June 2019: all denominated in RMB, and bear an interest range of 5.31% to 7.2% per annum).

As at 31 December 2019, the Group's Convertible Bonds was approximately RMB87.1 million (30 June 2019: RMB85.5 million) which will mature on 28 September 2020 and the interest is 5.0% per annum.

As at 31 December 2019, the banking facilities granted by the bank was secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB65.0 million and RMB113.0 million and RMB77.9 million respectively (30 June 2019: approximately RMB63.4 million and RMB115.9 million and RMB78.8 million respectively).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Trade and other receivables

Trade and bills receivables increased by approximately RMB156.9 million from approximately RMB494.0 million as at 30 June 2019 to approximately RMB650.9 million as at 31 December 2019, primarily due to some contracting projects were completed for the six months ended 31 December 2019. Due to overall downward economic environment, several customers had financial difficulties and delayed the settlement of the receivables, as a results, the Group increased to make impairment loss on trade receivables and other receivables. The provision for impairment of trade receivables and other receivables were increased by approximately RMB27.4 million and RMB20.7 million, respectively, for the six months ended 31 December 2019. The Group will strengthen customer credit risk management to guard against the increased in bad debt provision, and will take legal action if necessary.

CONTINGENT LIABILITIES

As at 31 December 2019, 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 2019, the Group had 336 employees (30 June 2019: 314 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2019 were approximately RMB29.9 million, as comparable to approximately RMB30.3 million for the six months ended 31 December 2018. 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 2019, 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	Share Options	Approximate percentage of shareholding
Mr. Zhu Gen Rong	The Company	Interest of a controlled corporation	414,658,000 shares *(Note 1)*	–	56.50%
		Beneficial owner	1,760,000 shares *(Note 2)*		0.24%
		Interest of people acting in concert	354,000 shares *(Note 1)*		0.05%
	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	414,658,000 shares *(Note 5)*	–	56.50%
		Beneficial owner	354,000 shares *(Note 6)*		0.05%
		Interest of people acting in concert	1,760,000 shares *(Note 5)*		0.24%
	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 INTEREST *(Continued)*

Name of director	Company/name of associated company	Natural of interest	Number of securities	Share Options	Approximate percentage of shareholding
Mr. Liu Chuan Jiang (Note 4)	The Company	Interest of a controlled corporation	414,658,00 shares *(Note 7)*	–	56.50%
		Interest of people acting in concert	1,760,000 shares *(Note 7)*		0.24%
			354,000 shares *(Note 7)*		0.05%
	Florescent Holdings Limited	Interest of a controlled corporation	7,790 shares *(Note 3)*		77.90%
	Lian Shun Limited	Beneficial interest	1,670,000 shares *(Note 4)*		17.95%
M. Jin Hao	–	Beneficial interest	–	450,000	0.06%

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 1,760,000 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 Gen Rong 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 1,760,000 shares held in the personal name of Mr. Zhu Gen Rong.

6. The 354,000 shares which Mr. Wang Ai Yan is interested in as beneficial owner.

7. 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 17.95% by Mr. Liu Chuan Jiang. Mr. Liu is regarded as one of the parties acting in concert with Mr. Zhu Gen Rong and Mr. Wang Ai Yan 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 1,760,000 shares and 354,000 shares held in the personal name of Mr. Zhu Gen Rong and Mr. Wang Ai Yan, respectively.

DISCLOSURE OF INTEREST *(Continued)*

Save as disclosed above, as at 31 December 2019, 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 2019, 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 INTEREST *(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	414,658,000	56.50%
Lian Shun Limited	Interest of a controlled corporation	414,658,000 *(Note 1)*	56.50%
Mr. Zhu Gen Rong	Interest of a controlled corporation/Beneficial owner, person acting in concert	416,772,000 *(Note 2)*	56.79%
Mr. Wang Ai Yan	Interest of a controlled corporation/Beneficial owner, person acting in concert	416,772,000 *(Note 3)*	56.79%
Mr. Liu Chuan Jiang	Interest of a controlled corporation/person acting in concert	416,772,000 *(Note 4)*	56.79%
Ms. Zhu Ling Yun	Person acting in concert	416,772,000 *(Note 5)*	56.79%
Mr. Fang Hui	Interest of a controlled corporation	47,440,000 *(Note 6)*	6.46%
Creation Best International Limited	Beneficial owner	40,000,000 *(Note 6)*	5.45%
Li Chao Wang	Interest of a controlled corporation	60,335,294 *(Note 7)*	8.22%
Rosy Ease Limited	Interest of a controlled corporation	60,335,294 *(Note 7)*	8.22%
Swift Fortune Holdings Limited	Beneficial owner	60,335,294 *(Note 7)*	8.22%
Gain Channel Limited	Interest of a controlled corporation	60,335,294 *(Note 7)*	8.22%
Song Min	Interest of spouse	60,335,294 *(Note 8)*	8.22%
F & L Holding (HK) Limited	Contract of transfer	170,000,000 *(Note 9)*	23.17%

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.

DISCLOSURE OF INTEREST *(Continued)*

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 1,760,000 shares which Mr. Zhu is interested in as beneficial owner and include 354,000 shares which Mr. Wang is interested in as beneficial owner.

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 47,440,000 Shares consist of 40,000,000 Shares in which Creation Best International Limited is interested and 7,440,000 Shares in which Mr. Fang Hui is interested. Creation Best International Limited is owned as to 100.00% by Mr. Fang Hui. Under the SFO, Mr. Fang is deemed to be interested in the shares held by Creation Best International 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.

9. According to a framework agreement dated 11 January 2019, Florescent Holdings Limited has agreed to transfer 170,000,000 shares to F&L Holding (HK) Limited at nil consideration in the future for the purpose of the establishment of a share award scheme.

DISCLOSURE OF INTEREST *(Continued)*

Save as disclosed above, as at 31 December 2019, 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.

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 2019 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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 31 December 2019 and up to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Use of Proceeds from the Listing by way of Placing

From the listing date to 31 December 2019, the proceeds from the listing by way of placing were used as follows:

	Use of proceeds in the same manner and proportion as shown in the prospectus from the listing date to 31 December 2019	Actual use of proceeds from the listing date to 31 December 2019	Unused proceeds	Expected timeline of full utiligate of the balance
	RMB'000	RMB'000	RMB'000	
Increase production capacity	23,521	18,299	5,222	2020
Cost saving construction	15,709	–	15,709	2020
Continuous product development and innovation	5,208	5,208	–	
Increase market awareness and image of the Group	3,385	2,057	1,328	2020
Improve the current information management system	260	260	–	
	48,083	25,824	22,259	

The unused net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong and the PRC.

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

OTHER INFORMATION *(Continued)*

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 about 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 Fortune Ever Holdings Limited entered into the Subscription Agreement in relation to the issue of 18,056,000 Ordinary 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.

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 expenses for the placing and the subscription, the net 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.

OTHER INFORMATION *(Continued)*

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.

As at 30 July 2019, the Company has resolved to reallocate all unutilised proceeds originally allocated for the potential acquisitions in the sum of approximately RMB37.8 million as general working capital. The Company considers that the reallocation and change in the use of proceeds would allow the Company to utilise the idle cash in a more efficient and flexible manner, which is in the interest of the Company and its shareholders as a whole.

Save for the aforementioned changes, there is no other change in the use of proceeds from the placing and the subscription.

For more details on reallocation and change in use of proceeds, please refer to the table below and the announcement dated 30 July 2019.

OTHER INFORMATION *(Continued)*

Change in use of proceeds and reallocation

An analysis of the utilisation of the net proceeds and the change of the use of the unutilized net proceeds are summarised as follows:

	Original intended use of net proceeds from the placing and the subscription		Reallocation of unutilised net proceeds as at 30 July 2019	Revised use of net proceeds from the placing and the subscription	Actual use of net proceeds as at 31 December 2019	Unutilised net proceeds as at 31 December 2019
	HK$'000	*RMB'000* *Note*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
General working capital:						
– Purchase raw material for the supporting services	11,360	9,456	37,823	47,279	(47,279)	–
Repayment of loan	56,800	47,280	–	47,280	(47,280)	–
Potential acquisitions	45,440	37,823	(37,823)	–	–	–
	113,600	94,559	–	94,559	(94,559)	–

Notes:

(1) The net proceeds from the Placing and the Subscription were converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1 to RMB0.8324 with reference to exchange rate quoted by Bank of China at www.boc.cn on 11 January 2018.

The net proceeds from the placing and the subscription amounted to approximately RMB 94.6 million (the "Net Proceeds from the P & S"). As at 31 December 2019, the Net Proceeds from the P & S, after deducting all relevant costs and expenses, had been fully utilised as to approximately RMB47.3 million for the Group's – purchase raw material for the supporting services and as to approximately RMB47.3 million for the Group's repayment of loan, respectively.

OTHER INFORMATION *(Continued)*

SHARE OPTION SCHEME

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

During the period under review, no option has been granted.

As at 15 January 2019, a total of 19,000,000 share options have been granted to a Director and certain employees of the Group under the Share Option Scheme. The following table discloses the share options granted under the Share Option Scheme:–

Name or category of participants	Exercise price	Number of share option	Approximate percentage of shareholding as at 31 December 2019
Executive directors:			
Jin Hao	HK$4.04	450,000	0.06%
Other Employees	HK$4.04	18,550,000	2.53%
In aggregate		19,000,000	2.59%

Validity period of the Share Options:

The Share Options shall be vested and are exercisable in the following manners:

A. 9,000,000 Share Options

(1) 3,000,000 Share Options to be vested from 15 January 2020 to 14 January 2021 (both dates inclusive) and are exercisable from 15 January 2021 to 14 January 2031 (both dates inclusive);

(2) 3,000,000 Share Options to be vested from 15 January 2021 to 14 January 2022 (both dates inclusive) and are exercisable from 15 January 2022 to 14 January 2032 (both dates inclusive);

(3) 3,000,000 Share Options to be vested from 15 January 2022 to 14 January 2023 (both dates inclusive) and are exercisable from 15 January 2023 to 14 January 2033 (both dates inclusive); and

B. 10,000,000 Share Options

10,000,000 Share Options to be vested from 15 January 2020 to 14 January 2023 (both dates inclusive) and are exercisable within 10 years commencing from the date of vesting;

provided always that the Grantee shall remain as a Director, or an employee of the Group at the time of the exercise of the Share Options and satisfy certain performance criteria.

The closing price of the shares immediately before the date on which the options were granted was HK$3.76 per share.

If all such share options is exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 2.59% as at 31 December 2019.

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

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

As at the date of this report, no share option is exercised, cancelled or lapsed.

SHARE AWARD SCHEME

The Company conditionally adopted the share award scheme (the "Share Award Scheme") on 11 January 2019. The purposes of the Share Award Scheme are to attract talents who might be able to assist in the development of the waste recycling and treatment project. Florescent Holdings Limited and the Company entered into a agreement setting out, amongst others, the conditions and other terms in relation to the gift over the gift shares (consisting of 170 million Shares) at nil consideration to the trustee of the Share Award Scheme to be established by the Company.

More details and the principal terms of the Share Award Scheme are disclosed in the announcement of the Company dated on 11 January 2019.

As at the date of this report, no share award is granted and exercised.

OTHER INFORMATION *(Continued)*

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 of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") for the six months ended 31 December 2019.

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 2019 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: Nil).

AUDIT COMMITTEE

The audit committee was established on 6 May 2013. The audit committee consists of three independent non-executive Directors namely, Mr. Kong Chi Mo, Mr. Dai Tian Zhu and Mr. Heng, Keith Kai Neng. The audit committee is chaired by Mr. Kong Chi Mo.

OTHER INFORMATION *(Continued)*

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 2019.

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

Zhejiang Province, the PRC, 28 February 2020

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

To the Board of Directors of Huazhang Technology Holding Limited
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 31 to 76, which comprises the interim condensed consolidated statement of financial position of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2019 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other 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 financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion 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.

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 information 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION *(Continued)*

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the six months ended 31 December 2019 Unaudited *RMB*	2018 Unaudited *RMB*
Revenue	*7*	**237,130,960**	427,778,117
Cost of sales		**(180,593,075)**	(368,720,389)
Gross profit		**56,537,885**	59,057,728
Selling and distribution expenses		**(6,482,552)**	(7,560,607)
Administrative expenses		**(32,793,003)**	(27,085,208)
Research and development expenses		**(11,345,246)**	(10,366,284)
Net impairment (losses)/written back on financial assets		**(48,718,154)**	1,768,915
Other income and gains/(losses), net	*8*	**13,257,759**	(44,780,566)
Operating loss		**(29,543,311)**	(28,966,022)
Finance income		**221,095**	6,562,441
Finance costs		**(4,401,178)**	(9,544,766)
Finance costs – net	*10*	**(4,180,083)**	(2,982,325)
Loss before income tax	*9*	**(33,723,394)**	(31,948,347)
Income tax expense	*11*	**(2,061,623)**	(3,995,478)
Loss for the period		**(35,785,017)**	(35,943,825)
Loss is attributable to:			
– Owners of the parent		**(36,364,900)**	(35,478,472)
– Non-controlling interests		**579,883**	(465,353)
		(35,785,017)	(35,943,825)
Losses per share attributable to the ordinary equity holders of the parent			
– Basic losses per share (RMB cents)	*13*	**(4.96)**	(4.91)
– Diluted losses per share (RMB cents)	*13*	**(4.96)**	(4.91)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 31 December	
		2019	2018
		Unaudited	Unaudited
	Notes	***RMB***	*RMB*
Loss for the period		**(35,785,017)**	(35,943,825)
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(1,460,964)**	(2,954,710)
Other comprehensive loss for the period, net of tax		**(1,460,964)**	(2,954,710)
Total comprehensive loss for the period		**(37,245,981)**	(38,898,535)
Total comprehensive loss for the period is attributable to:			
– Owners of the parent		**(37,825,864)**	(38,433,182)
– Non-controlling interests		**579,883**	(465,353)
		(37,245,981)	(38,898,535)

The notes on pages 37 to 76 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2019 Unaudited** *RMB*	30 June 2019 Audited *RMB*
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**82,629,509**	81,993,507
Investment properties	*15*	**112,952,727**	115,929,946
Prepaid land lease payments	*16(i)*	**77,943,719**	78,799,512
Rignt-of-use assets	*4.1*	**5,955,610**	–
Goodwill	*17*	**39,934,884**	39,934,884
Other intangible assets	*16(ii)*	**13,441,505**	14,557,893
Deferred tax assets		**11,014,112**	8,353,095
Trade and other receivables	*19(i)*	**157,713,947**	7,075,588
Prepayments	*19(iii)*	**189,373**	195,903
Total non-current assets		**501,775,386**	346,840,328
Current assets			
Inventories	*18*	**102,722,784**	86,875,342
Trade and other receivables	*19(i)*	**583,421,105**	606,753,581
Prepayments	*19(iii)*	**65,941,325**	79,861,762
Financial assets at fair value through other comprehensive income		**20,645,856**	28,760,512
Pledged deposits	*20*	**30,742,230**	29,976,599
Contract assets	*19(ii)*	**24,245,323**	82,261,590
Cash and cash equivalents	*20*	**27,377,545**	24,196,754
Total current assets		**855,096,168**	938,686,140
Total assets		**1,356,871,554**	1,285,526,468
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**6,473,400**	6,847,232
Deferred income	*23*	**24,862,500**	25,537,500
Lease liabilities	*4.1*	**4,670,580**	–
Total non-current liabilities		**36,006,480**	32,384,732

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	Notes	**31 December 2019 Unaudited** *RMB*	30 June 2019 Audited *RMB*
Current liabilities			
Trade and other payables	*21*	**341,498,774**	305,179,522
Contract liabilities		**190,048,188**	141,166,067
Interest-bearing loans	*22*	**73,484,086**	54,785,664
Income tax payable		**10,169,454**	11,911,209
Lease liabilities	*4.1*	**1,142,445**	–
Convertible bonds	*24*	**87,123,161**	85,525,913
Total current liabilities		**703,466,108**	598,568,375
Total liabilities		**739,472,588**	630,953,107
Net assets		**617,398,966**	654,573,361
EQUITY			
Share capital	*25*	**6,203,955**	6,203,955
Share premium	*25*	**509,708,723**	509,708,723
Equity component of convertible bonds	*24*	**35,161,248**	23,609,589
Other reserves	*26*	**66,989,255**	78,411,838
(Accumulated deficits)/retained earnings		**(461,134)**	37,422,220
Capital and reserves attributable to the owners of the parent		**617,602,047**	655,356,325
Non-controlling interests		**(203,081)**	(782,964)
Total equity		**617,398,966**	654,573,361

The notes on pages 37 to 76 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to the owners of the parent							
	Share capital *RMB*	Share premium *RMB*	Equity component of convertible bonds *RMB*	Other reserves *RMB*	Retained earnings/ (accumulated deficits) *RMB*	Total *RMB*	Non-controlling interests *RMB*	Total equity *RMB*
Balance at 30 June 2019	6,203,955	509,708,723	23,609,589	78,411,838	37,422,220	655,356,325	(782,964)	654,573,361
(Loss)/profit for the period	–	–	–	–	(36,364,900)	(36,364,900)	579,883	(35,785,017)
Other comprehensive income/ (loss)	–	–	380,818	(1,841,782)	–	(1,460,964)	–	(1,460,964)
Total comprehensive income/ (loss) for the period	–	–	380,818	(1,841,782)	(36,364,900)	(37,825,864)	579,883	(37,245,981)
Extinguishment of convertible bonds *(Note 24)*	–	–	11,170,841	(11,170,841)	–	–	–	–
Employee share option *(Note 26)*	–	–	–	71,586	–	71,586	–	71,586
Profit appropriation to statutory reserves	–	–	–	1,518,454	(1,518,454)	–	–	–
	–	–	11,170,841	(9,580,801)	(1,518,454)	71,586	–	71,586
Balance at 31 December 2019	6,203,955	509,708,723	35,161,248	66,989,255	(461,134)	617,602,047	(203,081)	617,398,966
Balance at 30 June 2018 as originally presented	6,107,141	491,227,935	23,609,589	73,713,139	171,129,174	765,786,978	815,994	766,602,972
Change in accounting policy	–	–	–	–	(2,028,005)	(2,028,005)	–	(2,028,005)
Restated balance at 1 July 2018	6,107,141	491,227,935	23,609,589	73,713,139	169,101,169	763,758,973	815,994	764,574,967
Loss for the period	–	–	–	–	(35,478,472)	(35,478,472)	(465,353)	(35,943,825)
Other comprehensive loss	–	–	–	(2,954,710)	–	(2,954,710)	–	(2,954,710)
Total comprehensive loss for the period	–	–	–	(2,954,710)	(35,478,472)	(38,433,182)	(465,353)	(38,898,535)
Dividends paid *(Note 12)*	–	(18,994,497)	–	–	–	(18,994,497)	–	(18,994,497)
Shares repurchased *(Note 25)*	(2,198)	(743,103)	–	–	–	(745,301)	–	(745,301)
Profit appropriation to statutory reserves	–	–	–	2,293,647	(2,293,647)	–	–	–
	(2,198)	(19,737,600)	–	2,293,647	(2,293,647)	(19,739,798)	–	(19,739,798)
Balance at 31 December 2018	6,104,943	471,490,335	23,609,589	73,052,076	131,329,050	705,585,993	350,641	705,936,634

The notes on pages 37 to 76 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended 31 December 2019 Unaudited *RMB*	2018 Unaudited *RMB*
Cash flows from operating activities			
Cash (used in)/generated from operations		**(4,789,746)**	22,835,175
Income tax paid		**(6,838,227)**	(4,586,244)
Net cash (outflow)/inflow from operating activities		**(11,627,973)**	18,248,931
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,952,810)**	(1,551,676)
Proceeds from disposals of property, plant and equipment		**12,200**	161,000
Purchase of other intangible assets		**(64,102)**	(1,395,963)
Purchase of land use right		**–**	(7,459,436)
Interest received		**155,055**	6,456,214
Net cash outflow from investing activities		**(4,849,657)**	(3,789,861)
Cash flows from financing activities			
Proceeds from interest – bearing loans	*22*	**33,030,000**	19,133,800
Repayment of interest – bearing loans	*22*	**(15,013,000)**	(3,400,000)
Proceeds from interest – free loan from a related party	*28*	**6,000,000**	–
Dividends paid to the owners of the Company		**–**	(18,994,497)
Interest paid		**(3,488,881)**	(2,116,012)
Repurchase of shares		**–**	(745,301)
Principal elements of lease payments		**(816,542)**	–
Net cash inflow/(outflow) from financing activities		**19,711,577**	(6,122,010)
Net increase in cash and cash equivalents		**3,233,947**	8,337,060
Cash and cash equivalents at beginning of the period	*20*	**24,196,754**	72,880,335
Effect of exchange rate changes on cash and cash equivalent		**(53,156)**	(314,902)
Cash and cash equivalents at end of the period	*20*	**27,377,545**	80,902,493

The notes on pages 37 to 76 are an integral part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

1 General information

Huazhang Technology Holding Limited (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 products, project contracting services, environmental products and the provision of supporting services in the People's Republic of China (the "PRC").

This condensed consolidated interim financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. These condensed consolidated interim financial statements were approved and authorised for issue by the Company's Board of Directors (the "Board") on 28 February 2020.

These condensed consolidated interim financial statements have not been audited.

2 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 31 December 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") except for the adoption of new and amended standards as disclosed in Note 3.

3 Significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2019, as described in those annual financial statements.

3.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019:

HKFRS 16	Leases
HK (IFRIC) 23	Uncertainty over income tax treatments
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement
HKAS 28 (Amendments)	Long-term interests in associates and joint ventures
Annual Improvements to HKFRS Standards 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group had to change its accounting policies as a result of adopting HKFRS 16. Please refer to Note 4 for details. The other amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards, amendments and interpretations to existing standards have been published that are not mandatory for the financial year beginning 1 July 2019 and relevant to the Group and have not been early adopted by the Group.

Standards, amendments and interpretations	Key requirements	Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint venture	To be determined

The Directors are in the process of assessing the possible impact on the future adoption of the new and revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group's condensed consolidated interim financial statements.

4 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's interim financial statements and also discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

As indicated in Note 3.1 above, the Group has adopted HKFRS 16 from 1 July 2019, but has not restated comparatives for last reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in Note 4.2.

4.1 Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average discount rate applied to the lease liabilities on 1 July 2019 was 6.22%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

4.1 Adjustments recognized on adoption of HKFRS 16 *(Continued)*

(i) Practical expedients applied (Continued)

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	RMB
Operating lease commitments disclosed as at 30 June 2019	1,162,053
Discounted using the lessee's incremental borrowing rate at the date of initial application	1,129,382
Less: Short-term leases not recognised as a liability	(960,504)
Add: Adjustments as a result of a different treatment of extension and termination options	5,724,783
Lease liabilities recognised as at 1 July 2019	5,893,661
Of which are:	
Current lease liabilities	1,048,351
Non-current lease liabilities	4,845,310
	5,893,661

4.1 Adjustments recognized on adoption of HKFRS 16 *(Continued)*

(iii) *Measurement of right-of-use assets*

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The recognised right-of-use assets relate to the following type of assets:

	31 December 2019	1 July 2019
	RMB	*RMB*
Property, plant and equipment		
– buildings	5,955,610	5,928,661

(iv) *Adjustments recognised in the balance sheet on 1 July 2019*

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Right-of-use assets – increase by RMB5,928,661
- Prepayments – decrease by RMB35,000
- Lease liabilities (current portion) – increase by RMB1,048,351
- Lease liabilities (non-current portion) – increase by RMB4,845,310

There was no impact on retained earnings on 1 July 2019.

(v) *Lessor accounting*

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

4.2 HKFRS 16 – Accounting policies applied from 1 July 2019

As explained in Note 4.1 above, the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 July 2019. The new policy is described below and the impact of the change is set out in Note 4.1.

The Group leases various offices. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

4.2 *HKFRS 16 – Accounting policies applied from 1 July 2019* (Continued)

For the year ended 30 June 2019 and before, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis to allocate their cost to their residual values over their estimated lease period.

4.2 *HKFRS 16 – Accounting policies applied from 1 July 2019 (Continued)*

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprises small offices and motor vehicles whose lease terms are also within 12 months.

Extension options are included in the offices leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised during the six months ended 31 December 2019.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

5 Estimate

The preparation of condensed consolidated interim financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30 June 2019.

6 Financial risk management

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focus on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2019.

There have been no significant changes in any risk management policies since the last year end.

7 Segment information

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

- industrial products;
- project contracting services;
- environmental products; and
- supporting services.

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

Segment assets include all assets of the Group except deferred tax assets, pledged deposits, cash and cash equivalents, certain prepayments and investment properties, as these assets are managed on a group basis.

Segment liabilities include all liabilities of the Group except convertible bonds, income tax payable and certain other payables, as these liabilities are managed on a group basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

The segment results for the six months ended 31 December 2019

	Unaudited				
	Industrial products	Project contracting services	Environmental products	Supporting services	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Segment revenue from external customers	53,770,848	119,061,671	34,799,255	29,499,186	237,130,960
Timing of revenue recognition					
At a point in time	53,770,848	–	11,553,763	29,499,186	94,823,797
Over time	–	119,061,671	23,245,492	–	142,307,163
Segment cost of sales	(35,337,789)	(98,177,745)	(24,280,784)	(22,796,757)	(180,593,075)
Segment gross profit	18,433,059	20,883,926	10,518,471	6,702,429	56,537,885
Segment results	4,831,209	(6,686,990)	3,403,010	(25,647,807)	(24,100,578)
Common administrative expenses					(18,700,492)
Other income and gains/(losses), net					13,257,759
Finance costs – net					(4,180,083)
Loss before income tax					(33,723,394)
Income tax expense					(2,061,623)
Loss for the period					(35,785,017)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

Other segment information:

	Unaudited					
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	4,108,183	11,947	100,315	96,467	–	4,316,912
Depreciation of property, plant and equipment *(Note 9)*	730,172	12,691	833,218	2,024,394	–	3,600,475
Amortisation of prepaid land lease payments *(Note 9)*	53,240	–	70,640	668,210	63,703	855,793
Depreciation of investment properties (Note 9)	–	–	–	2,821,848	155,371	2,977,219
Amortisation of other intangible assets *(Note 9)*	1,023,925	–	–	156,565	–	1,180,490
Depreciation of right-of-use assets	–	–	–	–	541,527	541,527

The segment assets and liabilities as at 31 December 2019 are as follows:

	Unaudited					
	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Unallocated *RMB*	Total *RMB*
Segment assets	209,629,537	593,221,841	93,281,360	385,891,873	74,846,943	1,356,871,554
Segment liabilities	165,532,139	215,453,221	80,877,491	179,888,751	97,720,986	739,472,588

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

The segment results for the six months ended 31 December 2018

	Unaudited				
	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers	135,531,167	58,256,233	23,021,634	210,969,083	427,778,117
Timing of revenue recognition					
At a point in time	135,531,167	–	19,062,379	210,969,083	365,562,629
Over time	–	58,256,233	3,959,255	–	62,215,488
Segment cost of sales	(99,685,921)	(50,346,032)	(17,777,838)	(200,910,598)	(368,720,389)
Segment gross profit	35,845,246	7,910,201	5,243,796	10,058,485	59,057,728
Segment results	22,065,242	5,312,922	(2,399,310)	(18,731,776)	6,247,078
Common administrative expenses					(11,989,125)
Other income and gains/(losses), net					(23,223,975)
Finance costs – net					(2,982,325)
Loss before income tax					(31,948,347)
Income tax expense					(3,995,478)
Loss for the period					(35,943,825)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

Other segment information:

	Unaudited					
	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Unallocated *RMB*	Total *RMB*
Capital expenditure	131,231	27,241	14,319	7,459,436	3,343,284	10,975,511
Depreciation of property, plant and equipment *(Note 9)*	764,109	9,068	1,023,564	–	3,218,041	5,014,782
Amortisation of prepaid land lease payments *(Note 9)*	188,677	–	250,334	–	225,751	664,762
Depreciation of investment properties *(Note 9)*	–	–	–	1,900,010	155,371	2,055,381
Amortisation of other intangible assets *(Note 9)*	–	–	–	5,882	1,023,924	1,029,806

The segment assets and liabilities as at 30 June 2019 are as follows:

	Audited					
	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Unallocated *RMB*	Total *RMB*
Segment assets	212,327,398	490,983,666	70,422,522	443,391,478	68,401,404	1,285,526,468
Segment liabilities	121,413,440	201,993,421	59,759,940	149,700,093	98,086,213	630,953,107

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

8 Other income and gains/(losses), net

	For the six months ended 31 December	
	2019	2018
	Unaudited	Unaudited
	RMB	*RMB*
Interest income from customer delaying on payment	**6,987,641**	–
Interest income recognised from project contracting services	**3,875,310**	–
Government grants	**1,526,231**	1,341,847
Rental income	**353,101**	179,917
Tax refund	**308,775**	599,512
Interest income from loan to a customer	**196,232**	–
Gain on scrap steel sale	**10,469**	158,255
Lawsuit	**–**	2,298,000
Change in fair value of contingent consideration	**–**	(28,569,128)
Impairment of goodwill (Note 17)	**–**	(21,556,591)
Others	**–**	767,622
	13,257,759	(44,780,566)

9 Loss before income tax

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

	For the six months ended 31 December	
	2019	2018
	Unaudited	Unaudited
	RMB	*RMB*
Raw materials used	**161,371,484**	353,001,670
Net impairment losses/(written back) on financial assets	**48,718,154**	(1,768,915)
Employee benefit expenses	**29,925,604**	30,348,155
Change in inventory of finished goods and work in progress (Note 18)	**5,576,961**	4,420,396
Professional service fees	**5,518,696**	1,106,819
Depreciation of property, plant and equipment (Note 14)	**3,600,475**	5,014,782
Depreciation of investment properties (Note 15)	**2,977,219**	2,055,381
Addition/(reversal) of provision for write-down of inventories (Note 18)	**1,206,219**	(248,818)
Amortisation of other intangible assets (Note 16(ii))	**1,180,490**	1,029,806
Amortisation of prepaid land lease payments (Note 16(i))	**855,793**	664,762
Depreciation of right-of-use assets	**541,527**	–
Change in fair value of contingent consideration	**–**	28,569,128
Impairment of goodwill (Note 17)	**–**	21,556,591

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

10 Finance costs – net

	For the six months ended 31 December	
	2019	2018
	Unaudited	Unaudited
	RMB	*RMB*
Finance costs		
Interest on convertible bonds (Note 24)	**(2,269,249)**	(8,859,998)
Interest on loans (Note 22)	**(1,929,095)**	(684,768)
Interest paid/payable for lease liabilities	**(167,430)**	–
Others	**(35,404)**	–
	(4,401,178)	(9,544,766)
Finance income		
Interest income	**155,055**	6,456,214
Exchange gains, net	**66,040**	106,227
	221,095	6,562,441
Finance costs – net	**(4,180,083)**	(2,982,325)

11 Income tax expense

	For the six months ended 31 December	
	2019	2018
	Unaudited	Unaudited
	RMB	*RMB*
Current income tax		
PRC enterprise income tax (iii)	**5,096,472**	4,987,463
Deferred income tax	**(3,034,849)**	(991,985)
Income tax expense	**2,061,623**	3,995,478

(i) Cayman Islands profits tax

The Company is not subject to profits tax in the Cayman Islands.

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the six months ended 31 December 2019 (six months ended 31 December 2018: nil), as the Group had no taxable profits earned in Hong Kong during the period.

(iii) PRC enterprise income tax ("EIT")

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

Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang")'s applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the New EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar year of 2017 with a validation period of three years. The applicable EIT rate of Zhejiang Huazhang is 15% from 2017 till 2019. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the six months period ended 31 December 2019 (six months period ended 31 December 2018: 15%).

12 Dividends

No dividends (six months ended 31 December 2018: 3.0 HK cents per share) was paid during the six months ended 31 December 2019 (six months ended 31 December 2018: RMB18,994,497).

On 28 February 2020, the Board resolved not to declare any interim dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: nil).

13 Earnings per share

The calculation of the basic earnings per share amount is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 733,857,225 (2018: 722,712,959) which represents the shares in issue during the period (2018: adjustment has been made to the basic earnings per share amount presented in respect of the impact of shares that were issuable as part of the consideration for the business acquisition on 25 September 2017).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

The diluted earnings per share is same as the basic earnings per share for the six months ended 31 December 2019 and 2018 as any potential ordinary shares and the impact of the convertible bonds outstanding would have anti-dilutive effect.

	For the six months ended 31 December	
	2019	2018
	Unaudited	Unaudited
	RMB	*RMB*
Basic		
Earnings		
Loss attributable to ordinary equity holders of the parent	**(36,364,900)**	(35,478,472)
Number of shares		
Weighted average number of ordinary shares in issue during the period	**733,857,225**	722,666,653
Adjustment for contingent shares	**–**	46,306
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating basic earnings per share during the period	**733,857,225**	722,712,959
Basic losses per share (RMB cents)	**(4.96)**	(4.91)
Diluted		
Earnings		
Loss attributable to ordinary equity holders of the parent	**(36,364,900)**	(35,478,472)
Number of shares		
Weighted average number of ordinary shares in issue during the period	**733,857,225**	722,666,653
Adjustment for contingent shares	**–**	46,306
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating diluted earnings per share during the period	**733,857,225**	722,712,959
Diluted losses per share (RMB cents)	**(4.96)**	(4.91)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

14 Property, plant and equipment

	Buildings Unaudited *RMB*	Machinery and vehicles Unaudited *RMB*	Furniture, fittings and equipment Unaudited *RMB*	Construction in progress Unaudited *RMB*	Total Unaudited *RMB*
Six months ended 31 December 2019					
Opening net book amount as at 1 July 2019	**63,350,891**	**15,101,372**	**1,692,333**	**1,848,911**	**81,993,507**
Additions	**–**	**94,828**	**169,357**	**3,988,625**	**4,252,810**
Disposals	**–**	**–**	**(16,333)**	**–**	**(16,333)**
Internal transfer	**5,837,536**	**–**	**–**	**(5,837,536)**	**–**
Depreciation charge *(Note 9)*	**(2,430,326)**	**(971,144)**	**(199,005)**	**–**	**(3,600,475)**
Closing net book amount as at 31 December 2019	**66,758,101**	**14,225,056**	**1,646,352**	**–**	**82,629,509**
Six months ended 31 December 2018					
Opening net book amount as at 1 July 2018	181,801,787	16,339,637	1,445,115	–	199,586,539
Additions	–	24,722	1,437,484	657,906	2,120,112
Disposals	–	(193,032)	–	–	(193,032)
Internal Transfer	(58,716,152)	–	–	–	(58,716,152)
Depreciation charge (Note 9)	(4,114,632)	(485,564)	(414,586)	–	(5,014,782)
Closing net book amount as at 31 December 2018	118,971,003	15,685,763	2,468,013	657,906	137,782,685

15 Investment properties

	Investment properties Unaudited *RMB*
Six months ended 31 December 2019	
Opening net book amount as at 1 July 2019	**115,929,946**
Depreciation charge (Note 9)	**(2,977,219)**
Closing net book amount as at 31 December 2019	**112,952,727**
Six months ended 31 December 2018	
Opening net book amount as at 1 July 2018	5,989,795
Transfer from property, plant and equipment (Note 14)	58,716,152
Transfer from prepaid land lease payments (Note 16(i))	32,272,718
Depreciation charge (Note 9)	(2,055,381)
Closing net book amount as at 31 December 2018	94,923,284

16 Prepaid land lease payments and other intangible assets

(i) Prepaid land lease payments

	Six months ended 31 December	
	2019 **Unaudited** ***RMB***	2018 Unaudited *RMB*
Opening net book amount	**78,799,512**	73,337,828
Additions	**–**	7,459,436
Internal transfer	**–**	(32,272,718)
Amortisation charge (Note 9)	**(855,793)**	(664,762)
Closing net book amount	**77,943,719**	47,859,784
Less: Prepaid land lease payments – current portion	**–**	(1,441,361)
Prepaid land lease payments – non-current portion	**77,943,719**	46,418,423

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

(ii) Other intangible assets

	Patents	*Software*	*Total*
	Unaudited	**Unaudited**	**Unaudited**
	RMB	*RMB*	*RMB*
Six months ended 31 December 2019			
Opening net book amount as at 1 July 2019	**12,799,062**	**1,758,831**	**14,557,893**
Additions	**–**	**64,102**	**64,102**
Amortisation charge (Note 9)	**(1,023,924)**	**(156,566)**	**(1,180,490)**
Closing net book amount as at 31 December 2019	**11,775,138**	**1,666,367**	**13,441,505**
Six months ended 31 December 2018			
Opening net book amount as at 1 July 2018	14,846,912	–	14,846,912
Additions	–	1,395,963	1,395,963
Amortisation charge (Note 9)	(1,023,924)	(5,882)	(1,029,806)
Closing net book amount as at 31 December 2018	13,822,988	1,390,081	15,213,069

17 Goodwill

	Headbox business Unaudited *RMB*	Logistics and warehousing services Unaudited *RMB*	Others Unaudited *RMB*	Total Unaudited *RMB*
Six months ended 31 December 2019				
Opening net book amount as at 1 July 2019	36,155,379	3,183,135	596,370	39,934,884
Closing net book amount as at 31 December 2019	36,155,379	3,183,135	596,370	39,934,884
Six months ended 31 December 2018				
Opening net book amount as at 1 July 2018	36,155,379	108,247,008	596,370	144,998,757
Impairment charge (Note 8)	–	(21,556,591)	–	(21,556,591)
Closing net book amount as at 31 December 2018	36,155,379	86,690,417	596,370	123,442,166

Goodwill of the Group mainly arose from the acquisition of Hangzhou Haorong Technology Co., Ltd. and Hangzhou MCN Paper Tech Co., Ltd. (together, the "MCN Group") and Fu An 777 Logistics Limited ("777 Logistics", together with its subsidiaries, collectively known as the "777 Logistic Group") in 2017.

Goodwill is allocated to the cash generating unit ("CGU") of headbox business under the business segment of industrial products and the CGU of logistics and warehousing services under the business segment of supporting services for impairment test.

The following table sets out the key assumptions for the CGUs that have significant goodwill allocated to them:

	Headbox business	Logistics and warehousing services
31 December 2019		
Sales (% annual growth rate)	**4%-5%**	**8%-94%**
Budgeted gross margin (%)	**33%-34%**	**51%-85%**
Long term growth rate (%)	**3%**	**3%**
Pre-tax discount rate (%)	**18.1%**	**16%**
30 June 2019		
Sales (% annual growth rate)	4%-5%	8%-94%
Budgeted gross margin (%)	33%-34%	51%-85%
Long term growth rate (%)	3%	3%
Pre-tax discount rate (%)	16.7%	16%

These assumptions have been used for the analysis of CGU within the operating segment.

Sales is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in rubber, a key raw material, which management does not expect to be able to pass on to customers through price increases.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segment.

As at 31 December 2019, no impairment charge arose in the aforesaid CGUs (30 June 2019: impairment charge of RMB105,063,873 arose in the logistics and warehousing services CGU).

18 Inventories

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
Raw materials	**62,574,041**	39,943,419
Work in progress	**32,458,144**	36,711,019
Finished goods	**17,686,798**	19,010,884
	112,718,983	95,665,322
Less: Provision	**(9,996,199)**	(8,789,980)
	102,722,784	86,875,342

As at 31 December 2019, raw materials and finished goods with a cost of RMB10,160,087 and RMB2,697,019 were considered as obsolete (30 June 2019: RMB8,413,863 and RMB2,697,019) and a provision of RMB7,299,180 and RMB2,697,019 (30 June 2019: RMB6,092,961 and RMB2,697,019) to write down to their net realisable value was made against these raw materials and finished goods respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

19 Trade and other receivables, contract assets and prepayments

(i) Trade and other receivables

	As at 31 December 2019 Unaudited *RMB*	As at 30 June 2019 Audited *RMB*
Warranty receivables *(a)*	**13,246,821**	19,906,655
Other trade receivables *(b)*	**683,397,346**	493,389,612
	696,644,167	513,296,267
Less: provision for impairment of trade receivables *(c)*	**(66,962,756)**	(39,538,917)
Trade receivables – net	**629,681,411**	473,757,350
Bills receivable	**21,233,358**	20,218,173
Trade and bills receivables	**650,914,769**	493,975,523
Payment on behalf of a customer	**87,766,161**	91,449,840
Deductible input value added tax	**9,593,534**	9,669,086
Loan deposit to an independent third party	**8,958,000**	8,796,600
Loan to a customer	**5,040,386**	7,228,531
Other receivables – guarantee	**3,597,443**	3,247,643
Other receivables due from a related party (Note 28(c)(i))	**22,428**	23,612
Others	**1,897,047**	5,419,728
	116,874,999	125,835,040
Less: provision for impairment of other receivables *(c)*	**(26,654,716)**	(5,981,394)
Other receivables – net	**90,220,283**	119,853,646
Total trade and other receivables	**741,135,052**	613,829,169
Less: trade receivables – non-current portion	**(157,713,947)**	(7,075,588)
	583,421,105	606,753,581

(a) The warranty receivables represent approximately 5% to 10% of the contract value of the sales of the Group which will be collected upon the expiry of the warranty period (which is usually for a period of 18 months from the date of delivery or 12 months after on-site testing, whichever is earlier).

The ageing analysis of the warranty receivables based on the date that the Group was entitled to collect the revenue is as follows:

	As at 31 December 2019	As at 30 June 2019
	Unaudited	Audited
	RMB	*RMB*
Warranty receivables		
1 year to 2 years	**2,525,448**	6,138,336
Over 2 years	**10,721,373**	13,768,319
	13,246,821	19,906,655

(b) The ageing analysis of the other trade receivables based on the date that the Group was entitled to collect the revenue is as follows:

	As at 31 December 2019	As at 30 June 2019
	Unaudited	Audited
	RMB	*RMB*
Other trade receivables		
Up to 3 months	**277,609,931**	208,786,984
3 months to 6 months	**122,386,479**	3,524,681
6 months to 1 year	**21,387,885**	3,775,227
1 year to 2 years	**173,764,285**	230,500,138
Over 2 years	**88,248,766**	46,802,582
	683,397,346	493,389,612

(c) As at 31 December 2019, provisions amounting to RMB29,504,075 (30 June 2019: RMB 11,898,699) and RMB 20,513,607 (30 June 2019: nil) were made on certain trade receivables and other receivables respectively given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these trade and other receivables.

(ii) Contract assets

	As at 31 December 2019 Unaudited *RMB*	As at 30 June 2019 Audited *RMB*
Contract assets	**25,197,568**	83,233,062
Less: provision for impairment of contract assets	**(952,245)**	(971,472)
	24,245,323	82,261,590

(iii) Prepayments

	As at 31 December 2019 Unaudited *RMB*	As at 30 June 2019 Audited *RMB*
Prepayments for procurement	**65,296,697**	79,921,802
Others	**834,001**	135,863
Total prepayments	**66,130,698**	80,057,665
Less: prepayments – non-current portion	**(189,373)**	(195,903)
	65,941,325	79,861,762

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

20 Cash and cash equivalents and pledged deposits

	As at 31 December 2019 Unaudited *RMB*	As at 30 June 2019 Audited *RMB*
Cash at bank and on hand	**58,119,775**	54,173,353
Less: pledged deposits	**(30,742,230)**	(29,976,599)
Cash and cash equivalents	**27,377,545**	24,196,754

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

21 Trade and other payables

	As at 31 December 2019 Unaudited *RMB*	As at 30 June 2019 Audited *RMB*
Trade payables	**133,897,578**	129,178,810
Bills payable	**85,139,425**	110,852,396
Trade and bills payables	**219,037,003**	240,031,206
Deposits for project contracting services	**51,708,139**	–
Other taxes payables	**29,551,009**	32,501,508
Amount due to suppliers on a customer's behalf	**13,758,244**	13,775,461
Accruals	**6,029,734**	5,694,078
Amounts due to related parties (Note 28(c)(ii))	**6,000,000**	49,500
Payables for property, plant and equipment	**5,787,991**	6,487,991
Employee benefit payables	**3,507,253**	3,185,326
Provision for warranty expenses	**815,363**	484,577
Others	**5,304,038**	2,969,875
Other payables	**122,461,771**	65,148,316
Total trade and other payables	**341,498,774**	305,179,522

The ageing analysis of the trade payables is as follows:

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
Up to 3 months	**83,401,933**	85,129,189
3 months to 6 months	**20,771,515**	23,254,725
6 months to 1 year	**19,383,125**	5,631,296
1 year to 2 years	**3,698,840**	6,264,575
Over 2 years	**6,642,165**	8,899,025
	133,897,578	129,178,810

22 Interest – bearing loans

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
Loan from a non-controlling shareholder (Note 28(c)(ii))	**660,151**	642,151
Bank borrowings	**51,000,000**	23,000,000
Other borrowings	**21,823,935**	31,143,513
	73,484,086	54,785,664

Movement in interest – bearing loans is analysed as follows:

	Loan from a non-controlling shareholder Unaudited *RMB*	Loans from bank Unaudited *RMB*	Loans from independent third parties Unaudited *RMB*	Total Unaudited *RMB*
Six months ended 31 December 2019				
Opening net book amount as at 1 July 2019	**642,151**	**23,000,000**	**31,143,513**	**54,785,664**
Additions	**–**	**33,000,000**	**30,000**	**33,030,000**
Accrual of interest (Note 10)	**18,000**	**1,247,673**	**663,422**	**1,929,095**
Repayment	**–**	**(6,247,673)**	**(10,013,000)**	**(16,260,673)**
Closing net book amount as at 31 December 2019	**660,151**	**51,000,000**	**21,823,935**	**73,484,086**
Six months ended 31 December 2018				
Opening net book amount as at 1 July 2018	1,000,000	–	20,857,880	21,857,880
Additions	–	5,000,000	14,133,800	19,133,800
Repayment	–	–	(3,400,000)	(3,400,000)
Reclassification to interest payable	–	–	(1,077,880)	(1,077,880)
Closing net book amount as at 31 December 2018	1,000,000	5,000,000	30,513,800	36,513,800

As at 31 December 2019, the Group's borrowings are all denominated in RMB.

As at 31 December 2019, the loan from a non-controlling shareholder bears interest at a rate of 7.2% per annum (30 June 2019: 7.2% per annum).

As at 31 December 2019, the Group's loans from bank bear interest at an average rate of 5.18% per annum (30 June 2019: 5.31% per annum) and of which RMB 3,000,000 were secured by property, plant and equipment of the Group amounting to approximately RMB1,724,986 and the remaining balances were borrowed by using banking facilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

As at 31 December 2019, the Group's loans from independent third parties bear interest at an average rate of 6.44% per annum (30 June 2019: 6.95%).

As at 31 December 2019, the Group had the following unutilised banking facilities:

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
Authorised banking facilities – expiring within one year	**219,439,300**	230,343,735
Less: utilised banking facilities	**(162,827,900)**	(118,247,624)
	56,611,400	112,096,111

As at 31 December 2019, the banking facilities granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB65,033,115, RMB112,952,727 and RMB77,943,719, respectively (30 June 2019: RMB63,350,891, RMB115,929,946 and RMB78,799,512, respectively).

23 Deferred income

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
Government grant	**24,862,500**	25,537,500

24 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 per share (subject to adjustment) at any time on or after 29 April 2017 up to the close of business on the 30th day prior to the maturity date;

(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 bond without conversion option with consideration of the Group's own non-performance risk. And it will be measured on the amortised cost basis until extinguished on conversion or redemption. The remaining proceeds are allocated to the equity component of Convertible Bonds. Transaction costs 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 period.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

On 25 March 2019, the Company received a notice from the investor requesting to extend the maturity date of the Convertible Bonds for 6 months after the maturity date, i.e. extend to 29 September 2019 under the same terms and conditions of the Convertible Bonds (the "First Extension"). The Company agreed to the First Extension and accounted for the First Extension as a modification of the existing financial liability with the change in present value of the liability component, which represents the difference between carrying amount of liability component before the First Extension and discounted new cash flows under new terms using original effective interest rate, recognised in the statement of profit or loss.

On 29 September 2019, a supplemental deed in relation to the Convertible Bonds was executed by the Company to extend the maturity date to 28 September 2020 (the "Second Extension"), The Company accounted for the Second Extension as a derecognition of the existing financial liability and the recognition of a new financial liability with a gain recognised on extinguishment, being the fair value of consideration given to extinguish the financial liability and its previous carrying amount.

	Liability component of Convertible Bonds Unaudited *RMB*	Equity component of Convertible Bonds Unaudited *RMB*	Total Unaudited *RMB*
At 1 July 2019	**85,525,913**	**23,609,589**	**109,135,502**
Interest expense *(Note 10)*	**7,018,479**	**–**	**7,018,479**
Interest paid	**(2,241,208)**	**–**	**(2,241,208)**
Extinguishment *(Note 10, 26)*	**(4,749,230)**	**11,170,841**	**6,421,611**
Currency translation differences	**1,569,207**	**380,818**	**1,950,025**
At 31 December 2019	**87,123,161**	**35,161,248**	**122,284,409**
At 1 July 2018	75,710,498	23,609,589	99,320,087
Interest expense *(Note 10)*	8,859,998	–	8,859,998
Interest paid	(2,194,458)	–	(2,194,458)
Currency translation differences	2,959,831	–	2,959,831
At 31 December 2018	85,335,869	23,609,589	108,945,458

25 Share capital and premium

	As at 31 December 2019 Unaudited *RMB*	As at 30 June 2019 Audited *RMB*
Issued and fully paid: 733,857,225 (30 June 2019: 733,857,225) ordinary shares	**6,203,955**	6,203,955

	Number of issued shares	**Ordinary shares Unaudited** *RMB*	**Share premium Unaudited** *RMB*	**Total Unaudited** *RMB*
At 1 July 2019 and 31 December 2019	**733,857,225**	**6,203,955**	**509,708,723**	**515,912,678**
At 1 July 2018	722,865,001	6,107,141	491,227,935	497,335,076
Shares repurchased	(256,000)	(2,198)	(743,103)	(745,301)
Dividends (i)	–	–	(18,994,497)	(18,994,497)
At 31 December 2018	722,609,001	6,104,943	471,490,335	477,595,278

(i) During the six months ended 31 December 2018, the Company distributed 3.0 HK cents per share, amounting to a total dividend of RMB18,994,497 based on the number of issued shares outstanding at relevant time to qualifying shareholders.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

26 Other reserves

	Reorganisation reserve Unaudited RMB	Merger reserve Unaudited RMB	Statutory reserves Unaudited RMB	Translation reserves Unaudited RMB	Employee Share Option Scheme (i) Unaudited RMB	Fair Value Reserve Unaudited RMB	Total Unaudited RMB
At 1 July 2019	**2,335,540**	**33,028,254**	**29,145,970**	**9,502,114**	**4,399,960**	**-**	**78,411,838**
Translation differences	-	-	-	(1,841,782)	-	-	(1,841,782)
Appropriation to statutory reserves	-	-	1,518,454	-	-	-	1,518,454
Share options	-	-	-	-	71,586	-	71,586
Extinguishment of convertible bonds	-	-	-	-	-	(11,170,841)	(11,170,841)
At 31 December 2019	**2,335,540**	**33,028,254**	**30,664,424**	**7,660,332**	**4,471,546**	**(11,170,841)**	**66,989,255**
At 1 July 2018	2,335,540	33,028,254	25,736,128	12,613,217	-	-	73,713,139
Translation differences	-	-	-	(2,954,710)	-	-	(2,954,710)
Appropriation to statutory reserves	-	-	2,293,647	-	-	-	2,293,647
At 31 December 2018	2,335,540	33,028,254	28,029,775	9,658,507	-	-	73,052,076

(i) As approved by the Company's board meetings on 15 January 2019, a total of 19,000,000 share options were granted to selected directors and employees as follows. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Employee Share Option Scheme

Share options outstanding at the end of period have the following expiry date and exercise prices:

Date of grant	Number of share options in an aggregate	Exercises price HKD/ share	Exercisable period
15 January 2019	3,000,000	4.04	Note 1
15 January 2019	3,000,000	4.04	Note 2
15 January 2019	13,000,000	4.04	Note 3

Note 1: The share options are exercisable in different periods from Jan 2019 to Jan 2021, and with different vesting requirements.

Note 2: The share options are exercisable in different periods from Jan 2019 to Jan 2022, and with different vesting requirements.

Note 3: The share options are exercisable in different periods from Jan 2019 to Jan 2023, and with different vesting requirements.

There was no movement of share options outstanding during the six months ended 31 December 2019.

27 Commitments

(a) As lessor

The future minimum lease receivables under non-cancellable operating leases as at 31 December 2019 and 30 June 2019 are summarised as follows:

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
No later than 1 year	**6,515,548**	1,623,675
Later than 1 year and no later than 5 years	**283,886**	603,743
	6,799,434	2,227,418

(b) As lessee

The Group leases various offices and motor vehicles under non-cancellable operating leases expiring within six months to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 July 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 4 for further information.

The minimum lease payments under operating leases as at 31 December 2019 and 30 June 2019 are summarised as follows:

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
No later than 1 year	**65,580**	1,027,053
Later than 1 year and no later than 5 years	**–**	135,000
	65,580	1,162,053

28 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 2019 and 2018 and balances arising from related party transactions as at 31 December 2019 and 30 June 2019.

(a) Name and relationship with related parties

Name of related parties	Relationships
Mr. Zhu Gen Rong (“Mr. Zhu”) (i)	One of the controlling shareholders, chairman of the Company, executive Director
Mr. Wang Ai Yan (“Mr. Wang”) (i)	One of the controlling shareholders, executive Director
Mr. Liu Chuan Jiang (“Mr. Liu”) (i)	One of the controlling shareholders, executive Director
Mr. Zhu Gen yi	Brother of Mr. Zhu
Mr. Jin Hao	Executive Director
Mr. He Min Jun	Non-controlling shareholders of Wukong, one of the subsidiaries under the Group

(i) Mr. Zhu, Mr. Wang, and 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 period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

For the six months ended 31 December 2019

(b) Transactions with related parties

	Six months ended 31 December	
	2019	2018
	Unaudited	Unaudited
	RMB	*RMB*
Key management compensation		
– Salaries	**1,921,968**	1,878,197
– Other benefits	**224,202**	221,071
– Bonus	**–**	277,644
	2,146,170	2,376,912

(c) Balances with related parties

(i) Due from related party (Note 19):

	As at 31 December 2019	As at 30 June 2019
	Unaudited	Audited
	RMB	*RMB*
Mr. Zhu Genyi		
– Included in other receivables	**22,428**	23,612

The receivables from related party as at 31 December 2019 and 30 June 2019 arose mainly from the ordinary course of businesses.

The receivables are unsecured, non-interest bearing and are repayable on demand. There are no provisions made against receivables from related party.

(ii) Due to related party:

	As at 31 December 2019 Unaudited ***RMB***	As at 30 June 2019 Audited *RMB*
Loan from Mr. Zhu (Note 21)	**6,000,000**	–
Loan from a non-controlling shareholder (Note 22)	**660,151**	642,151
Mr. Jin Hao (Note 21)	**–**	25,500
Mr. Wang (Note 21)	**–**	24,000

The loan from Mr. Zhu was borrowed in September 2019, unsecured, non-interest bearing and is repayable in December 2020.

The loan from Mr. He Min Jun, the non-controlling shareholder of Wukong, one of the subsidiaries of the Group, was borrowed in April 2016 with an interest rate of 7.2% per annum (30 June 2019: 7.2% per annum) and is repayable on demand.