华章科技
HUAZHANG TECHNOLOGY

HUAZHANG TECHNOLOGY HOLDING LIMITED
華章科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1673)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

	For the year ended 30 June		
	2022	2021	**change**
	RMB	*RMB*	**%**
Revenue	**323,868,801**	496,906,070	**–34.8**
Gross profit	**33,154,639**	105,627,700	**–68.7**
Gross profit margin	***10.2%***	*21.3%*	
(Loss)/profit for the year	**(366,738,839)**	16,515,929	**–2,320.5**
(Loss)/net profit margin	***–113.24%***	*3.3%*	
(Loss)/profit attributable to the shareholders of the Company	**(363,753,165)**	17,984,484	**–2,122.59**
(Losses)/earnings per share attributable to the shareholders of the Company for the year (RMB cents per share)			
— Basic (losses)/earnings per share	**(38.65)**	2.45	
— Diluted (losses)/earnings per share	**(38.65)**	2.45	

The Board does not recommend the payment of a final dividend for the year ended 30 June 2022 (2021: nil).

The board (the "Board") of directors (the "Directors") of Huazhang Technology Holding Limited (the "Company") hereby announces the consolidated financial results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2022, together with the comparative figures for the year ended 30 June 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards as below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 30 June	
		2022	2021
	Notes	***RMB***	*RMB*
REVENUE	*3*	**323,868,801**	496,906,070
Cost of sales		**(290,714,162)**	(391,278,370)
GROSS PROFIT		**33,154,639**	105,627,700
Other income and gains, net	*4*	**18,313,703**	23,409,817
Selling and distribution expenses		**(12,768,134)**	(9,481,146)
Administrative expenses		**(77,019,358)**	(51,588,442)
Research and development expenses		**(45,880,831)**	(27,360,497)
Net impairment (losses)/gains on financial and contract assets	*5*	**(234,740,801)**	4,850,835
OPERATING (LOSS)/PROFIT		**(318,940,782)**	45,458,267
Finance income	*6*	**4,299,262**	623,198
Finance costs	*6*	**(19,733,888)**	(22,921,063)
Finance costs, net		**(15,434,626)**	(22,297,865)
Impairment loss on goodwill	*11*	**(10,032,101)**	–
Impairment loss on property, plant and equipment		**(1,890,000)**	–
Impairment loss on investment in an associate		**(4,897,538)**	–
Share of net loss of associates accounted for using the equity method		**–**	(52,462)
(LOSS)/PROFIT BEFORE INCOME TAX	*7*	**(351,195,047)**	23,107,940
Income tax expense	*8*	**(15,543,792)**	(6,592,011)
(LOSS)/PROFIT FOR THE YEAR		**(366,738,839)**	16,515,929
(LOSS)/PROFIT ATTRIBUTABLE TO:			
— The shareholders of the Company		**(363,753,165)**	17,984,484
— Non-controlling interests		**(2,985,674)**	(1,468,555)
		(366,738,839)	16,515,929

	Notes	For the year ended 30 June **2022** ***RMB***	 2021 *RMB*
(LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY FOR THE YEAR (EXPRESSED IN RMB CENTS PER SHARE)			
— Basic (losses)/earnings per share	*9*	**(38.65)**	2.45
— Diluted (losses)/earnings per share	*9*	**(38.65)**	2.45
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**2,999,038**	9,514,873
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**2,999,038**	9,514,873
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		**(363,739,801)**	26,030,802
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR IS ATTRIBUTABLE TO:			
— The shareholders of the Company		**(360,754,127)**	27,499,357
— Non-controlling interests		**(2,985,674)**	(1,468,555)
		(363,739,801)	26,030,802

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June	
		2022	2021
	Notes	***RMB***	*RMB*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**70,773,929**	73,441,278
Other right-of-use assets		**4,622,858**	5,830,519
Investment properties		**98,066,629**	104,021,068
Prepaid land lease payments		**73,752,172**	75,375,942
Goodwill	*11*	**29,902,783**	39,934,884
Other intangible assets		**8,213,256**	10,668,801
Deferred tax assets		**870,371**	16,260,156
Investments in an associate		**50,000**	4,947,538
Financial assets at fair value through profit or loss		**4,807,255**	5,447,433
Trade and other receivables	*12(i)*	**38,542,965**	23,744,860
Prepayments	*12(iii)*	**156,722**	169,782
		329,758,940	359,842,261
CURRENT ASSETS			
Inventories		**138,104,557**	156,144,094
Trade and other receivables	*12(i)*	**193,787,833**	550,390,302
Prepayments	*12(iii)*	**95,145,050**	89,226,697
Financial assets at fair value through other comprehensive income		**43,086,801**	43,493,570
Pledged deposits		**28,844,290**	23,922,992
Restricted deposits		**52,312,844**	–
Contract assets	*12(ii)*	**19,716,995**	16,325,135
Cash and cash equivalents		**141,048,866**	145,299,486
		712,047,236	1,024,802,276
TOTAL ASSETS		**1,041,806,176**	1,384,644,537

	Notes	As at 30 June 2022 RMB	2021 RMB
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**5,153,893**	5,477,481
Deferred income		**21,487,500**	22,837,500
Lease liabilities		**3,389,334**	4,430,761
Trade and other payables	*13*	**–**	2,101,412
		30,030,727	34,847,154
CURRENT LIABILITIES			
Trade and other payables	*13*	**406,325,565**	343,430,172
Contract liabilities		**163,933,039**	181,819,504
Interest-bearing loans		**38,500,000**	53,046,324
Income tax payable		**5,866,781**	6,287,003
Lease liabilities		**1,086,798**	1,086,252
Convertible bonds	*15*	**–**	81,314,234
		615,712,183	666,983,489
TOTAL LIABILITIES		**645,742,910**	701,830,643
NET ASSETS		**396,063,266**	682,813,894
EQUITY			
Share capital	*14*	**8,907,761**	7,471,631
Share premium	*14*	**663,145,447**	589,857,286
Equity component of convertible bonds	*15*	**–**	6,199,604
Other reserves		**122,088,285**	105,804,845
Accumulated losses		**(393,155,457)**	(24,582,376)
Capital and reserves attributable to the shareholders of the Company		**400,986,036**	684,750,990
Non-controlling interests		**(4,922,770)**	(1,937,096)
TOTAL EQUITY		**396,063,266**	682,813,894

1 GENERAL INFORMATION

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

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

The consolidated financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. The consolidated financial statements were approved and authorised for issue by the Board on 30 December 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(a) Compliance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Companies Ordinance ("HKCO")

The consolidated financial statements of the Group have been prepared in accordance with HKFRS and disclosure requirements of the HKCO.

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income ("FVOCI") and financial assets at fair value through profit or loss ("FVPL"), which are carried at fair value.

(c) Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 July 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021

In addition, the Group has applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendment to HKFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021

The Group has applied the amendment in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of HKFRS 16 Leases ("HKFRS 16") by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The application has had no impact to the opening accumulated deficits at 1 July 2021.

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures ("HKFRS 7").

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year.

Impacts on application of the agenda decision of the Committee — Cost necessary to sell inventories (HKAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

(d) ***New and amendments to HKFRSs in issue but not yet effective***

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[1]

1 Effective for annual periods beginning on or after 1 January 2022.
2 Effective for annual periods beginning on or after 1 January 2023.
3 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 Reference to the Conceptual Framework

The amendments:

- update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "Conceptual Framework") instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 30 June 2022, the application of the amendments will not result in reclassification of the Group's liabilities as at 30 June 2022.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 30 June 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB4,622,858 and RMB4,476,132 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 Inventories.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3 SEGMENT INFORMATION

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

(a) Industrial products;

(b) Project contracting services;

(c) Environmental products; and

(d) Supporting services

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

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

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

The segment results for the year ended 30 June 2022:

	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Total *RMB*
Segment revenue from external customers	**164,916,303**	**83,849,990**	**12,758,801**	**62,343,707**	**323,868,801**
Timing of revenue recognition					
At a point in time	**164,916,303**	**–**	**6,004,043**	**62,343,707**	**323,868,801**
Over time	**–**	**83,849,990**	**6,754,758**	**–**	**323,868,801**
Segment cost of sales	**(129,824,830)**	**(100,686,846)**	**(12,058,065)**	**(48,144,421)**	**(290,714,162)**
Segment gross profit/(loss)	**35,091,473**	**(16,836,856)**	**700,736**	**14,199,286**	**33,154,639**
Segment results	**(76,652,296)**	**(142,576,661)**	**(16,324,672)**	**(78,951,115)**	**(314,504,744)**
Common administrative expenses					**(34,671,902)**
Other income and gains, net					**18,313,763**
Impairment loss on investment in an associate					**(4,897,538)**
Finance costs, net					**(15,434,626)**
Loss before income tax					**(351,195,047)**
Income tax expense					**(15,543,792)**
Loss for the year					**(366,738,839)**

Other segment information:

	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Unallocated *RMB*	Total *RMB*
Capital expenditure	**640,348**	**–**	**2,973,615**	**2,153,398**	**–**	**5,767,361**
Depreciation of property, plant and equipment	**1,187,895**	**20,633**	**682,028**	**4,369,286**	**–**	**6,259,842**
Depreciation of other right-of-use assets	**–**	**–**	**–**	**–**	**1,293,648**	**1,293,648**
Depreciation of investment properties	**–**	**–**	**–**	**5,643,697**	**310,742**	**5,954,439**
Write-off of property, plant and equipment	**69,956**	**1,087**	**14,794**	**65,340**	**–**	**151,177**
Net impairment (losses)/gains on financial and contract assets	**57,073,853**	**113,353,033**	**6,677,872**	**57,633,117**	**–**	**234,740,801**
Impairment loss on investment in an associate	**–**	**–**	**–**	**–**	**4,897,538**	**4,897,538**
Impairment loss on goodwill	**9,311,699**	**–**	**–**	**720,403**	**–**	**10,032,101**
Amortisation of prepaid land lease payments	**106,538**	**–**	**141,353**	**1,336,421**	**127,473**	**1,711,785**
Amortisation of other intangible assets	**2,555,212**	**–**	**–**	**10,068**	**–**	**2,565,280**

The segment results for the year ended 30 June 2021:

	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Total *RMB*
Segment revenue from external customers	244,040,682	182,521,867	19,886,736	50,456,785	496,906,070
Timing of revenue recognition					
At a point in time	244,040,682	–	3,164,938	50,456,785	297,662,405
Over time	–	182,521,867	16,721,798	–	199,243,665
Segment cost of sales	(196,369,075)	(139,034,873)	(17,007,587)	(38,866,835)	(391,278,370)
Segment gross profit	47,671,607	43,486,994	2,879,149	11,589,950	105,627,700
Segment results	22,105,187	36,633,605	(6,219,022)	(7,463,416)	45,056,354
Common administrative expenses					(23,007,904)
Other income and gains, net					23,409,817
Share of net loss of associates					(52,462)
Finance costs, net					(22,297,865)
Profit before income tax					23,107,940
Income tax expense					(6,592,011)
Profit for the year					16,515,929

Other segment information:

	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Unallocated *RMB*	Total *RMB*
Capital expenditure	141,942	–	23,246	1,115,540	6,595,823	7,876,551
Depreciation of property, plant and equipment	979,974	55,613	1,164,856	4,508,290	–	6,708,733
Depreciation of other right-of-use assets	–	–	–	–	1,497,222	1,497,222
Depreciation of investment properties	–	–	–	5,643,697	310,742	5,954,439
Amortisation of prepaid land lease payments	106,538	–	141,354	1,336,421	127,472	1,711,785
Amortisation of other intangible assets	2,587,935	–	–	10,728	–	2,598,663

Revenue from one (2021: one) customer, derived in the project contracting services segment, accounted for more than 10% of the Group's total revenue for the year, represented approximately 18% of the total Group's revenue for the year ended 30 June 2022 (2021: 25%), which are shown as follows:

	2022	2021
	RMB	*RMB*
Customer A	**59,672,556**	N/A[1]
Customer B	**N/A[1]**	122,047,449

[1] The corresponding revenue did not contribute 10% or more of the total revenue of the Group in the respective year.

The amount of the Group's revenue from external customers broken down by location of the customers is shown in the table below.

	For the year ended 30 June	
	2022	2021
	RMB	*RMB*
PRC	**316,962,165**	372,270,985
Vietnam	**6,906,636**	122,047,449
Others	**–**	2,587,636
	323,868,801	496,906,070

	As at 30 June	
Segment assets	**2022**	2021
	RMB	*RMB*
Project contracting services	**181,538,627**	447,870,231
Supporting services	**306,357,498**	358,128,717
Industrial products	**283,782,893**	297,048,596
Environmental products	**37,524,376**	85,056,488
Total segment assets	**809,203,394**	1,188,104,032
Unallocated:		
Cash and cash equivalents	**141,048,866**	145,299,486
Restricted deposits	**52,312,844**	–
Pledged deposits	**28,844,290**	23,922,992
Deferred tax assets	**870,371**	16,260,156
Other right-of-use assets	**4,622,858**	5,830,519
Investment properties	**4,746,831**	5,057,570
Prepayments — non-current portion	**156,722**	169,782
Total assets	**1,041,806,176**	1,384,644,537

Segment liabilities	**As at 30 June**	
	2022	2021
	RMB	*RMB*
Industrial products	**269,995,355**	267,007,692
Project contracting services	**122,996,889**	203,447,045
Supporting services	**88,398,364**	55,736,486
Environmental products	**16,859,944**	20,963,636
Total segment liabilities	**498,250,552**	547,154,859
Unallocated:		
Deferred tax liabilities	**5,153,893**	5,477,481
Interest-bearing loans	**38,500,000**	53,046,324
Convertible bonds	**–**	81,314,234
Other payables	**93,495,552**	3,033,729
Income tax payable	**5,866,781**	6,287,003
Lease liabilities	**4,476,132**	5,517,013
Total liabilities	**645,742,910**	701,830,643

4 OTHER INCOME AND GAINS, NET

	For the year ended 30 June	
	2022	2021
	RMB	*RMB*
Interest income recognised from project contracting services	**12,311,414**	10,885,693
Government grants	**4,557,886**	6,113,650
Interest income from customer delaying on payment	**–**	2,001,418
Tax refund	**7,545**	1,770,784
Rental income	**638,005**	1,115,723
Net fair value (losses)/gains on financial assets at FVPL	**(640,178)**	447,433
Interest income from loan to a customer	**–**	81,686
Others	**1,439,031**	993,430
	18,313,703	23,409,817

5 NET IMPAIRMENT (LOSSES)/GAINS ON FINANCIAL AND CONTRACT ASSETS

	For the year ended 30 June	
	2022	2021
	RMB	*RMB*
Expected credit (losses)/gains on financial and contract assets	**(9,200,657)**	4,850,835
Provision for impairment losses of trade and other receivables arose from Subject Transactions *(Note i)*	**(95,772,971)**	–
Provision for impairment loss of a major trade debtor *(Note ii)*	**(129,767,173)**	–
	(234,740,801)	4,850,835

Notes:

(i) During the first half of 2022, when reviewing the balance of the long outstanding receivables of Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly owned subsidiary of the Company, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang, and three companies which are not subsidiaries of the Company (the "Subject Transactions"), namely (i) Tongxiang Jiafu Paper Equipment Co., Ltd. ("Jiafu Paper"); (ii) Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric"); and (iii) Zhejiang Huazhang Fibertech Co., Ltd. ("Fibertech"). Jiafu Paper is an associate of the Company

The Subject Transactions existed funding arrangement transactions of significant amount between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech, which were without any procurement business nature and lacking supporting agreements with Zhejiang Huazhang. Further, most of the Subject Transactions were not properly approved by the Group's internal payment approval procedures, resulting in the existence of outstanding receivables between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech exceeding a reasonable limit. Since the directors of the Company are of the view that the trade and other receivables arose from the Subject Transactions cannot be recovered, the Group made provision for impairment losses of trade and other receivables of RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022. Please also refer to the Company's announcements dated 11 August 2022 and 26 October 2022 for details.

(ii) The amount represented provision for impairment loss of a major trade debtor, which has been past due more than 2 years and were in significant financial difficultly and had default in payment. Although there were pledged assets for the trade debtor, based on the legal advice, the directors of the Company are of the view that there were difficulties in enforcing to recover the pledged assets from the debtor for realisation in the mainland China. As there were significant uncertainties of recovering this receivable, the Group has recognised full provision for impairment loss of RMB129,767,173 in the consolidated profit or loss for the year ended 30 June 2022.

6 FINANCE COSTS, NET

	For the year ended 30 June	
	2022	2021
	RMB	*RMB*
Finance costs		
— Interest on convertible bonds	**(6,891,977)**	(13,308,299)
— Interest on other payables	**(7,400,170)**	–
— Interest on loans	**(5,148,702)**	(5,161,210)
— Net foreign exchange losses	**–**	(4,043,178)
— Interest paid/payable for lease liabilities	**(293,039)**	(372,640)
— Others	**–**	(35,736)
	(19,733,888)	(22,921,063)
Finance income		
— Interest income	**3,119,318**	623,198
— Net foreign exchange gains	**1,179,944**	–
	4,299,262	623,198
Finance costs, net	**(15,434,626)**	(22,297,865)

7 (LOSS)/PROFIT BEFORE INCOME TAX

The Group's (loss)/profit before income tax is arrived after charging the following:

	2022	2021
	RMB	*RMB*
Amortisation of other intangible asset	**2,565,280**	2,598,663
Auditor's remuneration	**2,831,348**	2,150,000
Depreciation of property, plant and equipment *(note i)*	**6,259,842**	6,708,733
Depreciation of right-of-use assets	**1,293,648**	1,497,222
Depreciation of investment properties	**5,954,439**	5,954,439
Expense relating to short-term lease and other leases with lease terms within 12 months	**808,185**	1,028,273
Loss on write-off of property, plant and equipment	**151,177**	–
Legal and professional fees	**4,718,262**	5,889,612
Employment benefit expenses *(note ii)*	**80,800,288**	54,362,477

Notes:

(i) Depreciation of property, plant and equipment amounting to RMB996,118 (2021: RMB3,165,445) are included in cost of sales; amounting to RMB4,992,491 (2021: RMB3,415,416) are included in administrative expenses; amounting to RMB119,582 (2021: RMB6,864) are included in selling and distribution expenses, and approximately RMB151,651 (2021: RMB121,008) are included in research and development expenses.

(ii) Employment benefit expenses amounting to RMB1,474,771 (2021: RMB3,422,615) are included in cost of sales; amounting to RMB37,140,927 (2021: RMB23,640,838) are included in administrative expenses; amounting to RMB7,380,078 (2021: RMB5,097,177) are included in selling and distribution expenses, and approximately RMB34,804,512 (2021: RMB22,201,847) are included in research and development expenses.

8 INCOME TAX EXPENSE

	For the year ended 30 June	
	2022	2021
	RMB	*RMB*
Current income tax		
PRC enterprise income tax *(iii)*	**477,595**	6,446,107
Hong Kong profits tax *(ii)*	**–**	2,720,633
Deferred income tax	**15,066,197**	(2,574,729)
	15,543,792	6,592,011

(i) Cayman Islands profits tax

Profits tax is not imposed on corporations in the Cayman Islands.

(ii) Hong Kong profits tax

Under the two-tiered profits tax regime, Hong Kong profits tax is chargeable at the rate of 8.25% on assessable profits up to HK$2,000,000 and at the rate of 16.5% on any part of assessable profits over HK$2,000,000 for a corporation.

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

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

The applicable EIT rate of Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang") is 25% according to the New EIT Law. Under the relevant regulations of the New EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar year of 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 year ended 30 June 2022 (2021: 15%).

9 (LOSSES)/EARNINGS PER SHARE

The calculation of the basic (losses)/earnings per share amount is based on the (loss)/profit for the year attributable to the shareholders of the Company and the weighted average number of ordinary shares of 941,160,490 (2021: 733,206,978) which represents the shares in issue during the year.

The Company has two categories of potentially dilutive potential ordinary shares: share options and convertible bonds. The diluted (losses)/earnings per share is same as the basic (losses)/earnings per share as any potential ordinary shares would have anti-dilutive effect for the years ended 30 June 2022 and 2021.

	For the year ended 30 June	
	2022	2021
	RMB	*RMB*
Basic		
(Losses)/earnings		
(Loss)/profit attributable to the shareholders of the Company	**(363,753,165)**	17,984,484
Number of shares		
Weighted average number of ordinary shares in issue during the year	**941,160,490**	733,206,978
Basic (losses)/earnings per share (RMB cents)	**(38.65)**	2.45
Diluted		
(Losses)/earnings		
(Loss)/profit attributable to the shareholders of the Company	**(363,753,165)**	17,984,484
Number of shares		
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating diluted earnings per share during the year	**941,160,490**	733,206,978
Diluted (losses)/earnings per shares (RMB cents)	**(38.65)**	2.45

10 DIVIDENDS

No dividend was paid during the year ended 30 June 2022 (2021: no dividend was paid).

The Board does not recommend to declare any dividend for the year ended 30 June 2022 (2021: nil).

11 GOODWILL

	Headbox business *RMB*	Logistics and warehousing services *RMB*	Others *RMB*	Total *RMB*
Year ended 30 June 2022				
Opening net book amount as at 1 July 2021	36,155,379	3,183,135	596,370	39,934,884
Impairment loss recognised for the year	(6,848,966)	(3,183,135)	–	(10,032,101)
Closing net book amount as at 30 June 2022	**29,306,413**	**–**	**596,370**	**29,902,783**
Year ended 30 June 2021				
Opening net book amount as at 1 July 2020	36,155,379	3,183,135	596,370	39,934,884
Closing net book amount as at 30 June 2021	36,155,379	3,183,135	596,370	39,934,884

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

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

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

30 June 2022	**Headbox business**
Sales (% annual growth rate)	**2.5%–3.0%**
Budgeted gross margin (%)	**23.5%**
Long-term growth rate (%)	**2.5%**
Pre-tax discount rate (%)	**19.2%**

30 June 2021	**Headbox business**
Sales (% annual growth rate)	2%–3%
Budgeted gross margin (%)	28%–34%
Long-term growth rate (%)	2.5%
Pre-tax discount rate (%)	19.4%

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

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

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

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

Based on the valuation report prepared by independent professional valuers, Valplus Consulting Limited ("Valplus"), the recoverable amounts of the headbox business CGU and logistics and warehousing services CGU are RMB36,663,000 (2021: RMB123,083,925), and RMB23,259,790 (2021: RMB217,375,356) respectively, impairment losses of RMB6,848,966 (2021: RMB Nil) and RMB3,183,135 (2021: RMB Nil) were recognised for the year in respect of the goodwill included in the headbox business CGU and logistics and warehousing services CGU respectively.

Under the impact of COVID-19 Outbreak in the Mainland China, the Group's headbox business and logistics and warehousing services business in the PRC was faced with downward pressure. The business is also affected by macroeconomic performance that is affecting the domestic economy. As a result, the directors of the Company expected the projected sales, budgeted gross profit margin and budgeted net profit margin of headbox business CGU and logistics and warehousing services CGU will be decreased and significant impairment loss on goodwill was recognised for the year ended 30 June 2022.

As at 30 June 2021, no impairment charge arose in the aforesaid CGUs.

12 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

(i) Trade and other receivables

	As at 30 June	
	2022	2021
	RMB	*RMB*
Warranty receivables *(a)*	**10,692,396**	14,405,121
Other trade receivables *(b)*	**315,884,068**	510,358,827
	326,576,464	524,763,948
Less: provision for impairment of trade receivables	**(175,540,251)**	(96,219,937)
Trade receivables — net	**151,036,213**	428,544,011
Bills receivables	**38,333,671**	49,097,554
Trade and bills receivables	**189,369,884**	477,641,565
Payment on behalf of an independent third party	**85,128,228**	98,584,541
Other receivables due from related parties	**95,594,013**	–
Deductible input value added tax	**100,298**	9,624,065
Loan to a customer	**2,555,227**	5,312,236
Other receivables — guarantee	**6,213,510**	4,158,422
Others	**34,471,662**	6,865,375
	224,062,938	124,544,639
Less: provision for impairment of other receivables	**(181,102,024)**	(28,051,042)
Other receivables — net	**42,960,914**	96,493,597
Total trade and other receivables	**232,330,798**	574,135,162
Less: trade and other receivables — non-current portion	**(38,542,965)**	(23,744,860)
	193,787,833	550,390,302

(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 Groups was entitled to collect the revenue is as follows:

	As at 30 June	
	2022	2021
	RMB	*RMB*
Warranty receivables		
Up to 3 months	**–**	–
6 months to 1 year	**192,500**	–
1 year to 2 years	**54,000**	3,678,837
Over 2 years	**10,445,896**	10,726,284
	10,692,396	14,405,121

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

	As at 30 June	
	2022	2021
	RMB	*RMB*
Other trade receivables		
Up to 3 months	**28,293,237**	115,150,537
3 months to 6 months	**7,988,156**	9,839,748
6 months to 1 year	**18,216,071**	3,197,708
1 year to 2 years	**90,557,626**	195,188,791
Over 2 years	**170,828,978**	186,982,043
	315,884,068	510,358,827

The ageing analysis of the other trade receivables based on the due date is as follows:

	As at 30 June	
	2022	2021
	RMB	*RMB*
Other trade receivables		
Not due	**10,717,636**	215,009,057
Up to 3 months past due	**17,518,452**	77,014,715
3 months to 6 months past due	**7,988,156**	9,852,866
6 months to 1 year past due	**18,408,571**	9,546,056
1 year to 2 years past due	**90,611,626**	53,907,174
Over 2 years past due	**170,639,627**	145,028,959
	315,884,068	510,358,827

Due to the short-term nature of the current receivables, their carrying amounts approximate their fair value as at the end of the reporting period.

(ii) Contract assets

	As at 30 June	
	2022	2021
	RMB	*RMB*
Contract assets	**22,593,177**	16,833,275
Less: provision for impairment of contract assets *(a)*	**(2,876,182)**	(508,140)
	19,716,995	16,325,135

(iii) Prepayments

	As at 30 June	
	2022	2021
	RMB	*RMB*
Prepayments for procurement	**94,893,020**	89,012,131
Others	**408,752**	384,348
Total prepayments	**95,301,772**	89,396,479
Less: prepayments — non-current portion	**(156,722)**	(169,782)
	95,145,050	89,226,697

13 TRADE AND OTHER PAYABLES

	As at 30 June	
	2022	2021
	RMB	*RMB*
Trade payables	**176,293,302**	166,489,237
Bills payables	**19,077,191**	52,868,655
	195,370,493	219,357,892
Other taxes payables	**46,528,370**	42,233,017
Deposits for project contracting services	**6,553,958**	35,295,556
Interest-free loan from independent third parties	**13,080,800**	13,580,800
Amount due to suppliers on a customer's behalf	**13,419,622**	13,419,622
Provision for legal claims *(a)*	**12,659,277**	7,447,420
Accruals	**4,229,571**	5,980,742
Employee benefit payables	**642,087**	3,496,196
Other deposits	**627,803**	581,402
Provision for warranty expenses	**523,838**	523,838
Payables for property, plant and equipment	**708,312**	77,716
Amounts due to related parties	**85,786,822**	5,920
Interest payable for loans	**45,833**	–
Interest payable for convertible bonds	**2,550,040**	–
Others	**23,598,738**	3,531,463
	210,955,072	126,173,692
Total trade and other payables	**406,325,565**	345,531,584
Less: trade and other payables — non-current portion		
— Employee benefit payables	**–**	(2,101,412)
	406,325,565	343,430,172

(a) In July 2020, a legal claim was made by an independent third party against the Group in respect of a construction contract. No payment has been made to the claimant pending outcome of the decision. The recognised provision reflects the directors' best estimate of the most likely outcome.

The ageing analysis of the trade payables based on the invoice date is as follows:

	As at 30 June	
	2022	2021
	RMB	*RMB*
Up to 3 months	**100,962,554**	88,015,427
3 months to 6 months	**7,148,031**	9,185,944
6 months to 1 year	**18,561,739**	16,991,364
1 year to 2 years	**19,953,725**	31,631,302
Over 2 years	**29,667,254**	20,665,200
	176,293,302	166,489,237

14 SHARE CAPITAL AND PREMIUM

	As at 30 June	
	2022	2021
	RMB	*RMB*
Issued and fully paid:		
1,064,089,378 (30 June 2021: 886,741,378) ordinary shares	**8,907,761**	7,471,631

	Number of issued shares	Share capital	Share premium	Total
		RMB	*RMB*	*RMB*
At 1 July 2020	733,857,225	6,203,955	509,708,723	515,912,678
Issue of shares (i)	153,846,153	1,276,308	81,683,692	82,960,000
Shares repurchased (ii)	(962,000)	(8,632)	(1,535,129)	(1,543,761)
At 30 June 2021	886,741,378	7,471,631	589,857,286	597,328,917
Shares issued under placing agreement (iii)	177,348,000	1,436,130	73,288,161	74,724,291
At 30 June 2022	1,064,089,378	8,907,761	663,145,447	672,053,208

(i) On 10 May 2021, the Company issued 153,846,153 ordinary shares at HK$0.65 each to use the net proceeds to fund part of its investment in the waste recycling plants.

(ii) In July, September and October 2020, the Company repurchased 698,000, 206,000 and 58,000 ordinary shares respectively through purchases on Hong Kong Exchange and Clearing limited. All the repurchased ordinary shares had been cancelled as at 30 June 2021. The total amount paid to repurchase these ordinary shares was RMB1,543,761 and had deducted from the share capital and share premium of the equity.

(iii) On 11 March 2022, the Company completed a share placing for an aggregate for 177,348,000 shares at a placing price of HK$0.53 per share to independent investors. The gross proceeds from the placing was approximately HK$93,994,440, the net proceeds was approximately HK$92,277,160 (equivalent to RMB74,724,291) and HK$90,503,680 (equivalent to RMB73,288,161) was recognised as share premium. Details of the placement are set out in the Company's announcements dated 28 February 2022 and 11 March 2022.

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.

15 CONVERTIBLE BONDS

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

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

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

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

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

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

The proceeds from the issuance of the old Convertible Bonds of HK$100,000,000 have been split into liability and equity components on 29 March 2017 (the issuance date). On the issuance date, the fair value of the liability component of the old Convertible Bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar bond without conversion option with consideration of the Group's own non-performance risk. And it will be measured on the amortized cost basis until extinguished on conversion or redemption. The remaining proceeds are allocated to the equity component of the old Convertible Bonds. Transaction costs are apportioned between liability and equity components of the old Convertible Bonds based on the allocation of proceeds to the liability and equity components on the issuance date.

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

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

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

The old Convertible bonds matured on 29 September 2020. At the request of the Company, the Investor agreed to defer seeking repayment against the Company's commitment to compensate the Investor for the delayed repayment. For the period up to the new issue of the convertible bonds (refer to below as the new Convertible Bonds), the Investor accepted compensation calculated to be HK$2,000,000 and was treated as the interest expense by the Company.

On 1 December 2020, the Company issued another convertible bonds in principal amount of HK$100,000,000 (equivalent to RMB85,041,000) (the "new Convertible Bonds"). The proceeds from the issuance of the new Convertible Bonds were used to repay the old Convertible Bonds.

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

(a) convertible at the option of the bond holders into ordinary shares of the Company at HK$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and

(b) the maturity date is 30 November 2021 and unless previously converted or cancelled, after 1 June 2021, the Bondholders shall have the option to request for the redemption by the Issuer of the Bonds by serving onto the Issuer a prior written notice of not less than two weeks from the intended date of early redemption of the Bonds.

The new Convertible Bonds bear interest at a rate of 12% per annum payable quarterly in arrears on 1 March 2021, 1 June 2021, 1 September 2021 and 30 November 2021.

The proceeds from the issuance of the new Convertible Bonds of HK$100,000,000 have been split into liability and equity components on 1 December 2020 (the issuance date), while the liability component includes host debt and early redemption option, which is an embedded derivative of the host contract. On the issuance date, the fair value of the host debt of the new Convertible Bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar bond without conversion option or early redemption option with consideration of the Group's own non-performance risk. It will be measured on the amortised cost basis until extinguished on conversion or redemption. The early redemption option is estimated at fair value initially and will be measured at amortised cost together with the host debt. The remaining proceeds are allocated to the equity component of the new Convertible Bonds and is included in equity.

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

	Liability component of Convertible Bonds	**Equity component of Convertible Bonds**	**Total**
	RMB	*RMB*	*RMB*
At 1 July 2021	**81,314,234**	**6,199,604**	**87,513,838**
Interest expense *(Note 6)*	**6,891,977**	**–**	**6,891,977**
Interest paid and payable	**(5,007,137)**	**–**	**(5,007,137)**
Maturity of Convertible Bonds	**(81,792,000)**	**(6,199,604)**	**(87,991,604)**
Currency translation differences	**(1,407,074)**	**–**	**(1,407,074)**
At 30 June 2022	**–**	**–**	**–**
At 1 July 2020	91,245,279	35,161,248	126,406,527
Extinguishment of the old Convertible Bonds	(85,041,000)	(35,161,248)	(120,202,248)
Issue of the new Convertible Bonds	78,841,396	6,199,604	85,041,000
Interest expense *(Note 6)*	13,308,299	–	13,308,299
Interest paid and payable	(8,944,740)	–	(8,944,740)
Currency translation differences	(8,095,000)	–	(8,095,000)
At 30 June 2021	81,314,234	6,199,604	87,513,838

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Affected by factors such as the COVID-19 pandemic and international geopolitical tensions impacting global economy, China's economy is currently facing multiple challenges and difficulties. According to the data released by the National Bureau of Statistics, China's gross domestic product ("GDP") in the first half of 2022 was RMB56.3 trillion, representing a significant slowdown in GDP growth of 2.5%. Since March this year, Shanghai, China's economic and financial center, has entered into a lockdown and pandemic prevention period that lasted for two months. The Yangtze River Delta region where it is located is an important production base for the manufacturing industry, and most industries were suspended from work and production. China's economy is under downward pressure, and the paper making industry is inevitably affected.

As an important fundamental raw material industry, the paper making industry plays an important role in national economy. According to the data released by the National Bureau of Statistics, in the first half of 2022, China's machine-made paper and paperboard production output was 67.724 million tonnes, representing a year-on-year decrease of 0.6%. The sales revenue of paper and paper product enterprises above designated size amounted to RMB737.46 billion, representing a year-on-year increase of 2.5%. Affected by factors such as the COVID-19 pandemic, inflation and changes in downstream demand, the price of wood pulp has been fluctuating since 2021. The cost of raw materials such as wood pulp is high, and paper making enterprises are unavoidably turning to the downstream. However, due to its weak demand from end-users, the condition of "weak demand during peak season, let alone low season" is resulted. As the cost pressure is difficult to pass on, the industry's profitability is contracted.

In the long run, after experiencing a slowdown in growth rate and more advanced technology after the early stage of rapid growth, the paper making industry will gradually become mature. As the government has increased its emphasis on environmental protection, the environmental protection policies are becoming more and more stringent, backward production capacity is being continuously eliminated, and the industry concentration will further be improved. Driven by its environmental protection policies, China's paper making industry will pay more attention to the concepts of recycling, low carbon, green and environmental protection. While expanding production capacity, we will pay more attention to the improvement of product quality. Under the continuous development of relevant technologies in wood pulp production, paper making, machinery and equipment, sewage treatment, etc., the structure of the paper making industry will be optimised.

BUSINESS REVIEW

For the year ended 30 June 2022, the Group's revenue decreased by 34.8% to approximately RMB323.9 million, which was mainly affected by the delay in certain contracting service projects led by customers. However, the value of new contracts was stable at approximately RMB497.7 million and approximately RMB500.3 million for the year ended 30 June 2022 and 2021 respectively.

Paper making related businesses

Steady Growth of New Contracts

For the year ended 30 June 2022, the Group adopted an active marketing strategy and implemented an integrated sales model. The value of new contracts was maintained at approximately RMB497.7 million for the year ended 30 June 2022 and the outstanding contracts amount as at 30 June 2022 were at approximately RMB599.3 million. In particular, the Group has secured the general contract with Shanying International Holdings Co., Ltd for the 6600/1200 paper machine project. It is currently the largest paper machine manufactured by domestic paper machine suppliers. In addition, the Group also secured the general contract with Minfeng Special Paper Co., Ltd. for two specialized paper machines and Shandong Sun Paper Industry Joint Stock Co., Ltd. for the PM1 transmission and transformation project.

Demonstrating Strengths for Milestone Projects

The Group has an engineering design and implementation team with solid skills and valiant style, which always takes pride in providing satisfactory customer service despite of difficulties. In January 2022, the PM4 paper machine speed-enhancing and production-increasing transformation project of Shanxi Qiangwei Paper Industry Co., Ltd. was successfully launched, which is one of the Group's milestone projects. Based on the original configuration of paper machines, the Group organised a strong design and project implementation team, which has repeatedly communicated, demonstrated and formulated a strict technical path for design. Finally, through a series of design optimisation such as changing the transmission of large gears to direct connection with the drying tank, reasonable distribution of the drying balance capacity before and after the drying process, and shifting from roped tail threading to ropeless tail threading, the smoothness of the operation of PM4 paper machine has been significantly improved, laying a solid foundation for improving the speed of vehicles. This transformation involved almost the entire drying unit, under heavy workload, with difficulties at construction and facing tightness of time. However, in the process of project implementation, the Group strictly controlled the quality and progress, and arranged special personnel to supervise the selection of suppliers, procurement, supervision and pre-installation. The Group completed the project tasks with quality and quantity on time, which was highly praised by the users. It once again proved that the Group has a leading position in the paper making industry in terms of its professionalism of design and installation.

In addition, the PM2 paper machine project for Dahua Paper Company Nigeria Limited in Nigeria has been successfully put into operation. The project is also the largest paper machine project in Africa. The Group provided the paper machine and rewinding machine transmission system. The project team has overcome the impact of the COVID-19 pandemic to ensure quality, progress and service, and senior engineers were despatched to Africa for the adjustments and trials of the equipment. The project has demonstrated the first-class professional skills and supreme combat power, solidarity and competitiveness of the project team.

Technology Innovation to Promote Sustainable Development

For the year ended 30 June 2022, the Group still insisted on promoting sustainable development with technological innovation, and invested a lot of resources in product research and development, and the related expenses amounted to approximately RMB45.9 million. During the year ended 30 June 2022, the Group filed 74 new patent applications. As at 30 June 2022, the Group registered a total of 139 patents, including 23 invention patents, 83 utility model patents and 33 software copyrights. In 2022, the Group was awarded the title of "Excellent Enterprise in Digital Economy Development" in Tongxiang City in 2021 and was listed among the "Provincial Industrial Digitalization Service Providers".

In December 2021, the Group's "high-efficiency forming linkage line for the preparation of derivative fuels for paper making solid waste" (用於造紙固體廢棄物衍生燃料製備的高效成型聯動線) was selected as the first set of product in the key areas of equipment manufacturing industry in Jiaxing City in 2021. It is demonstrated that the Group's strategy of establishing a research institute has been effective and brought encouragement to our scientific researchers. Based on the advantages of differentiation in new technologies, new products and new materials, the research institute of the Group has led China's paper making equipment technology to reach the international advanced level.

In terms of the research and development progress of the research institute, the newly designed scraper mobile device is undergoing the testing process and the ropeless tail threading system is awaiting practical trials. The PDM mechanical design system, which assists in the deployment, has basically completed its work, and is under continuous optimisation. The cooperation of new products with the data detection and control accessories of the smart manufacturing department is in the design and processing stage, clarifying the research direction of new materials, and the design of the new structure hydroforming machine is in progress.

Environmental protection related business

The Group has been committed to the development of the green business, in particular, the establishment of waste recycling treatment plants outside the PRC since 2019 to capture the opportunities to expand global waste recycling treatment. According to the requirements of the "14th Five-Year Plan for the Development of Circular Economy" (《「十四五」循環經濟發展規劃》) issued in 2021, China will basically establish a resource recycling industry system by 2025 to significantly improve the efficiency of resource utilisation. The overall resource production rate of waste renewable resources industry will increase by 20% compared with 2020, of which, the amount of recycled non-ferrous metal will reach 20 million tonnes. With the introduction of the "dual carbon" goal and the 14th Five-Year Plan, the circular economy will become an important vehicle to achieve carbon peak and carbon neutrality. Should this opportunity be materialised, it will be an exciting expansion plan of the Group's environmental protection services business. As at 30 June 2022, the Group is still exploring opportunities overseas and negotiating with governments and business partners in overseas countries to fight for optimal investment conditions.

The Group has started trading of scrap materials, especially metal scrap, since 2021. For the year ended 30 June 2022, the trading volume of the scrap materials trading business was approximately RMB32.4 million and a revenue of approximately RMB0.6 million was recognised. In the future, considering the market potential of global waste recycling treatment, the Group will further allocate resources to environmental protection related business and believes that the business in such area will further grow.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 34.8% from approximately RMB496.9 million for the year ended 30 June 2021 to approximately RMB323.9 million for the year ended 30 June 2022, primarily attributing to the delay of certain contracting service projects by customers in project contracting services segment. The gross profit margin decreased from approximately 21.3% for the year ended 30 June 2021 to approximately 10.2% for the year ended 30 June 2022, primarily attributing to provisions for the loss incurred from a project were recognised.

(i) Industrial products

Revenue from sales of industrial products decreased by approximately 32.4% from approximately RMB244.0 million for the year ended 30 June 2021 to approximately RMB164.9 million for the year ended 30 June 2022. Such decrease was primarily attributable to slowdown of the project progress led by the customers and shortage of supply of the parts from the suppliers. The gross profit margin of industrial products increased from approximately 19.5% for the year ended 30 June 2021 to approximately 21.3% for the year ended 30 June 2022.

(ii) Project contracting services

Revenue from project contracting services decreased by approximately 54.1% from approximately RMB182.5 million for the year ended 30 June 2021 to approximately RMB83.8 million for the year ended 30 June 2022. Such decrease was mainly due to the installation work of a mega contracting project in Vietnam was completed in the financial year of 2021 and several contracting projects were delayed by the customers. The gross profit margins of project contracting services decreased sharply from approximately 23.8% for the year ended 30 June 2021 to approximately -20.1% for the year ended 30 June 2022, such change was primarily due to attributing to a loss from an engineering procurement construction project (the "EPC Project") was recognised.

The Group undertook the EPC Project for Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) ("Yunnan Yunhong") amounting to approximately RMB320.0 million which started in April 2018. The project was suspended for nearly three years. Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly-owned subsidiary of the Company, received a first instance judgment dated 24 December 2021 (the "Judgment") handed down by the Intermediate People's Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the "Court") in the People's Republic of China (the "PRC") in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程

有限公司) (the "Plaintiff") as plaintiff and Yunnan Yunhong as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. According to the Judgment, Yunnan Yunhong and Zhejiang Huazhang were ordered, among others, to pay an aggregate amount of approximately RMB37.6 million to the Plaintiff. On 22 August 2022, Zhejiang Huazhang has obtained the approval of 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, 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 "Re-trial"). As of the date of this announcement, no hearing date of the Re-trial has been fixed. In addition, Zhejiang Huazhang received a first instance judgment dated 28 January 2022 (the "2nd Judgement") handed down by the People's Court of Tongxiang City (桐鄉市人民法院) (the "Tongxiang Court") in relation to a claim from a supplier (the "2nd Plaintiff") for the settlement of the purchase of equipment (the "Purchase") due to the project was suspended for a long time. According to the 2nd judgement, Zhejiang Huazhang were ordered, among others, to pay an aggregate amount of approximately RMB0.9 million to the 2nd Plaintiff. On 22 August 2022, the Intermediate People's Court of Jiaxing City of Zhejiang Province (浙江省嘉興市中級人民法院) maintained the 2nd Judgement and rejected the appeal application lodged by Zhejiang Huazhang. As the Group have similar purchases from other suppliers with the same terms in respect of this project, the management considered that other suppliers probably will make the same claim against the Group after the 2nd Judgement, therefore, the Group estimated a loss for the claims from other suppliers amounting to RMB18.0 million and recognised in the costs of sales.

(iii) Environmental business

Revenue from sales of environmental business decreased by approximately 35.8% from approximately RMB19.9 million for the year ended 30 June 2021 to approximately RMB12.8 million for the year ended 30 June 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 changed from approximately 14.5% for the year ended 30 June 2021 to approximately 5.5% for the year ended 30 June 2022.

(iv) Supporting services

Revenue from the provision of supporting services increased by approximately 23.6% from approximately RMB50.5 million for the year ended 30 June 2021 to approximately RMB62.3 million for the year ended 30 June 2022. The revenue from the provision of supporting services increased significantly mainly due to the increase in demand and size of the renovation projects for the year ended 30 June 2022. The gross profit margin for the provision of supporting services was stable at approximately 23.0% for the years ended 30 June 2021 and 2022.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 34.7% from approximately RMB9.5 million for the year ended 30 June 2021 to approximately RMB12.8 million for the year ended 30 June 2022, accounting for approximately 1.9% and approximately 3.9% of the Group's revenue for the years ended 30 June 2021 and 2022 respectively. Increase in selling and distribution expenses is mainly attributable to an increase in staff costs in relation to increment of staff salaries and an incentive paid for the improved performance.

Administrative expenses

The administrative expenses increased by approximately 49.3% from approximately RMB51.6 million for the year ended 30 June 2021 to approximately RMB77.0 million for the year ended 30 June 2022, accounting for approximately 10.4% and approximately 23.8% of the Group's revenue for the years ended 30 June 2021 and 2022 respectively. Increase in administrative expenses is mainly attributable to (i) an increase in staff costs due to an increase in headcount of management team and increment of staff salaries and incentive payment; (ii) an increase in entertainment fee for the year ended 30 June 2022 as compared with the respective period in 2021; and (iii) a provision for the litigation amounting to RMB8.1 million in relation to the EPC project was recognised for the year ended 30 June 2022 as no such provision for the year ended 30 June 2021.

Research and development expenses

The research and development expenses increased by approximately 67.7% from approximately RMB27.4 million for the year ended 30 June 2021 to approximately RMB45.9 million for the year ended 30 June 2022, accounting for approximately 5.5% and approximately 14.2% of the Group's revenue for the years ended 30 June 2021 and 2022 respectively. Increase in research and development expenses is mainly attributable to (i) an increase in staff costs due to increment of staff salaries and incentive paid to staff for their contribution; and (ii) an increase in usage of the raw materials as the Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes and new products. The Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment (losses)/gains on financial and contract assets

The Group recorded a change from reversal of net impairment losses on financial and contract assets of approximately RMB4.9 million for the year ended 30 June 2021 to net impairment losses on financial and contract assets of approximately RMB234.7 million for the year ended 30 June 2022, primarily due to the following reasons:

(i) Based on the latest information available to the Group, the carrying amounts of a customer as at 31 May 2022 was at net liabilities position. The management of the Group considered that the recoverability of the customer is remote and made further impairment loss on the receivables from such customer of approximately RMB129.8 million. After making the provision of the impairment, the Group have made provision of additional impairment loss of the receivables from such customer. The Group still continue to work with the financing lease companies in a joint effort for collection.

(ii) The Group has identified a number of abnormal payments and receipts between Zhejiang Huazhang and a number of companies which are not subsidiaries of the Group (the "Subject Transactions"), the aggregated balance of the Subject Transactions were approximately RMB95.8 million. The Company have assessed the recoverability of these receivables as those companies have liquidities issues or even suspended its business. As a result, the Group need to make a full provision of loss allowance on expected credit loss of these receivables balances. The Company will consult the company lawyer to determine any further legal action in order to recover the amounts. For further information, please refer to the Company's announcement dated 11 August 2022 and 26 October 2022.

(iii) Based on the future economic conditions and historical collection experience, the management of the Group have evaluated the expected credit losses of the receivables and prepayments as at 30 June 2022. Based on the assessment, the Group is required to make a further provision of loss allowance on expected credit loss of the receivables and prepayments balances.

The Group holds on-going discussion with the customers with regard to collection and will take legal action if necessary.

Other income and gains, net

Other income and gains, net decreased by 21.8% from approximately RMB23.4 million for the year ended 30 June 2021 to approximately RMB18.3 million for the year ended 30 June 2022, primarily attributing to (i) a interest income from customer delaying on payment of RMB2.0 million was recorded for the year ended 30 June 2021 while no such transaction was incurred for the year ended 30 June 2022; and (ii) a decrease in tax refund and government grants of approximately RMB1.8 million and approximately RMB1.6 million, respectively, for year ended 30 June 2022 as compared with the corresponding period in 2021.

Finance costs, net

The finance costs, net decreased by approximately 30.8% from RMB22.3 million for the year ended 30 June 2021 to approximately RMB15.4 million for the year ended 30 June 2022, primarily attributing to a change from exchange losses of approximately RMB4.0 million for the year ended 30 June 2021 to exchange gains of approximately RMB1.2 million for the year ended 30 June 2022 and an increase in interest income of approximately RMB2.5 million for the year ended 30 June 2022 as compared with the corresponding period in 2021.

Impairment loss on goodwill

The Group recorded an impairment loss on goodwill of headbox business and logistics and warehousing services business of approximately RMB6.8 million and approximately RMB3.2 million, respectively, for the year ended 30 June 2022 as no such impairment was incurred for the year ended 30 June 2021. The Group engaged independent valuer, Valplus, to determine the recoverable amounts of these business units. Due to the impact of COVID-19 Outbreak in the Mainland China, the Group's headbox business and logistics and warehousing services business in the PRC was faced with downward pressure. The business is also affected by macroeconomic performance that is affecting the domestic economy, the gross profit margin and revenue of headbox business and logistic and warehousing services business were decreased. As a result, the value of those business were decreased.

Impairment loss on investment in an associate

The Group recorded an impairment loss on investment in associate amounting to approximately RMB4.9 million for the year ended 30 June 2022 as no such impairment was incurred for the year ended 30 June 2021. Due to the Group incurred huge loss in relation to the Subject Transaction, which is related to the transactions with the associate, and the associate have suspended the business as at 30 June 2022. Therefore, the management of the Group considered that recoverability of the investment in associate was remote, and made impairment on this investment.

Income tax expense

The income tax increased from approximately RMB6.6 million for the year ended 30 June 2021 to approximately RMB15.5 million for the year ended 30 June 2022, such increase was primarily due to increase in deferred income tax in relation to reversal of tax loss recognized in the previous year and a decrease in current income tax due to decrease in operating profits of the major operating subsidiaries for the year ended 30 June 2022 as compared with the corresponding year.

The effective tax rates of the Group changed from approximately 28.5% for the year ended 30 June 2021 to approximately 4.4% for the year ended 30 June 2022.

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

As a result of the foregoing, the Group recorded a loss of approximately RMB366.7 million for the year ended 30 June 2022 from a profit of approximately RMB16.5 million for the year ended 30 June 2021. The margin changed from net profit margin of approximately 3.2% for the year ended 30 June 2021 to net loss margin of approximately 113.2% for the year ended 30 June 2022.

(Loss)/profit for the year attributable to the shareholder of the Company

The Group recorded a loss for the year attributable to the shareholders of the Company amounting to approximately RMB363.8 million for the year ended 30 June 2022 as compared with profit for the year attributable to the shareholders of the Company amounting to approximately RMB18.0 million for the year ended 30 June 2021.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources, loans from banks and equity financing. As at 30 June 2022, the Group had cash and cash equivalent balance amounting to approximately RMB141.0 million (30 June 2021: approximately RMB145.3 million) and interest-bearing loans amounting to approximately RMB38.5 million (30 June 2021: approximately RMB53.0 million).

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 of Hong Kong Limited ("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 are:

(a) convertible at the option of the bond holders into ordinary shares of the Company at HK$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and

(b) to be matured on 30 November 2021 (the "Maturity Date") and unless previously converted or cancelled, after 1 June 2021, the bondholders shall have the option to request for the redemption by the issuer of the bonds by serving onto the issuer a prior written notice of not less than two weeks from the intended date of early redemption of the bonds.

The new Convertible Bonds can 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") is 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. Since 29 April 2021, Mr. Fang has been appointed as executive Director.

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 is revived and will 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.

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

As at 30 June 2022, the new Convertible Bonds have been reclassified to amounts due to related party amounting to approximately RMB85.8 million.

Details of the new Convertible Bonds are disclosed in the Company's announcements dated 1 December 2020 and 29 December 2020.

BORROWINGS AND CHARGES OF ASSETS

As at 30 June 2022, the Group's borrowings were approximately RMB38.5 million (30 June 2021: RMB53.0 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 2021: all denominated in RMB, and bore an interest range of 5.1% to 8.4% per annum).

As at 30 June 2022, the Group's new Convertible Bonds was nil (30 June 2021: RMB81.3 million) which had matured on 30 November 2021. The new Convertible Bonds bore an interest rate of 12.0% per annum (with an additional default interest rate of 5% per annum on the overdue sum).

GEARING RATIO

The gearing ratios as at 30 June 2022 and 2021 were approximately 8.9% and 7.2%, respectively. The increase in gearing ratio was mainly attributable to a decrease in the Group's equity from approximately RMB682.8 million as at 30 June 2021 to approximately RMB396.1 million as at 30 June 2022. Based on the gearing ratio as at 30 June 2022, the Group still maintained a good financial position.

Gearing ratio is calculated based on the total interest-bearing loans (excluding the convertible bonds) at the end of the year divided by total interest-bearing loans plus total equity at the end of the respective year and multiplied by 100%.

TRADE AND OTHER RECEIVABLES

Trade and bills receivables decreased by approximately RMB288.2 million from approximately RMB477.6 million as at 30 June 2021 to approximately RMB189.4 million as at 30 June 2022, primarily due to increase in provision for impairment of trade and other receivables and decrease in revenue for the year ended 30 June 2022. The provision for impairment of trade receivables and other receivables increased by approximately RMB79.3 million to approximately RMB175.5 million and increased by approximately RMB153.1 million to approximately RMB181.1 million, respectively, for the year ended 30 June 2022 as compared with last year, due to the worsen economic environment and liquidity issues of certain customers. The Group will strengthen customer credit risk management to guard against the increase in bad debt provision, and will take legal action if necessary.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group (i) did not perform any material acquisition or disposal of subsidiaries, associates or joint ventures or investments during the year ended 30 June 2022; and (ii) did not hold any significant investment as at 30 June 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have future plans for material investments and capital assets during the year ended 30 June 2022 and up to the date of this announcement.

CAPITAL EXPENDITURE

For the year ended 30 June 2022, the Group's capital expenditure amounted to approximately RMB5.8 million (2021: RMB7.9 million).

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had no material capital commitments (30 June 2021: Nil).

CONTINGENT LIABILITIES

As at 30 June 2022, the Group had no material contingent liabilities (30 June 2021: 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 year ended 30 June 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.

FOREIGN CURRENCY RISK

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

The 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 30 June 2022, the Group had 269 employees (30 June 2021: 301 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2022 were approximately RMB80.8 million, as comparable to approximately RMB54.4 million for the year ended 30 June 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 year, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

Looking forward to 2023, the main direction of stable macroeconomic growth will remain unchanged. On the demand side, the second half of a year is generally the traditional peak season for paper making industry. Affected by the increase in overseas market demand and the recovery of domestic demand after the alleviation of the pandemic, the demand for machine-made paper will increase. On the cost side, the cost of pulp, chemicals, energy and transportation remained at a high level, driving the price of paper to stabilise with room for price increase.

In March 2022, the National Development and Reform Commission and other departments jointly issued the "Notice on the Implementation Guidelines for Energy-saving and Carbon-Reduction Transformation and Upgrading in Key Areas of High-energy-consuming Industries (2022 Edition)" (《高耗能行業重點領域節能降碳改造升級實施指南(2022年版)》), which clarified the goal of energy-saving and carbon-reduction of non-ferrous industry in the "14th Five-Year", and played an important guiding role in improving the utilization efficiency of energy resources in the industry and reducing carbon emissions. The Group is confident in the potential of the metal scrap recycling business and will continue to seek business partners globally and strive to become one of the major players in the recycling industry.

The Group will continue to increase its investment in the intelligentization and digitalization of equipment, further establish its firm presence in international markets by its capability and reputation, and build the brand of the Group in the international market. As both opportunities and challenges exist, the Group will bravely overcome the difficulties in the industry, actively expand the market, continue to strengthen the cooperation ability and optimise the operation efficiency, so as to achieve the high quality and sustainable development of the Company. In the future, the Group's business direction of "intelligent manufacturing, clean production and project contracting" will remain unchanged.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2022.

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 announcement of the Company dated 2 March 2021 and the circular dated 13 April 2021, the Company intended to utilise the proceeds from such subscription towards the costs of purchasing and leasing plants and machineries for the Dubai Recycling Project. Subsequently, as disclosed in the announcement of the Company dated 8 June 2021, such proceeds would temporarily be used as working capital to purchase waste material for processing and/or re-sale.

As at 30 June 2022, the Group has temporarily used the proceeds from the subscription of approximately HK$3.8 million as working capital to purchase waste material for processing and/or re-sale and the unused balance of approximately HK$96.2 million was currently placed into deposits and/or money market instruments, which will remain for potential acquisition of 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.

For more details in relation to the subscription under specific mandate, please refer to the relevant 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 Company 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 placees 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 placed as interest bearing deposits with licensed banks in Hong Kong and the PRC as at 30 June 2022.

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

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; (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.

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 30 June 2022:

	Original planned use of the Net Proceeds *RMB'000*	Reallocation of Unutilised Net Proceeds as at 31 March 2022 *RMB'000*	Revised use of the Net Proceeds *RMB'000*	Actual use of Net Proceeds from the Listing Date to 30 June 2022 *RMB'000*	Unused Net Proceeds as at 30 June 2022 *RMB'000*	Expected date of full utilisation of unused Net Proceeds
Increase production capacity	23,521	(5,222)	18,299	18,299	–	–
Cost saving construction	15,709	(15,709)	–	–	–	–
Continuous product development and innovation	5,208	–	5,208	5,208	–	–
Increase market awareness and image of the Group	3,385	(869)	2,516	2,516	–	–
Improve the current information management system	260	–	260	260	–	–
Repayment of bank loan and other borrowings	–	8,000	8,000	8,000	–	–
Research and development expenses	–	5,000	5,000	2,454	2,546	On or before 31 December 2022
Administrative and management expenses						
— Salary adjustment for key employees	–	3,000	3,000	–	3,000	On or before 31 December 2022
— Hiring of additional employees	–	1,500	1,500	–	1,500	On or before 31 December 2022
— Legal and professional advisers' expenses	–	3,000	3,000	–	3,000	On or before 31 December 2022
— Other general corporate purposes	–	1,300	1,300	1,300	–	–
	48,083	–	48,083	38,037	10,046	

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

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

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

SHARE OPTION SCHEME

A 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 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.

No option was granted under the 2013 Share Option Scheme during the year ended 30 June 2022. During the year ended 30 June 2022, 19,000,000 share options under the 2013 Share Option Scheme with an exercise price of HK$4.04 per share were lapsed. As at 30 June 2022, no share options remained outstanding under the 2013 Share Option Scheme.

During the year ended 30 June 2022, 85,940,000 share options were granted under the New Share Option Scheme on 31 May 2022. As at 30 June 2022, the total number of ordinary shares in respect of which share options had been granted and remained outstanding under the New Share Option Scheme was 85,940,000 (representing approximately 8.08% of all the shares in issue as at 30 June 2022). The exercise price of the share options granted under the New Share Option Scheme is HK$0.51 per share. Out of 85,940,000 share options, the grant of 50,000,000 share options to Mr. Fang was subject to shareholders' approval. On 23 August 2022, the Company and Mr. Fang agreed not to proceed with the conditional grant of share options to Mr. Fang. As a result, no share options were granted to Mr. Fang under the New Share Option Scheme.

As at the date of this announcement, no share option is exercised under both the 2013 Share Option Scheme and New Share Option Scheme. Further details of the options will be disclosed in the annual report.

LEGAL PROCEEDINGS

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.

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

COMPETING INTERESTS

For the year ended 30 June 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.

CORPORATE GOVERNANCE PRACTICES

The Board reported the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 30 June 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 Mr. Zhu Gen Rong ("Mr. Zhu") as an executive Director and the chairman of the Company on 10 February 2022, the Company has not appointed an individual to take up the vacancy of the Chairman, and the role and function of the Chairman have been performed by all the executive Directors collectively. Mr. Wang Ai Yan, an executive Director (resigned on 1 December 2022), was the chief executive officer of the Company for the year ended 30 June 2022.

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 after the removal of Mr. Zhu.

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 his other business commitment, Mr. Zhu, the former chairman of the Board, did not attend the annual general meeting held on 24 November 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the year ended 30 June 2022 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

EVENTS AFTER THE REPORTING PERIOD

(1) On 18 July 2022, PricewaterhouseCoopers has resigned as the auditor of the Company and with the recommendation from the Audit Committee, the Board has resolved to appoint Zhonghui Anda CPA Limited ("Zhonghui Anda") as the new auditor of the Company with effect from 18 July 2022. Zhonghui Anda resigned as the auditor of the Company on 19 October 2022 and KTC Partners CPA Limited has been appointed as the new auditor of the Company with effect from 19 October 2022 to fill the casual vacancy following the resignation of Zhonghui Anda. For more details, please refer to the related announcements of the Company dated 18 July 2022 and 19 October 2022.

(2) Upon review of the long outstanding balance of the receivables of the Group, the management of Zhejiang Huazhang identified and informed the Board that there have been a number of abnormal payments and receipts between Zhejiang Huazhang and a number of companies which are not subsidiaries of the Group (the "Subject Transactions"). Furthermore, during the review of the receivables of Zhejiang Huazhang and preparation of the annual results of the Group for the year ended 30 June 2022, the management of the Company noted the amount due from a material debtor, namely Baoshan Xintaisheng Paper Industry Co., Ltd.* (保山鑫泰盛紙業有限公司) ("Baoshan Paper"), was approximately RMB201.8 million as at 30 June 2022 and the proposed impairment loss was approximately RMB129.8 million. To conduct an independent investigation into the Subject Transactions, an independent investigation committee ("Independent Investigation Committee") initially comprising Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang, all are independent non-executive directors, has been established in August 2022. The Independent Investigation Committee has appointed RSM Corporate Advisory (Hong Kong) Limited as the independent forensic accountant of the Company to conduct appropriate independent forensic accounting review on the Subject Transactions and the transactions entered with Baoshan Paper up to 30 June 2022. For more details, please refer to the related announcements of the Company dated 11 August 2022 and 26 October 2022.

(3) Mr. Wang Ai Yan ("Mr. Wang") has tendered his resignation as executive Director and the chief executive officer of the Company with effect from 1 December 2022. Following Mr. Wang's resignation, he will also cease to hold any other positions within the Group.

Save as disclosed above, the Group had no material events after the reporting period.

AUDIT COMMITTEE

The audit committee was established on 6 May 2013. The primary duties of the audit committee are mainly to review the financial systems of the Group; to review the accounting policy, financial position and financial reporting procedures of the Group; to communicate with external auditors; to assess the performance of internal financial and audit personnel; and to assess the risk management and internal controls of the Group. The audit committee consists of three independent non-executive Directors namely, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang. The audit committee is chaired by Mr. Heng, Keith Kai Neng.

The audit committee of the Company has discussed with the management about the accounting principles and policies adopted by the Group and discussed risk management, internal controls and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 30 June 2022.

SCOPE OF WORK OF KTC PARTNERS CPA LIMITED

The financial figures in respect of the Group's results for the year ended 30 June 2022 as set out in this preliminary announcement have been agreed by the Company's auditor, KTC Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2022. The work performed by KTC Partners CPA Limited in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KTC Partners CPA Limited on this preliminary announcement.

EXTRACT OF THE AUDITOR'S REPORT

Basis for disclaimer of opinion

1. *Abnormal transactions and balances*

   As disclosed in note 7 to the consolidated financial statements, during the first half of 2022, when reviewing the balance of the long outstanding receivables of Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly-owned subsidiary of the Company, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang and three companies which are not subsidiaries of the Company during the period from 1 July 2019 to 30 June 2022 (the "Subject Transactions"). The three companies are (i) Tongxiang Jiafu Paper Equipment Co., Ltd. ("Jiafu Paper"), (ii) Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric") and (iii) Zhejiang Huazhang Fibertech Co., Ltd. ("Fibertech") (collectively, the "Subject Companies"). In response to the discovery of the Subject Transactions, the Company has established an Independent Investigation Committee (the "IIC"), comprising all the independent non-executive directors of the Company, on 5 August 2022. The IIC has engaged an independent forensic accountant (the "Forensic Investigator") to conduct an independent forensic accounting review on the Subject Transactions.

   The Forensic Investigator issued its forensic accounting review report on 26 October 2022 (the "Forensic Report"). As stated in the Forensic Report, as of 30 June 2022, the net balances due from Jiafu Paper and Yuxin Electric were RMB39,541,029 and RMB28,656,484 respectively. However, there were three transactions amounting to a total of RMB20,447,000 which were remitted by Hangzhou Taige Automatic Co., Ltd. (杭州泰格動力自動化有限公司) ("Hangzhou Taige") but being booked to the current account with Yuxin Electric. The Forensic Investigator made adjustments to the net balance due from Yuxin Electric for these three transactions with Hangzhou Taige and hence such balance as of 30 June 2022 was restated as RMB49,103,484. As of 30 June 2022, the net balance due from Fibertech recorded in the current accounts with Zhejiang Huazhang was RMB7,128,458. After the review of the Forensic Report, the total amount due from the Subject Companies amounted to RMB95,772,971.

As stated in the Forensic Report, the abnormality of the Subject Transactions lies in the fact that there existed funding arrangement transactions of significant amounts between Zhejiang Huazhang and its suppliers, Jiafu Paper, Yuxin Electric and Fibertech, which were without any procurement business nature and lacking supporting agreements with Zhejiang Huazhang. Furthermore, most of the Subject Transactions were not approved by the Group's internal payment approval procedures, resulting in the existence of outstanding receivables between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech exceeding a reasonable limit. The funding arrangements between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech were arranged under the direct instruction of Mr. Zhu Genrong, the then chairman of the board of the Company and of Zhejiang Huazhang and the substantial shareholder of the Company ("Mr. Zhu") and Ms. Zhu Lingyun, the then financial controller of Zhejiang Huazhang and the substantial shareholder of the Company ("Ms. Zhu").

Having considered the Forensic Report, the IIC noted that the Subject Transactions were mainly instructed by Mr. Zhu and Ms. Zhu and were primarily caused by: (i) Mr. Zhu and Ms. Zhu having instructed transactions with Jiafu Paper and Yuxin Electric without sufficient business justification; and (ii) Mr. Zhu and Ms. Zhu having bypassed the Company's internal payment approval procedures and instructed the finance personnel of Zhejiang Huazhang to execute transactions with Jiafu Paper, Yuxin Electric and Fibertech.

As disclosed in note 21 to the consolidated financial statements, as of 30 June 2022 and 30 June 2021, the gross carrying amount of the amounts due from Jiafu Paper were RMB39,541,029 and RMB20,166,157 respectively, which were classified as other receivables (the "Amounts due from the Associate") in the consolidated statement of financial position of the Group. The total gross carrying amount of the trade and other receivables due from Yuxin Electric and Fibertech (the "Trade and Other Receivables") as of 30 June 2022 and 30 June 2021 were RMB56,231,942 and RMB16,525,604, respectively.

As disclosed in note 7 to the consolidated financial statements, since the directors of the Group are of the view that the Amounts due from the Associate and the Trade and Other receivables due from Yuxin Electric and Fibertech cannot be recovered, the Group has recognised provisions for impairment losses of the amount due from the Subject Companies amounted to RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022 (the "Provisions").

As stated in the Forensic Report, the findings of the forensic accounting review were subject to certain limitations, including the Forensic Investigator was unable to contact and conduct interviews with Mr. Zhu and Ms. Zhu, the substantial shareholders, the respective legal representatives of Jiafu Paper, and the beneficial owner and legal representative of Yuxin Electric. As a result, the Forensic Investigator was unable to ascertain or clarify the rationale of the Subject Transactions.

Under the circumstances described above, we have not been able to obtain sufficient appropriate audit evidence to carry out audit procedures to satisfy ourselves as to the validity of the Subject Transactions, whether the Amounts due from the Associate, the Trade and Other Receivables as of 30 June 2022 and 30 June 2021 and the Provisions and their related disclosures have been accurately recorded and properly accounted for in the consolidated financial statements. There were no alternative audit procedures that we could perform to obtain sufficient and appropriate evidence to satisfy ourselves about the validity of the Subject Transactions and the Amounts due from the Associate and the Trade and Other Receivables as of 30 June 2022 and 30 June 2021 are fairly stated.

Any adjustment that might have been found necessary to the consolidated statement of financial position as of 30 June 2022 and 1 July 2021 would have a consequential effect on the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows and the related disclosures in the notes to the consolidated financial statements.

2. *Share of loss of an associate, impairment loss on an associate*

As disclosed in note 13 to the consolidated financial statements, as of 30 June 2022 and 30 June 2021, the carrying amount of the Group's interest in the associate, Jiafu Paper, before impairment amounted to RMB4,947,538. In addition, the Group recognised impairment loss on the associate amounted to RMB4,897,538 in the consolidated profit or loss for the year ended 30 June 2022, which was determined by the Group based on the disposal price of RMB50,000 to a third party subsequent to the end of the reporting period, and share nil profit or loss from the associate in the consolidated profit or loss for the year ended 30 June 2022.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether: (i) the share of results of the associate and the impairment loss of the associate referred were recognised accurately in the consolidated profit or loss of the Group for the years ended 30 June 2022 and 2021; and (ii) the net carrying amounts of the interest in the associate as at 30 June 2021 were free from material misstatements because we were not provided with access to the management personnel and books and records of the associate for us to determine whether the share of results of the associate and the impairment loss of the associate were properly accounted for.

Any adjustment that might have been found necessary to the consolidated statement of financial position as of 1 July 2021 would have a consequential effect on the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows and the related disclosures in the notes to the financial statements for the year ended 30 June 2022.

ANNUAL GENERAL MEETING

The 2022 annual general meeting of the Company was held on 30 December 2022. Due to the delay in the publication of the audited consolidated financial statements of the Company and the reports of the directors and of the independent auditor for the year ended 30 June 2022, the resolution to consider and approve the aforesaid documents will be transacted in the adjourned annual general meeting of the Company. Details of the adjourned annual general meeting of the Company will be announced in due course.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2022 (2021: nil).

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hzeg.com. The 2022 annual report containing all the information required by Appendix 16 to the Listing Rules will be published on the abovementioned websites and despatched to the shareholders of the Company in due course.

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.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares and other securities of the Company.

On behalf of the Board
Huazhang Technology Holding Limited
Fang Hui
Executive Director

Hong Kong, 30 December 2022

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

* *For the purpose of identification only*