



**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  
**2023**

## CORPORATE INFORMATION

### DIRECTORS

#### **Executive directors**

Mr. Chen Hongwei

Mr. Fang Hui

Mr. Wang Ai Yan (*Chief Executive Officer*) (*resigned with effect from 1 December 2022*)

#### **Non-executive director**

Mr. Shi Chenghu

#### **Independent non-executive directors**

Mr. Heng, Keith Kai Neng

Mr. Yao Yang Yang

Ms. Zhang Dong Fang

### AUDIT COMMITTEE

Mr. Heng, Keith Kai Neng (*Chairman*)

Mr. Yao Yang Yang

Ms. Zhang Dong Fang

### REMUNERATION COMMITTEE

Mr. Heng, Keith Kai Neng (*Chairman*)

Mr. Yao Yang Yang

Ms. Zhang Dong Fang

### NOMINATION COMMITTEE

Mr. Yao Yang Yang (*Chairman*)

Mr. Fang Hui

Mr. Heng, Keith Kai Neng

Ms. Zhang Dong Fang

### COMPANY SECRETARY

Ms. Yeung Wing Yan

### AUTHORIZED REPRESENTATIVES

Mr. Fang Hui

Ms. Yeung Wing Yan

### LEGAL ADVISOR

*As to Hong Kong Law*

Stevenson, Wong & Co.

## **CORPORATE INFORMATION** *(Continued)*

### **AUDITORS**

KTC Partners CPA Limited

### **REGISTERED ADDRESS**

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

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC**

Room 1101, Block 2  
Canal Advertising Industry Building  
No. 99 Xiangyuan Road, Gongshu District  
Hangzhou City  
Zhejiang Province, China

### **PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Room 901, 9/F, Ocean Centre  
5 Canton 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

### **BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tricor Investor Services Limited  
17/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

### **STOCK CODE**

1673

### **WEBSITE**

[www.hzeg.com](http://www.hzeg.com)

## FINANCIAL HIGHLIGHTS

|   | For the six months ended |              |        |
|---|--------------------------|--------------|--------|
|   | 31 December              |              |        |
|   | 2022                     | 2021         | Change |
|   | RMB                      | RMB          | %      |
| <b>Revenue</b>  | <b>157,068,849</b>       | 175,848,317  | (10.7) |
| <b>Gross profit</b>   | <b>31,288,624</b>        | 16,352,655   | 91.3   |
| <i>Gross profit margin</i>  | <b>19.9%</b>             | 9.3%         | 10.6   |
| <b>Loss for the period</b>  | <b>(27,667,141)</b>      | (76,228,226) | (63.7) |
| <i>Net loss margin</i>  | <b>(17.6)%</b>           | (43.3)%      | 25.7   |
| <b>Loss attributable to the shareholders of the Company</b>                                 | <b>(27,309,171)</b>      | (76,273,080) | (64.2) |
| <b>Loss per share attributable to the shareholders of the Company (RMB cents per share)</b> |                          |              |        |
| — basic   | <b>(2.57)</b>            | (8.60)       |        |
| — diluted   | <b>(2.57)</b>            | (8.60)       |        |

The Board resolved not to declare any interim dividend for the six months ended 31 December 2022.

## 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 2022, together with the unaudited comparative figures for the corresponding period in 2021.

### INDUSTRY REVIEW

According to the National Bureau of Statistics of China, the year-on-year growth of China’s gross domestic product (GDP) in the second quarter, third quarter and fourth quarter of 2022 was 0.4%, 3.9% and 2.9%, respectively. In view of the continuous resurgence of the COVID-19 pandemic in Mainland China, different levels of pandemic prevention and control measures were implemented, causing impact on the economic activities across the country. Although the economic growth rate improved in the third quarter, the overall economic situation was still worse than that in the first quarter of 2022. As a result of the economic downturn, industrial production and consumer markets remained sluggish. In addition, the overcapacity in the paper making industry led to the suspension of some of the production lines of paper making enterprises under the challenging business environment, resulting in losses in profits.

For paper-making equipment manufacturing enterprises, market demand with commonalities for their products and technologies is unleashing beyond the paper making industry. To illustrate, wet non-woven fabric production is a new technology which applies paper-making equipment and technology to produce non-woven fabric products or paper-based composite materials. Wet non-woven fabrics are widely used in areas of medical and health care, decoration and clothing, industrial and civil construction. At present, wet non-woven fabrics are widely adopted in developed countries such as Japan and the United States, representing an advantage in large-scale industrialization. The current production volume of wet non-woven fabrics is relatively low in China, which represents a large potential market compared to the developed countries.

As China officially proposed the targets of “carbon peaking” by 2030 and “carbon neutrality” by 2060, in August 2022, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Ecology and Environment jointly issued the Implementation Plan for Carbon Peaking in the Industrial Sector (the “Implementation Plan”), which requires paper making enterprises to implement systematic transformation of clean production such as energy conservation, water conservation, material conservation, pollution reduction and carbon reduction. This has prompted paper making enterprises to increase capital expenditures to improve or upgrade equipment or systems in order to meet the requirements of the Implementation Plan. At the same time, since December 2022, the pandemic prevention and control measures in Mainland China have been adjusted and optimized, and the economy is expected to recover. It is expected that the confidence of consumers and enterprises will further improve in China, and hence stimulate the demand for paper making. It is expected that the paper making industry throughout the year of 2023 will perform better than 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

In the second half of 2022, the metal recycling industry was still affected by global liquidity changes, geopolitical and energy factors. As the Federal Reserve of the United States showed signs of easing up on interest rate hikes, together with the gradual optimization of China's pandemic prevention policies, market confidence was restored, which further promoted the positive outlook of the metal recycling market. The market is expected to be more stable by 2023, while certain challenges persist due to the global financial crisis, energy insecurity and concerns on the environmental impact of mining. In addition, as the global concerns on environmental, social and governance (ESG) continue to increase, enterprises have to consider more of their own social responsibilities and environmental protection, which is conducive to the development of the metal recycling industry.

### BUSINESS REVIEW

For the six months ended 31 December 2022, the Group's revenue decreased by approximately 10.7% to RMB157.1 million but the gross profit increased by approximately 91.3% to RMB31.3 million, as compared to the corresponding period of last year, which was due to no provision for claims for this period. For the six months ended 31 December 2022, the loss for the period decreased significantly by approximately RMB48.5 million from approximately RMB76.2 million for the six months ended 31 December 2021 to approximately RMB27.7 million for the six months ended 31 December 2022, which was primarily due to no provision for the legal claims was provided and a decrease in the recognition of impairment losses on trade and other receivables for this period.

#### ***Paper Making Related Business***

##### *Contracts*

For the six months ended 31 December 2022, although the Group continued to adopt active marketing strategies, the Group's new contract amount decreased by approximately 24.9% to approximately RMB195.2 million and the outstanding contract amount was approximately RMB654.3 million, which was due to the adverse impact of the industry and macro environment. The Group cooperated with Vinda Paper again to provide driving system for its new composite tissue machine project. In addition, the Group obtained a number of iconic projects in the industry, such as the paper machine driving and Distributed Control System (the "DCS") and full set of pulp preparation production line of Henan Fangsheng Paper, the driving control and DCS of the PM3 technological transformation project of Henan Longyuan Paper. In order to enhance its competitiveness, the Group has fully leveraged its technology and experience in the paper making industry to make breakthroughs and explore new areas, and hence secured general contracting projects for non-woven fabrics and tobacco production equipment.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### *Rapid Development of Huazhang Hangzhou MCN Paper Tech Co., Ltd. (the “MCN”)*

In 2017, through the acquisition of MCN, Huazhang Technology completed the layout of core equipment components. Today, MCN has become one of the leading enterprises of headbox manufacturing with technical capabilities at the level of world-class top brands, representing a leader of the Group in the segment markets.

In the past year, MCN participated in a number of influential projects in the industry, including crescent-shaped headboxes for Shandong Xinhe, headboxes of three special paper machines for Hubei Xianhe, wet non-woven fabric molding equipment for Sateri of Golden Eagle Group, headboxes of paper towel machines for Guangxi Sun, headboxes of corrugated paper machines for Shanxi Qiangwei, headboxes of five-folded coated white board paper machines for Shandong Fengyuan Zhongsheng, full set of pulp preparation line production equipment, pre-wire flow system equipment and headboxes for Anhui Harmory Medical Packaging Material Co., Ltd..

### *Exploration of New Markets for Turnkey Projects*

During the period, beyond the paper making industry, the Group made an innovative breakthrough in the new market of turnkey project of wet non-woven fabric equipment in China. The Group engaged in strategic cooperation with the world's top-ranking supplier of spunlace non-woven fabric and entered into two significant projects which have already commenced with a total amount of RMB70.0 million, making us the potential leader of the paper making equipment and wet non-woven fabric equipment industries in China.

In addition, in the first half of 2022, the Group obtained the production line turnkey project of Hunan Jinye Reconstituted Tobacco Leaves Limited Liability Company with a contract amount of RMB119.8 million. The project is still in the early stage of implementation. The Group's success in securing such contracts is attributable to its accumulated expertise and extensive experience in the paper industry. Such projects represent the Group's iconic projects in new areas, which successfully tapped into new markets with commonalities with the Group's products and technologies.

### *Completion of Overseas Projects*

Due to the impact of the pandemic in the past few years, the Group was not able to explore new customers overseas. However, through the promotion of the “Belt and Road” strategy of China, the Group explored the overseas markets with domestic customers and completed the provision of paper machines and rewinder driving system for PM2 paper machines of Dahua Paper in Nigeria during the period under review; the provision of paper machines and rewinder driving, DCS and MCS for Lee & Man Paper's four 5600/900 packing paper machines in the Malaysia production base. Under the severe pandemic situation overseas, the Group still strived to ensure the quality of services and products, and adhered to the spirit of “customer first” to achieve the best for users. At the same time, the Group continued to accumulate installation and service experience overseas to prepare for the exploration of new overseas customers after the optimization of pandemic prevention and control measures.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### *Technological Innovation Awards*

During the period under review, Zhejiang Huazhang Technology Limited (“Zhejiang Huazhang”), a major subsidiary of the Group, was selected as the “National Technologically Advanced ‘Little Giant’ Enterprise”, “Technologically Advanced Small and Medium-sized Enterprise in Zhejiang Province”, “Provincial Industrial Digitalization Service Provider”, “Provincial Industrial Internet Platform Establishment List”, “First (Set) Product Engineering Project in Zhejiang Province” and “First (Set) Listed — High-speed Paper Machine Headbox in Jiaxing”. In addition, the Group completed the acceptance of provincial key R&D project — “R&D and application of independently controllable industrial control system — R&D and demonstration application of independently controllable high-speed paper machine interactive driving system”, and was awarded a number of highly recognized honorary titles such as “conical refiners” approved by the Standard for made-in-Zhejiang, which added new colors to the Group’s rich patent basis and provided strong technical support for the Group’s sustainable and quality development.

The Group continued to invest substantial resources in product research and development, and strive for breakthroughs in the gap of paper making equipment market in China. For the six months ended 31 December 2022, the Group’s research and development expenses amounted to approximately RMB14.5 million with 75 new patent applications. As at 31 December 2022, the Group has registered a total of 126 patents (including 23 invention patents, 70 utility model patents and 33 software copyrights).

### *Strengthening Internal control to cope with risks*

During the period under review, in the face of the past internal issues and the fierce competition in the industry, the Group had to further enhance the risk awareness in order to sustain the operation of the Group. As such, the Group engaged an external internal control consultant to assist the Group to improve its internal management system and strengthen risk management, so as to cope with the ever-changing market changes and enable the Group to operate more efficiently.

### **Renewable Resources Related Business**

The Group has been committed to the development of green business, in particular, to set up of waste recycling treatment plants outside of China since 2019 to capture the opportunities of expanding global waste recycling treatment. As at 31 December 2022, the Group is still looking for opportunities in overseas and negotiating with overseas governments and business partners to secure the best investment terms.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

The Group has started the trading of waste materials, especially metal scraps since 2021. For the six months ended 31 December 2022, the trading volume of waste trading business was approximately RMB15.7 million and recognized income of RMB1.5 million. In the future, considering the market potential of global waste recycling treatment, the Group will allocate further resources to environmental related business and believes that the business in the sector will grow further.

### **FUTURE PROSPECTS**

Looking forward to 2023, with the gradual improvement of the pandemic situation and the introduction of a number of stimulative and subsidy policies in the consumption sector, the general economy will gradually recover in China, and the consumer demand affected by the pandemic will rebound at a faster pace, as well as the paper making and packaging industries will show an upward growth trend from the bottom. Besides, the steady implementation of the dual carbon policy and the plastic ban is conducive to the growth of market demand for paper packaging. The Group will further explore the industries related to the Group's products and services, including tobacco, wet non-woven fabrics, electricity and metallurgy.

Under such environment, the Group will increase its resources to leverage on the Group's excellent reputation in the industry over the years, high-quality products and services, and obtain more domestic orders with innovative moves and craftsmanship. In addition, in respect of overseas business, the Group will continue to focus on exploring the markets in countries along "Belt and Road", especially in Southeast Asian markets such as Vietnam, Malaysia and India, promote the general contracting of projects and enhance the layout of overseas business. The Group is confident in the potential of the metal scrap recycling business and will continue to identify locations for renewable resources projects around the world in order to strive for becoming one of the major players in the recycling industry.

"Win-win cooperation" has always been one of the Group's development strategies. Through closer cooperation with strategic partners such as Siemens, Rockwell and VACON, we will jointly explore and develop markets in due course. In the future, the Group will also further explore the industries related to the Company's products and technologies to apply the Group's technologies and experience to broader sectors and markets, and further diversify the Company's revenue. The Group will continue to adhere to the visions of "One Heart, One Direction, One Pace" and "Integrating Together, Creating Together, Sharing Together" to write a new chapter of development.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW

#### ***Revenue and gross profit margin***

Revenue decreased by approximately 10.7% from approximately RMB175.8 million for the six months ended 31 December 2021 to approximately RMB157.1 million for the six months ended 31 December 2022, primarily attributing to shortage of supply and the impact under the COVID-19 pandemic. The gross profit margin also increased sharply from approximately 9.3% for the six months ended 31 December 2021 to approximately 19.9% for the six months ended 31 December 2022, primarily attributing to no provision for the loss incurred from a project was recognised for the current period.

#### *(i) Industrial products*

Revenue from sales of industrial products decreased by approximately 5.4% from approximately RMB88.7 million for the six months ended 31 December 2021 to approximately RMB83.9 million for the six months ended 31 December 2022. Such decrease was primarily attributable to slowdown of the project progress under the impacts of COVID-19 pandemic and shortage of supply of the parts from the suppliers. The sales of headbox business increased by approximately RMB1.8 million to approximately RMB44.0 million and the sales of industrial automation systems decreased by approximately RMB6.6 million to approximately RMB39.9 million for the six months ended 31 December 2022 as compared to that for the six months ended 31 December 2021. The gross profit margin of industrial products increased from approximately 22.3% for the six months ended 31 December 2021 to approximately 24.3% for the six months ended 31 December 2022.

#### *(ii) Project contracting services*

Revenue from project contracting services decreased by approximately 8.9% from approximately RMB42.1 million for the six months ended 31 December 2021 to approximately RMB38.3 million for the six months ended 31 December 2022. Such decrease was mainly due to several contracting projects were delayed by the customers and new projects were in the early stage of implementation. The gross profit margin of project contracting services changed from approximately -24.5% for the six months ended 31 December 2021 to approximately 4.3% for the six months ended 31 December 2022, such change was primarily due to the absence of provision for loss from the Engineering Procurement Construction ("EPC") projects for the current period while the Group recognised a loss of RMB17.7 million for the claims from Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) and other suppliers under the EPC projects for the six months ended 31 December 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### *(iii) Environmental business*

Revenue from sales of environmental business decreased by approximately 31.3% from approximately RMB8.5 million for the six months ended 31 December 2021 to approximately RMB5.8 million for the six months ended 31 December 2022. Such decrease was primarily due to a decrease in demand in sludge treatment products and wastewater treatment business as the market competition was keen. The gross profit margin of environmental business increased from approximately 27.5% for the six months ended 31 December 2021 to approximately 41.0% for the six months ended 31 December 2022, mainly attributable to an increase in profits generated from the trading of waste materials which were recognised as service fee income at a net basis.

### *(iv) Supporting services*

Revenue from the provision of supporting services decreased by approximately 20.8% from approximately RMB36.6 million for the six months ended 31 December 2021 to approximately RMB29.0 million for the six months ended 31 December 2022, mainly due to the shortage of supply of the parts from the suppliers. The gross profit margin for the provision of supporting services increased from approximately 12.3% for the six months ended 31 December 2021 to approximately 23.6% for the six months ended 31 December 2022, primarily attributing to the increase in sales of software and provision of on-site services, which had a higher profit margin.

### **Selling and distribution expenses**

The selling and distribution expenses decreased by approximately 52.4% from approximately RMB8.4 million for the six months ended 31 December 2021 to approximately RMB4.0 million for the six months ended 31 December 2022 and accounted for approximately 4.8% and approximately 2.5% of the Group's revenue for the six months ended 31 December 2021 and 2022, respectively. Decrease in selling and distribution expenses was mainly attributable to a decrease in staff costs for performance-based incentive payment.

### **Administrative expenses**

The administrative expenses decreased by approximately 20.1% from approximately RMB47.2 million for the six months ended 31 December 2021 to approximately RMB37.7 million for the six months ended 31 December 2022 and accounted for approximately 26.8% and approximately 24.0% of the Group's revenue for the six months ended 31 December 2021 and 2022, respectively. Decrease in administrative expenses was mainly attributable to (i) a decrease in staff costs owing to a decrease in incentive payment for the current period and (ii) a provision of RMB12.9 million for the litigation in relation to the EPC project was recognised for the six months ended 31 December 2021 while no such provision was made for the six months ended 31 December 2022. Such decrease was partly offset by an increase in profession fee of approximately RMB3.7 million in relation to investigation and litigation matters for the six months ended 31 December 2022 as compared with that for the six months ended 31 December 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### ***Research and development expenses***

The research and development expenses decreased by approximately 49.1% from approximately RMB28.5 million for the six months ended 31 December 2021 to approximately RMB14.5 million for the six months ended 31 December 2022 and accounted for approximately 16.2% and approximately 9.2% of the Group's revenue for the six months ended 31 December 2021 and 2022, respectively. Decrease in research and development expenses was mainly attributable to a decrease in staff costs. The Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

### ***Net impairment losses on financial and contract assets***

Net impairment losses on financial and contract assets decreased significantly by approximately RMB18.2 million from approximately RMB20.8 million for the six months ended 31 December 2021 to approximately RMB2.6 million for the six months ended 31 December 2022. Such decrease is primarily due to the Group have made full impairment loss on receivables from the debtors with serious liquidity issues or remote recoverability for the year ended 30 June 2022. The Group still continue to work with the financing lease companies in a joint effort for collection. The Group holds on-going discussion with those customers with regard to collection. The Group is also considering further engaging legal counsels to enforce the judgment if a cost-efficient arrangement with legal counsels can be reached.

### ***Other income and gains, net***

Other income and gains, net decreased by approximately 59.6% from approximately RMB8.8 million for the six months ended 31 December 2021 to approximately RMB3.6 million for the six months ended 31 December 2022, primarily attributing to (i) a decrease in government grants of approximately of RMB1.5 million; and (ii) a decrease in interest income recognised from project contracting services of approximately RMB2.8 million, for the six months ended 31 December 2022 as compared with the six months ended 31 December 2021.

### ***Finance costs — net***

The finance costs — net decreased by approximately 66.0% from RMB9.9 million for the six months ended 31 December 2021 to approximately RMB3.4 million for the six months ended 31 December 2022, primarily attributing to a decrease in balance of the loans from a related party and exchange gains, net was incurred during the current period.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### ***Income tax (expense)/credit***

The Group recorded an income tax expense of approximately RMB0.3 million for the six months ended 31 December 2022 while there was an income tax credit of approximately RMB13.4 million for the six months ended 31 December 2021. Such change was mainly attributable to a decrease in deferred income tax on the provision for impairment and loss for the current period.

The effective tax rate of the Group decreased from approximately 14.9% for the six months ended 31 December 2021 to approximately 1.1% for the six months ended 31 December 2022.

### ***Loss for the period and net loss margin***

As a result of the foregoing, the loss for the period decreased by approximately RMB48.5 million from approximately RMB76.2 million for the six months ended 31 December 2021 to approximately RMB27.7 million for the six months ended 31 December 2022. The net loss margin was reduced from approximately 43.3% for the six months ended 31 December 2021 to approximately 17.6% for the six months ended 31 December 2022.

### ***Loss for the period attributable to the shareholders of the Company***

As a result of the foregoing, the loss for the period attributable to the shareholders of the Company decreased by approximately RMB49.0 million from approximately RMB76.3 million for the six months ended 31 December 2021 to approximately RMB27.3 million for the six months ended 31 December 2022.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources, bank loans as well as equity financing. As at 31 December 2022, the Group had cash and cash equivalent balance amounting to approximately RMB52.6 million (30 June 2022: approximately RMB141.0 million) and interest-bearing loans amounting to approximately RMB38.0 million (30 June 2022: RMB38.5 million).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BORROWINGS AND CHARGES OF ASSETS

As at 31 December 2022, the Group's borrowings were approximately RMB38.0 million (30 June 2022: RMB38.5 million), which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an interest range of 4.35% to 5.5% per annum (30 June 2022: all denominated in RMB, and bore an interest range of 4.35% to 5.5% per annum).

As at 31 December 2022, the banking facilities granted to the Group were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB56.5 million and RMB95.1 million and RMB73.0 million, respectively (30 June 2022: approximately RMB58.6 million and RMB98.1 million and RMB73.8 million, respectively).

### GEARING RATIO

The gearing ratios as at 31 December 2022 and 30 June 2022 were approximately 9.3% and 8.9%, respectively. The increase in gearing ratio was mainly attributable to a decrease in the Group's equity from approximately RMB396.1 million as at 30 June 2022 to approximately RMB371.7 million as at 31 December 2022. Based on the gearing ratio as at 31 December 2022, the Group still maintained a good financial position.

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

### TRADE AND OTHER RECEIVABLES

Trade and bills receivables decreased by approximately RMB31.3 million from approximately RMB189.4 million as at 30 June 2022 to approximately RMB158.1 million as at 31 December 2022, primarily due to decrease in other trade receivables for this period as the Group have strengthened the settlements of the receivables. The provision for impairment of trade receivables and other receivables for the six months ended 31 December 2022 increased by approximately RMB2.6 million to approximately RMB178.2 million as at 31 December 2022, due to the worsen economic environment and liquidity issues of certain customers, but it remained relatively stable. The Group will strengthen customer credit risk management to guard against the increase in bad debt provision, and will take legal action if necessary.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS**

For the six months ended 31 December 2022, the Group have disposed the investment in an associate at a consideration of RMB50,000 and no loss was incurred.

Save as disclosed above, the Group (i) did not perform any material acquisition or disposal of subsidiaries, associates or joint ventures or investments during the six months ended 31 December 2022; and (ii) did not hold any significant investment as at 31 December 2022.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

The Group did not have future plans for material investments and capital assets during the six months ended 31 December 2022 and up to the date of this report.

### **CAPITAL EXPENDITURE**

For the six months ended 31 December 2022, the Group's capital expenditure amounted to approximately RMB0.5 million (2021: RMB7.1 million).

### **CAPITAL COMMITMENTS**

As at 31 December 2022, the Group had no material capital commitments (30 June 2022: Nil).

### **CONTINGENT LIABILITIES**

Save as disclosed elsewhere in this report, the Group had no material contingent liabilities as at 31 December 2022 (30 June 2022: Nil).

### **TREASURY POLICY**

The Group had a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business during the six months ended 31 December 2022. The management will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of any future growth opportunities.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **FOREIGN CURRENCY RISK**

The Group's transactions are mainly denominated in Renminbi ("RMB"), United States Dollars, and Hong Kong Dollars. The exchange rate changes of such currencies were monitored regularly and managed appropriately. The RMB is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group will enter into foreign currency forward contracts to manage and reduce the risk involved in the net position in each foreign currency, if necessary.

### **EMPLOYEE AND REMUNERATION POLICIES**

As at 31 December 2022, the Group had 226 employees (30 June 2022: 269 employees), including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2022 were approximately RMB32.1 million, as comparable to approximately RMB44.6 million for the six months ended 31 December 2021. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. In addition to cash compensation and benefits, we may issue share options to our employees in accordance with our equity plans. During the period, the Group continued its commitment to employees' training and development programme.

## 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 2022, the interests and short positions of the Directors and chief executive of the Company in the shares (the “Shares”), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures 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 8 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 and/or underlying Shares*

| Name of directors        | Capacity/Nature of interest          | Number of Shares and/or underlying Shares held | Approximate percentage of shareholdings* |
|--------------------------|--------------------------------------|--|--|
| Mr. Chen Hongwei         | Beneficial owner                     | 182,000  | 0.02%                                    |
|                          | Beneficial owner                     | 500,000 (Note 1)                               | 0.05%                                    |
| Mr. Fang Hui             | Interest of a controlled corporation | 153,846,153 (Note 2)                           | 14.46%                                   |
|                          | Beneficial owner                     | 7,440,000                                      | 0.70%                                    |
| Mr. Shi Chenghu          | Beneficial owner                     | 89,452,000                                     | 8.41%                                    |
|                          | Beneficial owner                     | 1,000,000 (Note 1)                             | 0.09%                                    |
| Mr. Heng, Keith Kai Neng | Beneficial owner                     | 300,000 (Note 1)                               | 0.03%                                    |
| Mr. Yao Yang Yang        | Beneficial owner                     | 300,000 (Note 1)                               | 0.03%                                    |
| Ms. Zhang Dong Fang      | Beneficial owner                     | 300,000 (Note 1)                               | 0.03%                                    |

Notes:

- These are interests in underlying Shares which represent the interests in share options granted to the respective Director by the Company under the Share Option Scheme. Details of which are shown in the section headed “Share Option Scheme” of this report.
  - The 153,846,153 Shares are registered in the name of Dao He Investment Limited (“Dao He”), a company beneficially owned by Mr. Fang Hui (“Mr. Fang”). Under the SFO, Mr. Fang is deemed to be interested in all the Shares held by Dao He.
- \* The percentage has been calculated based on the total number of shares of the Company in issue as at 31 December 2022 (i.e. 1,064,089,378 Shares) and rounded to two decimal places.

## DISCLOSURE OF INTEREST *(Continued)*

Save as disclosed above, as at 31 December 2022, 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 2022, so far as the Directors are aware of, persons/corporations (other than the Directors and the chief executive of the Company) which had interests and short positions in the Shares and underlying Shares of the Company or its associated corporations 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 or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are as follows:

#### *Long positions in the Shares and/or underlying Shares*

| Name of substantial shareholders | Capacity/Nature of interest  | Number of Shares and/or underlying Shares held | Approximate percentage of shareholdings* |
|----------------------------------|--|--|--|
| Florescent Holdings Limited      | Beneficial owner   | 295,422,000                                    | 27.76%                                   |
| Lian Shun Limited                | Interest of a controlled corporation   | 295,422,000 (Note 1)                           | 27.76%                                   |
| Mr. Wang Ai Yan                  | Interest of a controlled corporation   | 295,422,000 (Note 2)                           | 27.76%                                   |
|                                  | Interest of person acting in concert   | 2,044,000 (Note 3)                             | 0.19%                                    |
|                                  | Beneficial owner   | 368,000  | 0.03%                                    |
| Mr. Zhu Gen Rong                 | Beneficial owner   | 1,000,000 (Note 4)                             | 0.09%                                    |
|                                  | Interest of a controlled corporation/<br>Beneficial owner, person acting<br>in concert | 297,834,000 (Note 5)                           | 27.99%                                   |
| Mr. Liu Chuan Jiang              | Interest of a controlled corporation/<br>person acting in concert                      | 297,834,000 (Note 6)                           | 27.99%                                   |
| Ms. Zhu Ling Yun                 | Person acting in concert   | 297,834,000 (Note 7)                           | 27.99%                                   |

**DISCLOSURE OF INTEREST** *(Continued)*

| Name of substantial shareholders       | Capacity/Nature of interest          | Number of Shares and/or underlying Shares held | Approximate percentage of shareholdings* |
|--|--------------------------------------|--|--|
| Dao He Investment Limited              | Beneficial owner                     | 153,846,153 <i>(Note 8)</i>                    | 14.46%                                   |
| Mr. Li Chao Wang                       | Interest of a controlled corporation | 59,817,294 <i>(Note 9)</i>                     | 5.62%                                    |
| Rosy Ease Limited                      | Interest of a controlled corporation | 59,817,294 <i>(Note 9)</i>                     | 5.62%                                    |
| Swift Fortune Holdings Limited         | Beneficial owner                     | 59,817,294 <i>(Note 9)</i>                     | 5.62%                                    |
| Gain Channel Limited                   | Interest of a controlled corporation | 59,817,294 <i>(Note 9)</i>                     | 5.62%                                    |
| Ms. Song Min                           | Interest of spouse                   | 59,817,294 <i>(Note 10)</i>                    | 5.62%                                    |
| Wealthy Land Investments Group Limited | Having a security interest in shares | 123,964,000                                    | 11.65%                                   |
|  | Beneficial owner                     | 230,326,400                                    | 21.65%                                   |
| Mr. Yeung Wai                          | Interest of a controlled corporation | 354,290,400 <i>(Note 11)</i>                   | 33.30%                                   |
| Mr. Yeung Yun Chuen                    | Interest of a controlled corporation | 354,290,400 <i>(Note 11)</i>                   | 33.30%                                   |
| Kaiser Financing Company Limited       | Beneficial owner                     | 57,581,600 <i>(Note 12)</i>                    | 5.41%                                    |
| Mr. Yan Kam Cheong                     | Interest of a controlled corporation | 57,581,600 <i>(Note 12)</i>                    | 5.41%                                    |

*Notes:*

1. The 295,422,000 Shares are registered in the name of Florescent Holdings Limited ("Florescent Holdings"), a company owned as to 94.48% by Lian Shun Limited ("Lian Shun"). Under the SFO, Lian Shun is deemed to be interested in all the Shares held by Florescent Holdings.
2. The 295,422,000 Shares are registered in the name of Florescent Holdings, a company owned as to 94.48% by Lian Shun, which in turn is owned as to 17.10% by Mr. Wang Ai Yan ("Mr. Wang"), as to 50.56% by Mr. Zhu Gen Rong ("Mr. Zhu"), as to 14.8% by Mr. Liu Chuan Jiang ("Mr. Liu") and as to 17.54% by Mr. Jin Hao. Under the SFO, Mr. Wang is deemed to be interested in the 295,422,000 Shares held by Florescent Holdings.
3. Mr. Wang is regarded as one of the parties acting in concert with Mr. Zhu under the Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code"). Under the SFO, Mr. Wang is deemed to be interested in the 2,044,000 Shares held under the personal name of Mr. Zhu.
4. These are interests in underlying Shares which represent the interests in share options granted to the respective grantee by the Company under the Share Option Scheme. Details of which are shown in the section headed "Share Option Scheme" of this report.

## DISCLOSURE OF INTEREST *(Continued)*

5. Florescent Holdings is owned as to 94.48% by Lian Shun, which in turn is owned as to 50.56% by Mr. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the 295,422,000 Shares held by Florescent Holdings.

Mr. Zhu is interested in 2,044,000 Shares as beneficial owner.

Under the acting-in-concert arrangement, Mr. Zhu is deemed to be interested in the 368,000 Shares which Mr. Wang is interested in as beneficial owner.

6. Florescent Holdings is owned as to 94.48% by Lian Shun, which in turn is owned as to 14.80% by Mr. Liu. Under the SFO, Mr. Liu is regarded as one of the parties acting in concert with Mr. Zhu and Mr. Wang under the Takeovers Code and is therefore deemed to be interested in the Shares held by each of Mr. Zhu and Mr. Wang and is deemed to be interested in the 295,422,000 Shares held by Florescent Holdings.
7. Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu Ling Yun are deemed to be interested in the Shares held by each of the other parties under the SFO due to the acting-in-concert arrangement.
8. The shares are registered in the name of Dao He, a company beneficially owned by Mr. Fang.
9. Swift Fortune Holdings Limited is wholly owned by Rosy Ease Limited, a wholly-owned subsidiary of Gain Channel Limited, which is, in turn, owned as to 74.21% by Mr. Li Chao Wang ("Mr. Li"). Under the SFO, Mr. Li is deemed to be interested in the 59,817,294 Shares held by Swift Fortune Holdings Limited.
10. Ms. Song Min is the spouse of Mr. Li and is deemed to be interested in the Shares which are interested in by Mr. Li under the SFO.
11. Wealthy Land Investments Group Limited ("Wealthy Land") is owned as to 42.00% by Mr. Yeung Wai and as to 36.00% by Mr. Yeung Yun Chuen. Under the SFO, Mr. Yeung Wai and Mr. Yeung Yun Chuen are deemed to be interested in all the Shares held by Wealthy Land.
12. The 57,581,600 Shares are registered in the name of Kaiser Financing Company Limited ("Kaiser"), a company wholly-owned by Mr. Yan Kam Cheong. Under the SFO, Mr. Yan Kam Cheong is deemed to be interested in the Shares held by Kaiser.
- \* The percentage has been calculated based on the total number of shares of the Company in issue as at 31 December 2022 (i.e. 1,064,089,378 Shares) and rounded to two decimal places.

Save as disclosed above, as at 31 December 2022, the Directors are not aware of any interests or short positions owned by any persons/corporations (other than the Directors and the chief executive of the Company) in the Shares or underlying Shares of the Company or its associated corporations 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 or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

## **DISCLOSURE OF INTEREST** *(Continued)*

### **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Save as disclosed in this report, at no time during the six months ended 31 December 2022 was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors or their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **COMPETING INTERESTS**

For the six months ended 31 December 2022, the Directors are not aware of any business or interest of the Directors, the substantial shareholders of the Company or any of their respective associates had engaged in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests which any such person has or may have with the Company.

## OTHER INFORMATION

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 31 December 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### CONVERTIBLE BONDS

On 1 December 2020, the Company issued the new Convertible Bonds in a principal amount of HK\$100.0 million (equivalent to approximately RMB85.0 million). The net proceeds from the above issue have been used to repay the convertible bonds issued on 29 March 2017.

The initial conversion price of the new Convertible Bonds under the subscription agreement of HK\$0.71 represented the higher of (i) the closing price of HK\$0.71 per share as quoted on the Stock Exchange on the last trading day, and (ii) the average closing price of HK\$0.71 per share as quoted on the Stock Exchange for the five trading days up to and including on 30 November 2020 (being the last trading day immediately prior to the date of the subscription agreement).

Pursuant to the subscription agreement dated 1 December 2020, the new Convertible Bonds were:

- (a) convertible at the option of the bond holders into ordinary shares of the Company at HK\$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and
- (b) were matured on 30 November 2021 (the "Maturity Date"), after 1 June 2021, the bondholders should have the option to request for the redemption by the issuer of the bonds by serving onto the issuer a prior written notice of not less than two weeks from the intended date of early redemption of the bonds.

The new Convertible Bonds could be convertible into 140,845,070 (with a nominal value of HK\$1,408,450) new ordinary shares of the Company. The new Convertible Bonds bore interest at a rate of 12% per annum payable quarterly in arrears on 1 March 2021, 1 June 2021, 1 September 2021 and 30 November 2021. Creation Best International Limited ("Creation Best") was the investor of the new Convertible Bonds under the subscription agreement dated 1 December 2020.

On 1 June 2021, Creation Best transferred the new Convertible Bonds to Dao He Investment Limited ("Dao He"). Mr. Fang Hui ("Mr. Fang") is the ultimate beneficial owner of Creation Best and Dao He. On the Maturity Date, Creation Best and Dao He did not exercise its conversion rights, nor the bond was redeemed as well. Pursuant to the subscription agreement, the conversion right attaching to this bond was revived and would continue to be exercisable up to, and including, the close of business on the date upon which the full amount of the moneys payable in respect of such bond has been duly received by the investor. The default interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on which full payment is made to the investor.

## **OTHER INFORMATION** *(Continued)*

No new Convertible Bonds has been converted into ordinary shares since the issue of the new Convertible Bonds.

As at 30 June 2022, the new Convertible Bonds have been redeemed and reclassified to amounts due to related party amounting to approximately RMB85.8 million. The new Convertible Bonds have been settled subsequently in July 2022.

Details of the new Convertible Bonds are disclosed in the Company's announcements dated 1 December 2020 and 28 December 2020.

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

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

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

## **OTHER INFORMATION** *(Continued)*

As at 31 December 2022, there was no temporarily used the proceeds from the subscription as working capital to purchase waste material for processing and/or re-sale and the unused balance of approximately HK\$100 million was currently placed into deposits and/or money market instruments, which will reserve for potential acquisition by the Group in the future. The expected timeline for use of unutilised proceeds is based on the Group's best estimate of future market conditions, subject to current and future changes of market developments.

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

### **2022 PLACING OF NEW SHARES UNDER GENERAL MANDATE**

On 28 February 2022, the Group entered into a placing agreement (the "Placing Agreement") with First Fidelity Capital (International) Limited (the "Placing Agent"), pursuant to which the Group agreed to place, through the Placing Agent, up to an aggregate 177,348,000 new ordinary shares (the "Placing Share(s)") at the placing price of HK\$0.53 per Placing Share (the "Placing"). The placing price of HK\$0.53 per Placing Share represented a discount of approximately 17.19% over the closing price of HK\$0.64 per share as quoted on the Stock Exchange on the date of the Placing Agreement. The net placing price was approximately HK\$0.52 per Placing Share. The Board is of the view that the Placing represents an opportunity to improve the liquidity position of the Company and to reduce the financing costs of the Company.

On 11 March 2022, all 177,348,000 Placing Shares (with an aggregate nominal value of HK\$1,773,480) have been successfully placed by the Placing Agent to not less than six places who are third parties independent of the Company at the placing price of HK\$0.53 per Placing Share. The net proceeds (after deduction of the placing commission, other related expenses and professional fees) from the Placing amounted to approximately HK\$92.3 million which have been used for settlement of partial redemption of the Company's convertible bonds in July 2022.

Details of the Placing are set out in the Company's announcements dated 28 February 2022 and 11 March 2022.

## **OTHER INFORMATION** *(Continued)*

### **USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING**

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

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

**OTHER INFORMATION** *(Continued)*

Set out below is the original and revised allocation of the Net Proceeds and the actual use of the Net Proceeds from the Listing Date to 31 December 2022:

|  | Original<br>planned<br>use of the<br>Net Proceeds<br>RMB'000 | Reallocation<br>of Unutilised<br>Net Proceeds<br>as at<br>31 March 2022<br>RMB'000 | Revised<br>use of the<br>Net Proceeds<br>RMB'000 | Actual use of<br>Net Proceeds<br>from the<br>Listing Date to<br>31 December<br>2022<br>RMB'000 | Unused<br>Net Proceeds<br>as at<br>31 December<br>2022<br>RMB'000 | Expected date of<br>full utilisation of<br>unused<br>Net Proceeds |
|--|--|--|--|--|---|---|
| Increase production capacity                         | 23,521   | (5,222)  | 18,299   | 18,299   | -   | -   |
| Cost saving construction                             | 15,709   | (15,709)   | -  | -  | -   | -   |
| Continuous product development<br>and innovation     | 5,208  | -  | 5,208  | 5,208  | -   | -   |
| Increase market awareness and<br>image of the Group  | 3,385  | (869)  | 2,516  | 2,516  | -   | -   |
| Improve the current information<br>management system | 260  | -  | 260  | 260  | -   | -   |
| Repayment of bank loan and<br>other borrowings       | -  | 8,000  | 8,000  | 8,000  | -   | -   |
| Research and development expenses                    | -  | 5,000  | 5,000  | 5,000  | -   | -   |
| Administrative and management<br>expenses            |  |  |  |  |   |   |
| — Salary adjustment for key<br>employees             | -  | 3,000  | 3,000  | -  | 3,000   | On or before<br>31 December<br>2023                               |
| — Hiring of additional employees                     | -  | 1,500  | 1,500  | -  | 1,500   | On or before<br>31 December<br>2023                               |
| — Legal and professional advisers'<br>expenses       | -  | 3,000  | 3,000  | 3,000  | -   | -   |
| — Other general corporate purposes                   | -  | 1,300  | 1,300  | 1,300  | -   | -   |
|  | 48,083   | -  | 48,083   | 43,583   | 4,500   |   |

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

## **OTHER INFORMATION** *(Continued)*

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

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

### **SHARE OPTION SCHEME**

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

Under the Share Option Scheme, 85,940,000 share options (the "Share Options") at an exercise price of HK\$0.51 per Share were granted on 31 May 2022 (the "Date of Grant"). Out of these 85,940,000 Share Options, 50,000,000 Share Options were proposed to be granted to Mr. Fang Hui (the "Proposed Grant") which was conditional and subject to the approval of the independent shareholders at an extraordinary general meeting of the Company. On 23 August 2022, the Board had resolved not to proceed with the conditional grant of Share Options to Mr. Fang Hui to subscribe for up to an aggregate of 50,000,000 Shares which decision was consented by Mr. Fang Hui. As a result, the Proposed Grant had not become unconditional and the conditional offer of 50,000,000 Share Options (at the exercise price of HK\$0.51 per Share) were cancelled. No Share Options were granted to Mr. Fang Hui under the Share Option Scheme.

During the six months ended 31 December 2022, no Share Options were granted and exercised. As at 31 December 2022, the total number of ordinary shares in respect of which Share Options had been granted and remained outstanding under the Share Option Scheme was 34,590,000 (representing approximately 3.25% of the Company's Shares in issue as at 31 December 2022). The number of Share Options available for grant under the Share Option Scheme as at 1 July 2022 and 31 December 2022 was 2,734,137 and 52,734,137, respectively.

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

## OTHER INFORMATION *(Continued)*

Particulars of the movement of the Share Options held by the Directors and employees of the Group during the six months ended 31 December 2022 were as follows:

| Name or category of participants | Date of Grant | Exercise price | Vesting & exercise period | At 1 July 2022 | Number of share options   |                             |                                   |  | At 31 December 2022 |
|----------------------------------|---------------|----------------|---------------------------|----------------|---------------------------|-----------------------------|-----------------------------------|--|---------------------|
|                                  |               |                |                           |                | Granted during the period | Exercised during the period | Lapsed/ expired during the period | Cancelled/ forfeited during the period |                     |
| <i>(Note c)</i>                  |               |                |                           |                |                           |                             |                                   |  |                     |
| Directors                        |               |                |                           |                |                           |                             |                                   |  |                     |
| Mr. Chen Hongwei                 | 31 May 2022   | HK\$0.51       | Note c                    | 500,000        | -                         | -                           | -                                 | -                                      | 500,000             |
| Mr. Fang Hui                     | 31 May 2022   | HK\$0.51       | Note c                    | 50,000,000     | -                         | -                           | -                                 | (50,000,000)                           | -                   |
| <i>(Note a)</i>                  |               |                |                           |                |                           |                             |                                   |  |                     |
| Mr. Shi Chenghu                  | 31 May 2022   | HK\$0.51       | Note c                    | 1,000,000      | -                         | -                           | -                                 | -                                      | 1,000,000           |
| Mr. Heng, Keith Kai Neng         | 31 May 2022   | HK\$0.51       | Note c                    | 300,000        | -                         | -                           | -                                 | -                                      | 300,000             |
| Mr. Yao Yang Yang                | 31 May 2022   | HK\$0.51       | Note c                    | 300,000        | -                         | -                           | -                                 | -                                      | 300,000             |
| Ms. Zhang Dong Fang              | 31 May 2022   | HK\$0.51       | Note c                    | 300,000        | -                         | -                           | -                                 | -                                      | 300,000             |
| Other Employees                  | 31 May 2022   | HK\$0.51       | Note c                    | 32,540,000     | -                         | -                           | (1,350,000)                       | -                                      | 31,190,000          |
| Mr. Wang Ai Yan                  | 31 May 2022   | HK\$0.51       | Note c                    | 1,000,000      | -                         | -                           | -                                 | -                                      | 1,000,000           |
| <i>(Note b)</i>                  |               |                |                           |                |                           |                             |                                   |  |                     |
| In aggregate                     |               |                |                           | 85,940,000     | -                         | -                           | (1,350,000)                       | (50,000,000)                           | 34,590,000          |

### Notes:

- (a) On 23 August 2022, the Board had resolved not to proceed with the conditional grant of Share Options to Mr. Fang Hui to subscribe for up to an aggregate of 50,000,000 Shares which decision was consented by Mr. Fang Hui. As a result, the Proposed Grant of 50,000,000 Share Options to Mr. Fang Hui were not become unconditional and no Share Options were granted to Mr. Fang Hui under the Share Option Scheme.
- (b) Being an ex-executive Director (resigned on 1 December 2022) of the Company.
- (c) The validity period of the Share Options granted on 31 May 2022 is from 31 May 2022 to 30 May 2032.

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

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

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

## **OTHER INFORMATION** *(Continued)*

If all such Share Options were exercised, there would be a dilution effect on the shareholdings of shareholders of approximately 3.15% as at 31 December 2022.

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

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

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

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

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

## **INFORMATION ABOUT A SHAREHOLDER**

The Company was informed by Florescent Holdings Limited (the "Florescent"), a shareholder of the Company, that a petitioner (the "Petitioner") filed a winding up petition dated 28 December 2020 (the "Petition") against Florescent in the High Court of the Hong Kong Special Administrative Region. Based on a public search conducted at the High Court, the Company noted that the Petitioner had, on 12 April 2022, filed a notice of appeal against the judgment and order of the High Court made on 8 March 2022 to dismiss the Petition. As at the date of this report, no hearing date of the appeal has been scheduled. Details of which are disclosed in the Company's announcements dated 10 January 2021, 17 December 2021, 13 March 2022 and 27 April 2022. The Company will continue to closely follow the subsequent development and influence of the Petition and comply with the relevant disclosure requirements under The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the SFO in a timely manner.

## OTHER INFORMATION *(Continued)*

### LEGAL PROCEEDINGS

Zhejiang Huazhang received a first instance judgment (the “Judgement”) dated 24 December 2021 handed down by the Intermediate People’s Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the “Court”) in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. Zhejiang Huazhang had lodged an appeal application (the “Appeal Application”) with the Higher People’s Court of Yunnan Province (雲南省高級人民法院) (the “Appeal Court”) against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the Judgment and the legal proceedings in question be retried at the Court. The Judgment has been set aside and will not be enforced, but the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts will remain in full force for a period of one year until January 2023 as ordered thereunder. Details of the legal proceedings were set out in the Company’s announcements dated 21 January 2022 and 9 September 2022.

The Company will continue to monitor the progress of the legal proceedings and assess the impact of the proceedings on the Group.

### CORPORATE GOVERNANCE PRACTICES

The Board reported that the Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Part 2 of Appendix 14 to the Listing Rules for the six months ended 31 December 2022, except the following deviations:

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

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

## **OTHER INFORMATION** *(Continued)*

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

Under code provision F.2.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company and invite the chairman of the Board committees to attend. However, due to the current vacancy of the chairman of the Company, no person as chairman of the Company had attended the annual general meeting held on 30 December 2022.

### **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 2022 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 2022 (six months ended 31 December 2021: Nil).

### **AUDIT COMMITTEE**

The audit committee (the "Audit Committee") of the Company was established on 6 May 2013. The Audit Committee consists of three independent non-executive Directors namely, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang. The Audit Committee is chaired by Mr. Heng, Keith Kai Neng.

The Audit Committee has reviewed and discussed with the management about the accounting principles and practices adopted by the Group, and has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 31 December 2022 and the interim report.

### **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in its shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 3 October 2022 and will remain suspended until the Company fulfils the resumption guidance as disclosed in its announcement dated 28 November 2022.

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

Hong Kong, 27 February 2023

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

|   | Notes | For the six months ended<br>31 December |                          |
|---|-------|---|--------------------------|
|   |       | 2022<br>Unaudited<br>RMB                | 2021<br>Unaudited<br>RMB |
| Revenue   | 6     | 157,068,849                             | 175,848,317              |
| Cost of sales   |       | (125,780,225)                           | (159,495,662)            |
| <b>Gross profit</b>   |       | <b>31,288,624</b>                       | 16,352,655               |
| Selling and distribution expenses   |       | (3,983,140)                             | (8,373,285)              |
| Administrative expenses   |       | (37,712,256)                            | (47,206,766)             |
| Research and development expenses   |       | (14,525,499)                            | (28,510,416)             |
| Net impairment losses on<br>financial and contract assets                 |       | (2,615,639)                             | (20,779,680)             |
| Other income and gains, net   | 7     | 3,560,765                               | 8,814,692                |
| <b>Operating loss</b>   |       | <b>(23,987,145)</b>                     | (79,702,800)             |
| Finance income  |       | 2,528,813                               | 446,000                  |
| Finance costs   |       | (5,895,498)                             | (10,360,580)             |
| Finance cost — net  | 8     | (3,366,685)                             | (9,914,580)              |
| <b>Loss before income tax</b>   | 9     | <b>(27,353,830)</b>                     | (89,617,380)             |
| Income tax (expense)/credit   | 10    | (313,311)                               | 13,389,154               |
| <b>Loss for the period</b>  |       | <b>(27,667,141)</b>                     | (76,228,226)             |
| (Loss)/profit is attributable to:   |       |   |                          |
| — Shareholders of the Company   |       | (27,309,171)                            | (76,273,080)             |
| — Non-controlling interests   |       | (357,970)                               | 44,854                   |
|   |       | <b>(27,667,141)</b>                     | (76,228,226)             |
| <b>Loss per share attributable to<br/>the shareholders of the Company</b> |       |   |                          |
| — Basic loss per share  | 12    | (2.57)                                  | (8.60)                   |
| — Diluted loss per share  | 12    | (2.57)                                  | (8.60)                   |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|  | <b>For the six months ended<br/>31 December</b> |                          |
|--|---|--------------------------|
|  | <b>2022<br/>Unaudited<br/>RMB</b>               | 2021<br>Unaudited<br>RMB |
| Loss for the period  | <b>(27,667,141)</b>                             | (76,228,226)             |
| <b>Other comprehensive income</b><br><i>Items that may be reclassified to profit or loss</i> |   |                          |
| Exchange differences on translation of<br>foreign operations                                 | <b>1,328,972</b>                                | 242,892                  |
| <b>Other comprehensive income for the<br/>period, net of tax</b>                             | <b>1,328,972</b>                                | 242,892                  |
| <b>Total comprehensive loss for the period</b>   | <b>(26,338,169)</b>                             | (75,985,334)             |
| <b>Total comprehensive (loss)/income<br/>for the period is attributable to:</b>              |   |                          |
| — Shareholders of the Company  | <b>(25,980,199)</b>                             | (76,030,188)             |
| — Non-controlling interests  | <b>(357,970)</b>                                | 44,854                   |
|  | <b>(26,338,169)</b>                             | (75,985,334)             |

The notes on pages 38 to 76 are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  |         | <b>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | 30 June<br>2022<br>Audited<br>RMB |
|--|---------|---|-----------------------------------|
|  | Notes   |   |                                   |
| <b>ASSETS</b>  |         |   |                                   |
| <b>Non-current assets</b>  |         |   |                                   |
| Property, plant and equipment  | 13      | <b>67,808,222</b>                                 | 70,773,929                        |
| Other right-of-use assets  | 14      | <b>4,030,780</b>                                  | 4,622,858                         |
| Investment properties  | 15      | <b>95,089,408</b>                                 | 98,066,629                        |
| Prepaid land lease payments  | 16(i)   | <b>72,973,176</b>                                 | 73,752,172                        |
| Goodwill   | 17      | <b>29,902,783</b>                                 | 29,902,783                        |
| Other intangible assets  | 16(ii)  | <b>6,906,347</b>                                  | 8,213,256                         |
| Deferred tax assets  |         | <b>870,371</b>                                    | 870,371                           |
| Investments in an associate  |         | –   | 50,000                            |
| Financial assets at fair value<br>through profit or loss                       |         | <b>4,807,255</b>                                  | 4,807,255                         |
| Trade and other receivables  | 19(i)   | <b>37,976,635</b>                                 | 38,542,965                        |
| Prepayments  | 19(iii) | <b>150,192</b>                                    | 156,722                           |
| <b>Total non-current assets</b>  |         | <b>320,515,169</b>                                | 329,758,940                       |
| <b>Current assets</b>  |         |   |                                   |
| Inventories  | 18      | <b>162,922,185</b>                                | 138,104,557                       |
| Trade and other receivables  | 19(i)   | <b>179,859,429</b>                                | 193,787,833                       |
| Contract assets  | 19(ii)  | <b>34,335,973</b>                                 | 19,716,995                        |
| Prepayments  | 19(iii) | <b>136,943,851</b>                                | 95,145,050                        |
| Financial assets at fair value through other<br>comprehensive income ("FVOCI") |         | <b>58,965,392</b>                                 | 43,086,801                        |
| Pledged deposits   | 20      | <b>23,130,058</b>                                 | 28,844,290                        |
| Restricted deposits  | 20      | <b>38,683,711</b>                                 | 52,312,844                        |
| Cash and cash equivalents  | 20      | <b>52,598,078</b>                                 | 141,048,866                       |
| <b>Total current assets</b>  |         | <b>687,438,677</b>                                | 712,047,236                       |
| <b>Total assets</b>  |         | <b>1,007,953,846</b>                              | 1,041,806,176                     |
| <b>LIABILITIES</b>   |         |   |                                   |
| <b>Non-current liabilities</b>   |         |   |                                   |
| Deferred tax liabilities   |         | <b>4,864,108</b>                                  | 5,153,893                         |
| Deferred income  | 23      | <b>20,812,500</b>                                 | 21,487,500                        |
| Lease liabilities  | 14      | <b>2,831,931</b>                                  | 3,389,334                         |
| <b>Total non-current liabilities</b>   |         | <b>28,508,539</b>                                 | 30,030,727                        |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (Continued)

|  | Notes | <b>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | 30 June<br>2022<br>Audited<br>RMB |
|--|-------|---|-----------------------------------|
| <b>Current liabilities</b>   |       |   |                                   |
| Trade and other payables   | 21    | <b>337,479,047</b>                                | 406,325,565                       |
| Contract liabilities   |       | <b>224,823,450</b>                                | 163,933,039                       |
| Interest-bearing loans   | 22    | <b>37,990,000</b>                                 | 38,500,000                        |
| Income tax payable   |       | <b>6,350,223</b>                                  | 5,866,781                         |
| Lease liabilities  | 14    | <b>1,090,119</b>                                  | 1,086,798                         |
| Total current liabilities  |       | <b>607,732,839</b>                                | 615,712,183                       |
| <b>Total liabilities</b>   |       | <b>636,241,378</b>                                | 645,742,910                       |
| <b>Net assets</b>  |       | <b>371,712,468</b>                                | 396,063,266                       |
| <b>EQUITY</b>  |       |   |                                   |
| Share capital  | 24    | <b>8,907,761</b>                                  | 8,907,761                         |
| Share premium  | 24    | <b>663,145,447</b>                                | 663,145,447                       |
| Other reserves   | 25    | <b>125,404,628</b>                                | 122,088,285                       |
| Accumulated losses   |       | <b>(420,464,628)</b>                              | (393,155,457)                     |
| Capital and reserves attributable to the shareholders of the Company |       | <b>376,993,208</b>                                | 400,986,036                       |
| Non-controlling interests  |       | <b>(5,280,740)</b>                                | (4,922,770)                       |
| <b>Total equity</b>  |       | <b>371,712,468</b>                                | 396,063,266                       |

The notes on pages 38 to 76 are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Attributable to the shareholders of the Company |                    |                                       |                    |                      |                     |                           |                     |
|---|---|--------------------|---------------------------------------|--------------------|----------------------|---------------------|---------------------------|---------------------|
|   | Share capital                                   | Share premium      | Equity component of convertible bonds | Other reserves     | Accumulated losses   | Total               | Non-controlling interests | Total equity        |
|   | Unaudited RMB                                   | Unaudited RMB      | Unaudited RMB                         | Unaudited RMB      | Unaudited RMB        | Unaudited RMB       | Unaudited RMB             | Unaudited RMB       |
| <b>Balance at 30 June 2022</b>                          | <b>8,907,761</b>                                | <b>663,145,447</b> | <b>-</b>                              | <b>122,088,285</b> | <b>(393,155,457)</b> | <b>400,986,036</b>  | <b>(4,922,770)</b>        | <b>396,063,266</b>  |
| Loss for the period                                     | -   | -                  | -                                     | -                  | (27,309,171)         | (27,309,171)        | (357,970)                 | (27,667,141)        |
| Other comprehensive income                              | -   | -                  | -                                     | 1,328,972          | -                    | 1,328,972           | -                         | 1,328,972           |
| <b>Total comprehensive (loss)/income for the period</b> | <b>-</b>  | <b>-</b>           | <b>-</b>                              | <b>1,328,972</b>   | <b>(27,309,171)</b>  | <b>(25,980,199)</b> | <b>(357,970)</b>          | <b>(26,338,169)</b> |
| Share option  | -   | -                  | -                                     | 1,987,371          | -                    | 1,987,371           | -                         | 1,987,371           |
| <b>Balance at 31 December 2022</b>                      | <b>8,907,761</b>                                | <b>663,145,447</b> | <b>-</b>                              | <b>125,404,628</b> | <b>(420,464,628)</b> | <b>376,993,208</b>  | <b>(5,280,740)</b>        | <b>371,712,468</b>  |
| <b>Balance at 30 June 2021</b>                          | <b>7,471,631</b>                                | <b>589,857,286</b> | <b>6,199,604</b>                      | <b>105,804,845</b> | <b>(24,582,376)</b>  | <b>684,750,990</b>  | <b>(1,937,096)</b>        | <b>682,813,894</b>  |
| (Loss)/profit for the period                            | -   | -                  | -                                     | -                  | (76,273,080)         | (76,273,080)        | 44,854                    | (76,228,226)        |
| Other comprehensive income                              | -   | -                  | -                                     | 242,892            | -                    | 242,892             | -                         | 242,892             |
| <b>Total comprehensive (loss)/income for the period</b> | <b>-</b>  | <b>-</b>           | <b>-</b>                              | <b>242,892</b>     | <b>(76,273,080)</b>  | <b>(76,030,188)</b> | <b>44,854</b>             | <b>(75,985,334)</b> |
| <b>Balance at 31 December 2021</b>                      | <b>7,471,631</b>                                | <b>589,857,286</b> | <b>6,199,604</b>                      | <b>106,047,737</b> | <b>(100,855,456)</b> | <b>608,720,802</b>  | <b>(1,892,242)</b>        | <b>606,828,560</b>  |

The notes on pages 38 to 76 are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

|  | <b>For the six months ended<br/>31 December</b> |                          |
|--|---|--------------------------|
|  | <b>2022<br/>Unaudited<br/>RMB</b>               | 2021<br>Unaudited<br>RMB |
| <b>Cash flows from operating activities</b>                    |   |                          |
| Cash used in operations  | <b>(15,766,594)</b>                             | (49,153,069)             |
| Income tax paid  | <b>(119,654)</b>                                | (1,939,049)              |
| <b>Net cash outflow from<br/>operating activities</b>          | <b>(15,886,248)</b>                             | (51,092,118)             |
| <b>Cash flows from investing activities</b>                    |   |                          |
| Purchase of property, plant and equipment                      | <b>(493,947)</b>                                | (3,654,975)              |
| Proceeds from disposals of an associate                        | <b>50,000</b>                                   | –                        |
| Purchase of other intangible assets                            | –   | (50,885)                 |
| Interest received  | <b>1,085,803</b>                                | 446,000                  |
| <b>Net cash inflow/(outflow) from<br/>investing activities</b> | <b>641,856</b>                                  | (3,259,860)              |
| <b>Cash flows from financing activities</b>                    |   |                          |
| Proceeds from interest-bearing loans                           | <b>9,000,000</b>                                | 4,500,000                |
| Repayment of interest-bearing loans                            | <b>(9,510,000)</b>                              | (20,562,400)             |
| Proceeds from interest-free loans from<br>third parties        | <b>16,867,442</b>                               | –                        |
| Repayment of expired convertible bonds                         | <b>(85,786,822)</b>                             | –                        |
| Interest paid  | <b>(5,895,498)</b>                              | (7,078,460)              |
| Principal elements of lease payments                           | <b>(554,082)</b>                                | (1,053,816)              |
| <b>Net cash outflow from financing activities</b>              | <b>(75,878,960)</b>                             | (24,194,676)             |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS** *(Continued)*

|   | Notes | For the six months ended<br>31 December |                          |
|---|-------|---|--------------------------|
|   |       | 2022<br>Unaudited<br>RMB                | 2021<br>Unaudited<br>RMB |
| <b>Net decrease in cash and cash equivalents</b>            |       | <b>(91,123,352)</b>                     | (78,546,654)             |
| Cash and cash equivalents at beginning of the period        | 20    | <b>141,048,866</b>                      | 145,299,486              |
| Effect of exchange rate changes on cash and cash equivalent |       | <b>2,672,564</b>                        | (528,601)                |
| <b>Cash and cash equivalents at end of the period</b>       | 20    | <b>52,598,078</b>                       | 66,224,231               |

The notes on pages 38 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 2022

### 1 GENERAL INFORMATION

The Company was incorporated on 26 June 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares listed on the Stock Exchange have been suspended from trading since 3 October 2022.

The Company is an investment holding company. The Group is principally engaged in the research and development, manufacture and sale of industrial products, project contracting services, environmental products and the provision of supporting services in the People's Republic of China (the "PRC").

These condensed consolidated interim financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 27 February 2023.

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 2022 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 2022, 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 2022, as described in those annual financial statements.

#### 3.1 *New and amended standards adopted by the Group*

The Group has applied no standards and amendments for the first time for their annual reporting period commencing 1 July 2022.

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

For the six months ended 31 December 2022

**3 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***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 2022 and relevant to the Group and have not been early adopted by the Group.

| <b>Standards, amendments and interpretations</b>                               | <b>Key requirements</b>   | <b>Effective for annual periods beginning on or after</b> |
|--|---|---|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts   | 1 January 2023  |
| HKAS 1 (Amendments)  | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) | 1 January 2023  |
| HKAS 1 (Amendments) and HKFRS Practice Statement 2                             | Disclosure of Accounting Policies   | 1 January 2023  |
| HKAS 8 (Amendments)  | Definition of Accounting Estimates  | 1 January 2023  |
| HKAS 12 (Amendments)   | Deferred Tax related to Assets and Liabilities arising from a Single Transaction                                    | 1 January 2023  |
| HKFRS 16   | Lease liability in a Sale and Leaseback   | 1 January 2024  |
| HKFRS 10 and HKAS 28 (Amendments)  | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture                               | To be determined  |

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

For the six months ended 31 December 2022

### 3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 3.2 *New standards, amendments and interpretations not yet adopted by the Group (Continued)*

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 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 2022.

### 5 FINANCIAL RISK MANAGEMENT

#### 5.1 *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 2022.

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

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

For the six months ended 31 December 2022

**6 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 — automation systems and headboxes;
- project contracting services — design, procurement and installation of automation systems;
- environmental products — wastewater treatment products; and
- supporting services — system upgrades.

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

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

Segment liabilities include all liabilities of the Group except income tax payable, lease liabilities 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 2022

**6 SEGMENT INFORMATION** (Continued)

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

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

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

For the six months ended 31 December 2022

**6 SEGMENT INFORMATION** *(Continued)*

Other segment information:

|   | Unaudited                  |                                     |                               |                            |                    |              |
|---|----------------------------|-------------------------------------|-------------------------------|----------------------------|--------------------|--------------|
|   | Industrial products<br>RMB | Project contracting services<br>RMB | Environmental products<br>RMB | Supporting services<br>RMB | Unallocated<br>RMB | Total<br>RMB |
| Capital expenditure                           | 28,628                     | 222,596                             | –                             | 242,723                    | –                  | 493,947      |
| Depreciation of property, plant and equipment | 739,474                    | 15,804                              | 499,885                       | 2,303,909                  | –                  | 3,559,072    |
| Depreciation of right-of-use assets           | –                          | –                                   | –                             | –                          | 592,078            | 592,078      |
| Depreciation of investment properties         | –                          | –                                   | –                             | –                          | 2,977,221          | 2,977,221    |
| Amortisation of prepaid land lease payments   | 221,099                    | –                                   | 293,351                       | –                          | 264,546            | 778,996      |
| Amortisation of other intangible assets       | 1,301,550                  | –                                   | –                             | 5,359                      | –                  | 1,306,909    |

The segment assets and liabilities as at 31 December 2022 are as follows:

|                     | Unaudited                  |                                     |                               |                            |                    |               |
|---------------------|----------------------------|-------------------------------------|-------------------------------|----------------------------|--------------------|---------------|
|                     | Industrial products<br>RMB | Project contracting services<br>RMB | Environmental products<br>RMB | Supporting services<br>RMB | Unallocated<br>RMB | Total<br>RMB  |
| Segment assets      | 365,280,509                | 155,517,843                         | 51,183,142                    | 311,917,701                | 124,054,651        | 1,007,953,846 |
| Segment liabilities | 313,227,196                | 102,518,849                         | 14,052,892                    | 76,583,214                 | 129,859,227        | 636,241,378   |

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

For the six months ended 31 December 2022

**6 SEGMENT INFORMATION** (Continued)

The segment results for the six months ended 31 December 2021:

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

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

For the six months ended 31 December 2022

**6 SEGMENT INFORMATION** (Continued)

Other segment information:

|   | Unaudited           |                              |                        |                     |             |           |
|---|---------------------|------------------------------|------------------------|---------------------|-------------|-----------|
|   | Industrial products | Project contracting services | Environmental products | Supporting services | Unallocated | Total     |
|   | RMB                 | RMB                          | RMB                    | RMB                 | RMB         | RMB       |
| Capital expenditure                           | 1,300,152           | 46,239                       | –                      | 2,388,359           | 3,366,807   | 7,101,557 |
| Depreciation of property, plant and equipment | 556,769             | 26,407                       | 374,259                | 2,483,980           | –           | 3,441,415 |
| Depreciation of right-of-use assets           | –                   | –                            | –                      | –                   | 1,151,562   | 1,151,562 |
| Depreciation of investment properties         | –                   | –                            | –                      | 2,821,849           | –           | 2,821,849 |
| Amortisation of prepaid land lease payments   | 38,377              | –                            | 50,919                 | 768,210             | 145,624     | 1,003,130 |
| Amortisation of other intangible assets       | 1,320,233           | –                            | –                      | 5,364               | –           | 1,325,597 |

The segment assets and liabilities as at 30 June 2022 are as follows:

|                     | Audited             |                              |                        |                     |             |               |
|---------------------|---------------------|------------------------------|------------------------|---------------------|-------------|---------------|
|                     | Industrial products | Project contracting services | Environmental products | Supporting services | Unallocated | Total         |
|                     | RMB                 | RMB                          | RMB                    | RMB                 | RMB         | RMB           |
| Segment assets      | 283,782,893         | 181,538,627                  | 37,524,376             | 306,357,498         | 232,602,782 | 1,041,806,176 |
| Segment liabilities | 269,995,355         | 122,996,889                  | 16,859,944             | 88,398,364          | 147,492,358 | 645,742,910   |

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

For the six months ended 31 December 2022

**7 OTHER INCOME AND GAINS, NET**

|   | <b>For the six months ended<br/>31 December</b> |                          |
|---|---|--------------------------|
|   | <b>2022<br/>Unaudited<br/>RMB</b>               | 2021<br>Unaudited<br>RMB |
| Interest income recognised from<br>project contracting services | <b>1,032,390</b>                                | 3,785,037                |
| Government grants   | <b>1,192,711</b>                                | 2,640,212                |
| Other tax refund  | <b>519,490</b>                                  | 956,711                  |
| Rental income   | <b>687,019</b>                                  | 560,091                  |
| Sales of scrap materials  | <b>67,506</b>                                   | –                        |
| Service income  | –   | 463,021                  |
| Interest income from customer<br>delaying on payment            | –   | 428,007                  |
| Others  | <b>61,649</b>                                   | (18,387)                 |
|   | <b>3,560,765</b>                                | 8,814,692                |

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

For the six months ended 31 December 2022

**8 FINANCE COSTS — NET**

|   | <b>For the six months ended<br/>31 December</b> |                          |
|---|---|--------------------------|
|   | <b>2022<br/>Unaudited<br/>RMB</b>               | 2021<br>Unaudited<br>RMB |
| Finance costs                               |   |                          |
| Interest on convertible bonds               | –   | (7,999,795)              |
| Interest on loans                           | <b>(1,501,837)</b>                              | (2,126,360)              |
| Interest on other payables                  | <b>(4,270,264)</b>                              | –                        |
| Interest paid/payable for lease liabilities | <b>(123,397)</b>                                | (227,030)                |
| Exchange losses, net                        | –   | (7,395)                  |
|   | <b>(5,895,498)</b>                              | (10,360,580)             |
| Finance income                              |   |                          |
| Exchange gains, net                         | <b>1,443,010</b>                                | –                        |
| Interest income                             | <b>1,085,803</b>                                | 446,000                  |
|   | <b>2,528,813</b>                                | 446,000                  |
| Finance costs — net                         | <b>(3,366,685)</b>                              | (9,914,580)              |

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

For the six months ended 31 December 2022

**9 LOSS BEFORE INCOME TAX**

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

|   | For the six months ended<br>31 December |                          |
|---|---|--------------------------|
|   | 2022<br>Unaudited<br>RMB                | 2021<br>Unaudited<br>RMB |
| Raw materials used  | <b>44,542,938</b>                       | 185,480,525              |
| Employee benefit expenses                                     | <b>32,124,262</b>                       | 44,621,948               |
| Provision for legal claims                                    | –                                       | 32,416,633               |
| Change in inventory of finished goods and<br>work in progress | <b>(51,382,163)</b>                     | (23,713,775)             |
| Depreciation of property, plant and<br>equipment              | <b>3,559,072</b>                        | 3,441,415                |
| Professional service fees                                     | <b>7,068,596</b>                        | 3,392,165                |
| Reversal of provision for<br>write-down of inventories        | –                                       | (3,234,284)              |
| Depreciation of investment properties                         | <b>2,977,221</b>                        | 2,821,849                |
| Amortisation of other intangible assets                       | <b>1,306,909</b>                        | 1,325,597                |
| Depreciation of other right-of-use assets                     | <b>592,078</b>                          | 1,151,562                |
| Amortisation of prepaid land lease payments                   | <b>778,996</b>                          | 1,003,130                |

**10 INCOME TAX (EXPENSE)/CREDIT**

|                             | For the six months ended<br>31 December |                          |
|-----------------------------|---|--------------------------|
|                             | 2022<br>Unaudited<br>RMB                | 2021<br>Unaudited<br>RMB |
| Current income tax          |   |                          |
| PRC enterprise income tax   | <b>(603,096)</b>                        | –                        |
| Deferred income tax         | <b>289,785</b>                          | 13,389,154               |
| Income tax (expense)/credit | <b>(313,311)</b>                        | 13,389,154               |

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

For the six months ended 31 December 2022

**10 INCOME TAX CREDIT/(EXPENSE)** *(Continued)****PRC enterprise income tax ("EIT")***

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

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

**11 DIVIDENDS**

No dividends was paid during the six months ended 31 December 2022 (six months ended 31 December 2021: nil).

The Board resolved not to declare any interim dividend for the six months ended 31 December 2022 (six months ended 31 December 2021: nil).

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

For the six months ended 31 December 2022

**12 LOSS PER SHARE**

The calculation of the basic loss per share amount is based on the loss for the period attributable to the shareholders of the Company and the weighted average number of ordinary shares of 1,064,089,378 (2021: 886,741,378) which represents the shares in issue during the period.

The Company has dilutive potential ordinary shares from share options. The diluted loss per share is same as the basic loss per share as any potential ordinary shares would have anti-dilutive effect for the six months ended 31 December 2022 and 2021.

|  | <b>For the six months ended<br/>31 December</b> |                          |
|--|---|--------------------------|
|  | <b>2022<br/>Unaudited<br/>RMB</b>               | 2021<br>Unaudited<br>RMB |
| <b>Basic</b>   |   |                          |
| Loss   |   |                          |
| Loss attributable to the shareholders<br>of the Company  | <b>(27,309,171)</b>                             | (76,273,080)             |
| Number of shares   |   |                          |
| Weighted average number of ordinary<br>shares in issue during the period   | <b>1,064,089,378</b>                            | 886,741,378              |
| Basic loss per share (RMB cents)   | <b>(2.57)</b>                                   | (8.60)                   |
| <b>Diluted</b>   |   |                          |
| Loss   |   |                          |
| Loss attributable the shareholders<br>of the Company   | <b>(27,309,171)</b>                             | (76,273,080)             |
| Number of shares   |   |                          |
| Weighted average number of ordinary shares in<br>issue and potential ordinary shares issued as the<br>denominator in calculating diluted loss<br>per share during the period | <b>1,064,089,378</b>                            | 886,741,378              |
| Diluted loss per share (RMB cents)   | <b>(2.57)</b>                                   | (8.60)                   |

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

For the six months ended 31 December 2022

**13 PROPERTY, PLANT AND EQUIPMENT**

|   | Buildings         | Machinery<br>and vehicles | Furniture,<br>fittings and<br>equipment | Total             |
|---|-------------------|---------------------------|---|-------------------|
|   | Unaudited<br>RMB  | Unaudited<br>RMB          | Unaudited<br>RMB                        | Unaudited<br>RMB  |
| <b>Six months ended 31 December 2022</b>                      |                   |                           |   |                   |
| Opening net carrying amount<br>as at 1 July 2022              | 60,106,852        | 8,780,274                 | 1,886,803                               | 70,773,929        |
| Additions   | –                 | 222,596                   | 271,351                                 | 493,947           |
| Depreciation charge   | (2,329,366)       | (950,169)                 | (279,537)                               | (3,559,072)       |
| Exchange difference   | 56,288            | 27,887                    | 15,243                                  | 99,418            |
| <b>Closing net carrying amount<br/>as at 31 December 2022</b> | <b>57,833,774</b> | <b>8,080,588</b>          | <b>1,893,860</b>                        | <b>67,808,222</b> |
| <b>Six months ended 31 December 2021</b>                      |                   |                           |   |                   |
| Opening net carrying amount<br>as at 1 July 2021              | 60,607,404        | 11,256,426                | 1,577,448                               | 73,441,278        |
| Additions   | 2,851,375         | 90,336                    | 742,154                                 | 3,683,865         |
| Disposals   | –                 | (3,820)                   | (3,038)                                 | (6,858)           |
| Depreciation charge   | (2,276,747)       | (927,240)                 | (237,428)                               | (3,441,415)       |
| Transfer from investment<br>properties                        | 2,406,793         | –                         | –                                       | 2,406,793         |
| <b>Closing net carrying amount<br/>as at 31 December 2021</b> | <b>63,588,825</b> | <b>10,415,702</b>         | <b>2,079,136</b>                        | <b>76,083,663</b> |

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

For the six months ended 31 December 2022

**14 LEASES**

This note provides information for leases where the group is a lessee.

**(i) Amounts recognised in the consolidated statement of financial position**

The consolidated statement of financial position shows the following amounts relating to leases:

|  | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|--|---|--|
| <b>Right-of-use assets</b>               |   |  |
| Buildings                                | <b>4,030,780</b>  | 4,622,858                                  |
| Prepaid land lease payments (Note 16(i)) | <b>72,973,176</b>   | 73,752,172                                 |
|  | <b>77,003,956</b>   | 78,375,030                                 |
| <b>Lease liabilities</b>                 |   |  |
| Current                                  | <b>1,090,119</b>  | 1,086,798                                  |
| Non-current                              | <b>2,831,931</b>  | 3,389,334                                  |
|  | <b>3,922,050</b>  | 4,476,132                                  |

There were no additions to the right-of-use assets during the six months ended 31 December 2022 (30 June 2022: RMB86,505).

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

For the six months ended 31 December 2022

**14 LEASES** *(Continued)***(ii) Amounts recognised in the consolidated statement of profit or loss**

The consolidated statement of profit or loss shows the following amounts relating to leases:

|  | <b>For the six months ended<br/>31 December</b> |                          |
|--|---|--------------------------|
|  | <b>2022<br/>Unaudited<br/>RMB</b>               | 2021<br>Unaudited<br>RMB |
| <b>Depreciation charge of right-of-use assets</b>  |   |                          |
| Buildings  | <b>592,078</b>                                  | 1,151,562                |
| Prepaid land lease payments  | <b>778,996</b>                                  | 1,003,130                |
|  | <b>1,371,074</b>                                | 2,154,692                |
| Interest expense   | <b>123,397</b>                                  | 227,030                  |
| Expense relating to short-term leases  | <b>1,933,879</b>                                | 509,968                  |
| Expense relating to leases of low-value assets that are not shown above as short-term leases | –   | 10,619                   |

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

For the six months ended 31 December 2022

**15 INVESTMENT PROPERTIES**

|   | <b>Investment<br/>properties</b><br>Unaudited<br>RMB |
|---|--|
| <b>Six months ended 31 December 2022</b>                                  |  |
| Opening net carrying amount as at 1 July 2022                             | <b>98,066,629</b>                                    |
| Depreciation charge   | <b>(2,977,221)</b>                                   |
| <b>Closing net carrying amount as at 31 December 2022</b>                 | <b>95,089,408</b>                                    |
| <b>Six months ended 31 December 2021</b>                                  |  |
| Opening net carrying amount as at 1 July 2021                             | 104,021,068  |
| Depreciation charge   | (2,821,849)  |
| Transfer to property, plant and equipment and prepaid land lease payments | (5,057,570)  |
| <b>Closing net carrying amount as at 31 December 2021</b>                 | <b>96,141,649</b>                                    |

**16 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS****(i) Prepaid land lease payments**

|                                     | <b>Six months ended<br/>31 December</b> |                   |
|-------------------------------------|---|-------------------|
|                                     | <b>2022</b>                             | 2021              |
|                                     | <b>Unaudited</b>                        | Unaudited         |
|                                     | <b>RMB</b>                              | RMB               |
| Opening net carrying amount         | <b>73,752,172</b>                       | 75,375,942        |
| Amortisation charge                 | <b>(778,996)</b>                        | (1,003,130)       |
| Transfer from investment properties | –                                       | 2,650,777         |
| <b>Closing net carrying amount</b>  | <b>72,973,176</b>                       | <b>77,023,589</b> |

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

For the six months ended 31 December 2022

**16 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS**

(Continued)

**(ii) Other intangible assets**

|   | Patents<br>Unaudited<br>RMB | Software<br>Unaudited<br>RMB | Total<br>Unaudited<br>RMB |
|---|-----------------------------|------------------------------|---------------------------|
| <b>Six months ended<br/>31 December 2022</b>                  |                             |                              |                           |
| Opening net carrying amount<br>as at 1 July 2022              | <b>6,655,512</b>            | <b>1,557,744</b>             | <b>8,213,256</b>          |
| Amortisation charge   | <b>(1,023,925)</b>          | <b>(282,984)</b>             | <b>(1,306,909)</b>        |
| <b>Closing net carrying amount<br/>as at 31 December 2022</b> | <b>5,631,587</b>            | <b>1,274,760</b>             | <b>6,906,347</b>          |
| <b>Six months ended<br/>31 December 2021</b>                  |                             |                              |                           |
| Opening net carrying amount<br>as at 1 July 2021              | 8,703,362                   | 1,965,439                    | 10,668,801                |
| Additions   | –                           | 50,885                       | 50,885                    |
| Amortisation charge   | (1,023,926)                 | (301,671)                    | (1,325,597)               |
| <b>Closing net carrying amount<br/>as at 31 December 2021</b> | <b>7,679,436</b>            | <b>1,714,653</b>             | <b>9,394,089</b>          |

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

For the six months ended 31 December 2022

**17 GOODWILL**

|   | <b>Headbox<br/>business</b> | <b>Logistics<br/>and<br/>warehousing<br/>services</b> | <b>Others</b>    | <b>Total</b>      |
|---|-----------------------------|---|------------------|-------------------|
|   | Unaudited<br>RMB            | Unaudited<br>RMB                                      | Unaudited<br>RMB | Unaudited<br>RMB  |
| <b>Six months ended<br/>31 December 2022</b>                  |                             |   |                  |                   |
| Opening net carrying amount<br>as at 1 July 2022              | 29,306,413                  | –   | 596,370          | 29,902,783        |
| <b>Closing net carrying amount<br/>as at 31 December 2022</b> | <b>29,306,413</b>           | <b>–</b>  | <b>596,370</b>   | <b>29,902,783</b> |
| <b>Six months ended<br/>31 December 2021</b>                  |                             |   |                  |                   |
| Opening net carrying amount<br>as at 1 July 2021              | 36,155,379                  | 3,183,135   | 596,370          | 39,934,884        |
| <b>Closing net carrying amount<br/>as at 31 December 2021</b> | <b>36,155,379</b>           | <b>3,183,135</b>                                      | <b>596,370</b>   | <b>39,934,884</b> |

Goodwill of the Group mainly arose from the acquisition of Hangzhou Haorong Technology Co., Ltd. and Hangzhou MCN Paper Tech Co., Ltd. (together, the “MCN Group”) and Fu An 777 Logistics Limited (“777 Logistics”, together with its subsidiaries, collectively known as the “777 Logistics Group”) in 2017 which represent the CGU of logistics and warehousing services.

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.

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

For the six months ended 31 December 2022

**18 INVENTORIES**

|                  | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|------------------|---|--|
| Raw materials    | <b>134,274,467</b>  | 58,074,676                                 |
| Work in progress | <b>31,891,435</b>   | 24,988,754                                 |
| Finished goods   | <b>21,083,338</b>   | 79,368,182                                 |
|                  | <b>187,249,240</b>  | 162,431,612                                |
| Less: provision  | <b>(24,327,055)</b>   | (24,327,055)                               |
|                  | <b>162,922,185</b>  | 138,104,557                                |

As at 31 December 2022, raw materials and finished goods with a cost of RMB17,683,149 and RMB12,144,460 were considered as obsolete (30 June 2022: RMB17,683,149 and RMB12,144,460) and a provision of RMB12,182,595 and RMB12,144,460 (30 June 2022: RMB12,182,595 and RMB12,144,460) to write down 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 2022

**19 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS****(i) Trade and other receivables**

|   | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|---|---|--|
| Warranty receivables (a)  | <b>11,655,600</b>   | 10,692,396                                 |
| Other trade receivables (b)                                     | <b>264,765,388</b>  | 315,884,068                                |
|   | <b>276,420,988</b>  | 326,576,464                                |
| Less: provision for impairment of<br>trade receivables (c)      | <b>(178,155,890)</b>  | (175,540,251)                              |
| Trade receivables — net   | <b>98,265,098</b>   | 151,036,213                                |
| Bills receivable  | <b>59,785,991</b>   | 38,333,671                                 |
| Trade and bills receivables                                     | <b>158,051,089</b>  | 189,369,884                                |
| Payment on behalf of an independent<br>third party              | <b>81,974,427</b>   | 85,128,228                                 |
| Other receivables due from related parties<br>(Note 27(c)(iii)) | <b>39,541,029</b>   | 39,541,029                                 |
| Deductible input value added tax                                | —   | 100,298                                    |
| Loan to customers   | <b>4,169,431</b>  | 2,555,227                                  |
| Other receivables — guarantee                                   | <b>6,207,023</b>  | 6,213,510                                  |
| Others (Note)   | <b>108,995,089</b>  | 90,524,646                                 |
|   | <b>240,886,999</b>  | 224,062,938                                |
| Less: provision for impairment of<br>other receivables (c)      | <b>(181,102,024)</b>  | (181,102,024)                              |
| Other receivables — net   | <b>59,784,975</b>   | 42,960,914                                 |
| Total trade and other receivables                               | <b>217,836,064</b>  | 232,330,798                                |
| Less: trade and other receivables —<br>non-current portion      | <b>(37,976,635)</b>   | (38,542,965)                               |
|   | <b>179,859,429</b>  | 193,787,833                                |

Note: At 31 December 2022, include amounts due from Tongxiang Yuxin Electric Co., Limited and Zhejiang Huazhang Fibretech Co., Limited were RMB7,128,058 (30 June 2022: RMB7,128,058) and RMB49,103,484 (30 June 2022: RMB49,103,484) respectively.

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

For the six months ended 31 December 2022

**19 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS** *(Continued)***(i) Trade and other receivables** *(Continued)*

- (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:

|                      | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|----------------------|---|--|
| Warranty receivables |   |  |
| Up to 3 months       | <b>673,250</b>  | –  |
| 6 months to 1 year   | –   | 192,500                                    |
| 1 year to 2 years    | <b>246,500</b>  | 54,000                                     |
| Over 2 years         | <b>10,735,850</b>   | 10,445,896                                 |
|                      | <b>11,655,600</b>   | 10,692,396                                 |

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

For the six months ended 31 December 2022

**19 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS** *(Continued)***(i) Trade and other receivables** *(Continued)*

- (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:

|                         | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|-------------------------|---|--|
| Other trade receivables |   |  |
| Up to 3 months          | <b>25,771,209</b>   | 28,293,237                                 |
| 3 months to 6 months    | <b>7,598,870</b>  | 7,988,156                                  |
| 6 months to 1 year      | <b>5,688,018</b>  | 18,216,071                                 |
| 1 year to 2 years       | <b>61,824,894</b>   | 90,557,626                                 |
| Over 2 years            | <b>163,882,397</b>  | 170,828,978                                |
|                         | <b>264,765,388</b>  | 315,884,068                                |

- (c) As at 31 December 2022, provisions amounting to RMB178,155,890 (30 June 2022: RMB175,540,251) and RMB181,102,024 (30 June 2022: RMB181,102,024) 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.

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

For the six months ended 31 December 2022

**19 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS** *(Continued)***(ii) Contract assets**

|  | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|--|---|--|
| Contract assets                                      | <b>37,237,570</b>   | 22,593,177                                 |
| Less: provision for impairment of<br>contract assets | <b>(2,901,597)</b>  | (2,876,182)                                |
|  | <b>34,335,973</b>   | 19,716,995                                 |

**(iii) Prepayments**

|   | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|---|---|--|
| Prepayments for procurement             | <b>136,804,513</b>  | 94,893,020                                 |
| Others                                  | <b>289,530</b>  | 408,752                                    |
| Total prepayments                       | <b>137,094,043</b>  | 95,301,772                                 |
| Less: prepayments — non-current portion | <b>(150,192)</b>  | (156,722)                                  |
|   | <b>136,943,851</b>  | 95,145,050                                 |

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

For the six months ended 31 December 2022

**20 CASH AND CASH EQUIVALENTS/PLEDGED DEPOSITS/RESTRICTED DEPOSITS**

|  | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|--|---|--|
| Cash at bank and on hand                   | <b>114,411,847</b>  | 222,206,000                                |
| Less: pledged deposits <i>(note i)</i>     | <b>(23,130,058)</b>   | (28,844,290)                               |
| Less: restricted deposits <i>(note ii)</i> | <b>(38,683,711)</b>   | (52,312,844)                               |
| Cash and cash equivalents                  | <b>52,598,078</b>   | 141,048,866                                |

- (i) The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable and bank guarantee.
- (ii) As 31 December 2022, as disclosed in note 28 to the consolidated financial statements, certain of the Group's bank accounts amounting to RMB38,683,711 in aggregate were frozen by courts in the PRC in relation to certain claims against the Group. Management expects the cases to be concluded and the amounts becoming unrestricted within 12 months (30 June 2022: RMB52,312,844).

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

For the six months ended 31 December 2022

**21 TRADE AND OTHER PAYABLES**

|   | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|---|---|--|
| Trade payables  | <b>190,658,114</b>  | 176,293,302                                |
| Bills payable   | <b>16,484,081</b>   | 19,077,191                                 |
| Trade and bills payables                              | <b>207,142,195</b>  | 195,370,493                                |
| Other taxes payables                                  | <b>30,830,641</b>   | 46,528,370                                 |
| Provision for legal claims <i>(i)</i>                 | <b>12,659,277</b>   | 12,659,277                                 |
| Deposits for project contracting services             | <b>6,000,000</b>  | 6,553,958                                  |
| Interest-free loan from independent third parties     | <b>29,948,242</b>   | 13,080,800                                 |
| Amount due to suppliers on a customer's behalf        | <b>13,318,850</b>   | 13,419,622                                 |
| Accruals  | <b>4,891,231</b>  | 4,229,571                                  |
| Provision for warranty expenses                       | <b>523,838</b>  | 523,838                                    |
| Other deposits  | <b>158,952</b>  | 627,803                                    |
| Employee benefit payables                             | <b>1,116,493</b>  | 642,087                                    |
| Payables for property, plant and equipment            | <b>479,587</b>  | 708,312                                    |
| Amounts due to related parties <i>(Note 27(c)(i))</i> | –   | 85,786,822                                 |
| Interest payable for loans                            | –   | 45,833                                     |
| Interest payable for convertible bonds                | –   | 2,550,040                                  |
| Others  | <b>30,409,741</b>   | 23,598,739                                 |
| Other payables  | <b>130,336,852</b>  | 210,955,072                                |
| Total trade and other payables                        | <b>337,479,047</b>  | 406,325,565                                |

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

For the six months ended 31 December 2022

**21 TRADE AND OTHER PAYABLES** *(Continued)*

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

The ageing analysis of the trade payables is as follows:

|                      | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|----------------------|---|--|
| Up to 3 months       | <b>99,750,660</b>   | 100,962,553                                |
| 3 months to 6 months | <b>3,867,433</b>  | 7,148,031                                  |
| 6 months to 1 year   | <b>26,668,881</b>   | 18,561,739                                 |
| 1 year to 2 years    | <b>16,547,140</b>   | 19,953,725                                 |
| Over 2 years         | <b>43,824,000</b>   | 29,667,254                                 |
|                      | <b>190,658,114</b>  | 176,293,302                                |

**22 INTEREST-BEARING LOANS**

|                 | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|-----------------|---|--|
| <b>Current</b>  |   |  |
| Bank borrowings | <b>37,990,000</b>   | 38,500,000                                 |

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

For the six months ended 31 December 2022

**22 INTEREST-BEARING LOANS** (Continued)

Movement in interest-bearing loans is analysed as follows:

|   | Loan from<br>a non-<br>controlling<br>shareholder<br>Unaudited<br>RMB | Loans from<br>banks<br>Unaudited<br>RMB | Loans from<br>independent<br>third parties<br>Unaudited<br>RMB | Loan from<br>a related<br>party<br>Unaudited<br>RMB | Total<br>Unaudited<br>RMB |
|---|---|---|--|---|---------------------------|
| <b>Six months ended<br/>31 December 2022</b>                  |   |   |  |   |                           |
| Opening net carrying amount<br>as at 1 July 2022              | -   | 38,500,000                              | -  | -   | 38,500,000                |
| Additions   | -   | 9,000,000                               | -  | -   | 9,000,000                 |
| Accrual of interest   | -   | 1,501,837                               | -  | -   | 1,501,837                 |
| Repayment   | -   | (9,510,000)                             | -  | -   | (9,510,000)               |
| <b>Closing net carrying amount<br/>as at 31 December 2022</b> | -   | <b>37,990,000</b>                       | -  | -   | <b>37,990,000</b>         |
| <b>Six months ended<br/>31 December 2021</b>                  |   |   |  |   |                           |
| Opening net carrying amount<br>as at 1 July 2021              | 202,400   | 50,000,000                              | 1,408,904  | 1,435,020   | 53,046,324                |
| Additions   | -   | 4,500,000                               | -  | -   | 4,500,000                 |
| Accrual of interest   | -   | 2,076,850                               | 49,510   | -   | 2,126,360                 |
| Repayment   | (202,400)   | (20,076,850)                            | (974,490)  | (1,435,020)   | (22,688,760)              |
| <b>Closing net carrying amount<br/>as at 31 December 2021</b> | -   | <b>36,500,000</b>                       | <b>483,924</b>   | -   | <b>36,983,924</b>         |

As at 31 December 2022 and 2021, the Group's borrowings are all denominated in RMB.

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

For the six months ended 31 December 2022

**22 INTEREST-BEARING LOANS** *(Continued)*

As at 31 December 2022, the Group's loans from bank bore interest at an average rate of 4.45% per annum (30 June 2022: 4.87% per annum) and were borrowed by using banking facilities (30 June 2022: were borrowed by using banking facilities).

As at 31 December 2022, the Group had the following unutilised banking facilities:

|  | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|--|---|--|
| Authorised banking facilities — expiring within one year | <b>254,994,888</b>  | 245,994,888                                |
| Less: utilised banking facilities                        | <b>(28,000,000)</b>   | (28,500,000)                               |
|  | <b>226,994,888</b>  | 217,494,888                                |

As at 31 December 2022, 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 RMB56,468,166, RMB95,089,408 and RMB72,973,176, respectively (30 June 2022: RMB58,615,710, RMB98,066,629 and RMB73,752,172, respectively).

**23 DEFERRED INCOME**

|                                 | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|---------------------------------|---|--|
| At beginning of the period/year | <b>21,487,500</b>   | 22,837,500                                 |
| Amortised as income             | <b>(675,000)</b>  | (1,350,000)                                |
| At end of the period/year       | <b>20,812,500</b>   | 21,487,500                                 |

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

For the six months ended 31 December 2022

**24 SHARE CAPITAL AND PREMIUM**

|  | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|--|---|--|
| Issued and fully paid:<br>1,064,089,378 (30 June 2022: 1,064,089,378)<br>ordinary shares | <b>8,907,761</b>  | 8,907,761                                  |

|  | <b>Number<br/>of issued<br/>shares</b> | <b>Ordinary<br/>shares<br/>Unaudited<br/>RMB</b> | <b>Share<br/>premium<br/>Unaudited<br/>RMB</b> | <b>Total<br/>Unaudited<br/>RMB</b> |
|--|--|--|--|------------------------------------|
| <b>At 1 July 2022 and<br/>31 December 2022</b> | <b>1,064,089,378</b>                   | <b>8,907,761</b>                                 | <b>663,145,447</b>                             | <b>672,053,208</b>                 |
| <b>At 1 July 2021 and<br/>31 December 2021</b> | 886,741,378                            | 7,471,631  | 589,807,286                                    | 597,328,917                        |

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 2022

**25 OTHER RESERVES**

|                            | Reorganisation<br>reserve | Merger<br>reserve | Statutory<br>reserves | Translation<br>reserves | Share Option<br>Scheme (i) | Fair value<br>reserve | Total              |
|----------------------------|---------------------------|-------------------|-----------------------|-------------------------|----------------------------|-----------------------|--------------------|
|                            | Unaudited<br>RMB          | Unaudited<br>RMB  | Unaudited<br>RMB      | Unaudited<br>RMB        | Unaudited<br>RMB           | Unaudited<br>RMB      | Unaudited<br>RMB   |
| <b>At 1 July 2022</b>      | <b>2,335,540</b>          | <b>33,028,254</b> | <b>36,451,103</b>     | <b>17,818,495</b>       | <b>2,264,882</b>           | <b>30,190,011</b>     | <b>122,088,285</b> |
| Share options (i)          | -                         | -                 | -                     | -                       | 1,987,371                  | -                     | 1,987,371          |
| Translation differences    | -                         | -                 | -                     | 1,328,972               | -                          | -                     | 1,328,972          |
| <b>At 31 December 2022</b> | <b>2,335,540</b>          | <b>33,028,254</b> | <b>36,451,103</b>     | <b>19,147,467</b>       | <b>4,252,253</b>           | <b>30,190,011</b>     | <b>125,404,628</b> |
| <b>At 1 July 2021</b>      | 2,335,540                 | 33,028,254        | 31,631,187            | 14,819,457              | -                          | 23,990,407            | 105,804,845        |
| Translation differences    | -                         | -                 | -                     | 242,892                 | -                          | -                     | 242,892            |
| <b>At 31 December 2021</b> | 2,335,540                 | 33,028,254        | 31,631,187            | 15,062,349              | -                          | 23,990,407            | 106,047,737        |

**(i) Share option scheme**

A new share option scheme of the Company (the “New Share Option Scheme”) was approved and adopted by the shareholders of the Company at its extraordinary general meeting held on 10 February 2022 (the “Adoption Date”) in replacement of the share option scheme adopted on 6 May 2013 and effective on 16 May 2013 (the “2013 Share Option Scheme”) and that no further options of the Company shall be offered or granted under the 2013 Share Option Scheme.

The classes of eligible persons under the New Share Option Scheme are materially the same as those of the 2013 Share Option Scheme, namely, any full-time or part-time employee of the Company or any member of the Group, including any executive Directors, non-executive Directors and independent non-executive Directors. The basis of eligibility of any class of eligible persons to the grant of any Option will be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

The Board may, at its absolute discretion, invite any eligible person to take up Options. Upon acceptance of the Option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted.

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

For the six months ended 31 December 2022

**25 OTHER RESERVES** *(Continued)***(i) Share option scheme** *(Continued)*

Subject to obtaining approval from the Shareholders with respect to the adoption of the New Share Option Scheme, the total number of Shares which may be issued upon exercise of all Options to be granted under the New Share Option Scheme and any other scheme must not in aggregate exceed 10% of the Shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the New Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating such 10% scheme mandate limit. The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme of the Company must not exceed 30% of the total number of Shares in issue from time to time.

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the New Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time. Where any further grant of Options to a Participant (the "Further Grant") would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the New Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time, the Further Grant must be separately approved by the Shareholders in general meeting with such Participant and his close associates (as defined in the Listing Rules) (or his associates (as defined in the Listing Rules) if the Participant is a connected person) abstaining from voting.

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

For the six months ended 31 December 2022

**25 OTHER RESERVES** (Continued)**(i) Share option scheme** (Continued)

Details of the share options granted and outstanding during the period were:

| Name or category of participants | Date of Grant<br>(Note c) | Exercise price | Number of share options |                                   |  |                     | Closing price per share immediately before the date of grant |          |
|----------------------------------|---------------------------|----------------|-------------------------|-----------------------------------|--|---------------------|--|----------|
|                                  |                           |                | At 1 July 2022          | Lapsed/ expired during the period | Cancelled/ forfeited during the period | At 31 December 2022 |  |          |
| Directors                        |                           |                |                         |                                   |  |                     |  |          |
| Mr. Chen Hongwei                 | 31 May 2022               | HK\$0.51       | 500,000                 | –                                 | –                                      | 500,000             | Note c   | HK\$0.49 |
| Mr. Fang Hui (Note b)            | 31 May 2022               | HK\$0.51       | 50,000,000              | –                                 | (50,000,000)                           | –                   | Note c   | HK\$0.49 |
| Mr. Shi Chenghu                  | 31 May 2022               | HK\$0.51       | 1,000,000               | –                                 | –                                      | 1,000,000           | Note c   | HK\$0.49 |
| Mr. Heng, Keith Kai Neng         | 31 May 2022               | HK\$0.51       | 300,000                 | –                                 | –                                      | 300,000             | Note c   | HK\$0.49 |
| Mr. Yao Yang Yang                | 31 May 2022               | HK\$0.51       | 300,000                 | –                                 | –                                      | 300,000             | Note c   | HK\$0.49 |
| Ms. Zhang Dong Fang              | 31 May 2022               | HK\$0.51       | 300,000                 | –                                 | –                                      | 300,000             | Note c   | HK\$0.49 |
| Other Employees                  | 31 May 2022               | HK\$0.51       | 32,540,000              | (1,350,000)                       | –                                      | 31,190,000          | Note c   | HK\$0.49 |
| Mr. Wang Ai Yan (Note a)         | 31 May 2022               | HK\$0.51       | 1,000,000               | –                                 | –                                      | 1,000,000           | Note c   | HK\$0.49 |
| In aggregate                     |                           |                | 85,940,000              | (1,350,000)                       | (50,000,000)                           | 34,590,000          |  |          |

Details of the share options granted and outstanding during the prior period were:

| Name or category of participants | Date of Grant<br>(Note d) | Exercise price | Number of share options |                                   |  |                     | Closing price per share immediately before the date of grant |          |
|----------------------------------|---------------------------|----------------|-------------------------|-----------------------------------|--|---------------------|--|----------|
|                                  |                           |                | At 1 July 2021          | Lapsed/ expired during the period | Cancelled/ forfeited during the period | At 31 December 2021 |  |          |
| Employees in aggregate           | 15 January 2019           | HK\$4.04       | 19,000,000              | –                                 | –                                      | 19,000,000          | Note d   | HK\$3.76 |
| In aggregate                     |                           |                | 19,000,000              | –                                 | –                                      | 19,000,000          |  |          |

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

For the six months ended 31 December 2022

**25 OTHER RESERVES** *(Continued)***(i) Share option scheme** *(Continued)*

Notes:

- (a) Being an ex-executive director (resigned on 1 December 2022) of the Company.
- (b) The grant of 50,000,000 share options (the "Proposed Grant") is conditional and subject to the approval of the independent Shareholders at an extraordinary general meeting of the Company. On 23 August 2022, the Board had resolved not to proceed with the conditional grant of share options to Mr. Fang Hui to subscribe for up to an aggregate of 50,000,000 Shares which decision was consented by Mr. Fang Hui. As a result, the Proposed Grant were not become unconditional and no Share Options were granted to Mr. Fang Hui under the New Share Option Scheme.
- (c) The validity period of the Share Options granted on 31 May 2022 is from 31 May 2022 to 30 May 2032.

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

- (i) 30% of the Share Options may be exercisable at any time commencing from the Date of Grant up to 30 May 2022;
- (ii) 30% of the Share Options and the first 30% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2023 up to 30 May 2032; and
- (iii) the remaining 40% of the Share Options and the first 60% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2024 up to 30 May 2032.

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

- (d) The Share Options granted on 15 January 2019 should be vested and were exercisable in the following manners:
  - (i) 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
  - (ii) 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.

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

For the six months ended 31 December 2022

**26 COMMITMENTS*****As lessor***

The future minimum lease receivables under non-cancellable operating leases as at 31 December 2022 and 30 June 2022 are summarised as follows:

|   | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|---|---|--|
| No later than 1 year                        | <b>6,604,276</b>  | 7,278,526                                  |
| Later than 1 year and no later than 5 years | <b>369,768</b>  | 3,447,156                                  |
|   | <b>6,974,044</b>  | 10,725,682                                 |

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

For the six months ended 31 December 2022

**27 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 2022 and 2021 and balances arising from related party transactions as at 31 December 2022 and 30 June 2022.

**(a) Name and relationship with related parties**

| <b>Name of related parties</b>                                | <b>Relationships</b>   |
|---|--|
| Mr. Fang Hui  | Executive Director   |
| Dao He Investment Limited<br>("Dao He")                       | A non-controlling shareholder of the Group<br>and held by Mr. Fang Hui |
| Taizhou Hengshengtianyue Metal<br>Co., Ltd. ("Taizhou Metal") | Controlled by close family members of<br>Mr. Fang Hui                  |
| Tongxiang Jiafu Papermaking<br>Equipment Co., Ltd. ("Jiafu")  | An associate of the Group  |
| Zhejiang Hua Zhang Fibre<br>Technology Co., Ltd. ("Fibre")    | An associate of the Group  |

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

For the six months ended 31 December 2022

**27 RELATED-PARTY TRANSACTIONS** (Continued)**(b) Transactions with related parties**

|  | <b>Six months ended<br/>31 December</b> |                          |
|--|---|--------------------------|
|  | <b>2022<br/>Unaudited<br/>RMB</b>       | 2021<br>Unaudited<br>RMB |
| Purchase of equipment from Jiafu       | –                                       | 9,444,283                |
| Purchase of equipment from Fibre       | –                                       | 408,700                  |
|  | –                                       | 9,852,983                |
| Sales of metal scraps to Taizhou Metal | –                                       | 8,499                    |

|  | <b>Six months ended<br/>31 December</b> |                          |
|--|---|--------------------------|
|  | <b>2022<br/>Unaudited<br/>RMB</b>       | 2021<br>Unaudited<br>RMB |
| Key management compensation                  |   |                          |
| — Salaries                                   | <b>3,104,505</b>                        | 2,953,809                |
| — Social security costs                      | <b>87,423</b>                           | 61,165                   |
| — Pension costs — defined contribution plans | <b>45,054</b>                           | 27,320                   |
| — Share options                              | <b>334,013</b>                          | –                        |
| — Other benefits                             | <b>125,946</b>                          | 36,340                   |
|  | <b>3,696,941</b>                        | 3,078,634                |

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

For the six months ended 31 December 2022

**27 RELATED-PARTY TRANSACTIONS** *(Continued)***(c) Balances with related parties***(i) Due to related parties:*

|                          | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|--------------------------|---|--|
| Other payables (Note 21) |   |  |
| — Dao He                 | —   | 85,786,822                                 |

*(ii) Due from related parties*

|  | <b>As at<br/>31 December<br/>2022<br/>Unaudited<br/>RMB</b> | As at<br>30 June<br>2022<br>Audited<br>RMB |
|--|---|--|
| Other receivables from related parties<br>(Note 19(i)) |   |  |
| — Jiafu  | <b>39,541,029</b>   | 39,541,029                                 |

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

For the six months ended 31 December 2022

### 28 LITIGATION

Zhejiang Huazhang Technology Limited (“Zhejiang Huazhang”), a wholly-owned subsidiary of the Company, received a first instance judgment (the “Judgment”) dated 24 December 2021 handed down by the Intermediate People’s Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the “Court”) in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. Zhejiang Huazhang had lodged an appeal application (the “Appeal Application”) with the Higher People’s Court of Yunnan Province (雲南省高級人民法院) (the “Appeal Court”) against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the Judgement and the legal proceedings in question be retried at the Court. The Judgment has been set aside and will not be enforced, but the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts will remain in full force for a period of one year until January 2023 as ordered thereunder. Details of the legal proceedings were set out in the Company’s announcements dated 21 January 2022 and 9 September 2022.