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 2018

FINANCIAL HIGHLIGHTS

	For the year ended 30 June		
	2018	2017	**change**
	RMB	RMB	**%**
Revenue	**612,123,000**	416,007,000	47.1
Gross profit	**137,257,000**	91,592,000	49.9
Gross profit margin	***22.4%***	*22.0%*	*0.4*
Profit for the year	**47,901,000**	30,358,000	57.8
Net profit margin	***7.8%***	*7.3%*	*0.5*
Profit attributable to owners of the Company	**48,285,000**	30,639,000	57.6
Earnings per share attributable to ordinary equity holders of the parent(RMB cents per share)			
- basic	**7.18**	5.10	
- diluted	**7.18**	5.10	
Non-GAAP profit for the year	**56,654,000**	38,026,000	49.0
Non-GAAP profit margin	***9.3%***	*9.1%*	
Non-GAAP earnings per share (RMB cents per share)			
- basic	**8.48**	6.38	

The Board recommends the payment of a final dividend of 3.0 HK cents per share.

The board (the "Board") of directors (the "Directors") of the Huazhang Technology Holding Limited (the "Company") is pleased to announce the consolidated financial results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2018, together with the comparative figures for the year ended 30 June 2017, which have been prepared in accordance with the Hong Kong Financial Reporting Standards as below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 30 June 2018 RMB	2017 RMB
REVENUE	4	**612,123,398**	416,007,189
Cost of sales		**(474,866,492)**	(324,414,793)
Gross profit		**137,256,906**	91,592,396
Other income and gains	4	**5,548,305**	5,906,585
Selling and distribution expenses		**(13,132,905)**	(9,721,324)
Administrative expenses		**(42,541,892)**	(32,323,830)
Research and development expenses		**(18,747,547)**	(14,458,386)
Other expenses		**(2,560,211)**	(2,127,619)
OPERATING PROFIT		**65,822,656**	38,867,822
Finance income	6	**10,278,815**	2,164,023
Finance expense	6	**(15,679,199)**	(4,322,196)
Finance expense - net	6	**(5,400,384)**	(2,158,173)
PROFIT BEFORE TAX	5	**60,422,272**	36,709,649
Income tax expense	7	**(12,521,204)**	(6,351,771)
PROFIT FOR THE YEAR		**47,901,068**	30,357,878
Attributable to:			
- Owners of the parent		**48,285,144**	30,638,948
- Non-controlling interests		**(384,076)**	(281,070)
		47,901,068	30,357,878
OTHER COMPREHENSIVEINCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences related to foreign operations		**(259,464)**	1,098,634
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(259,464)**	1,098,634
TOTAL COMPREHENSIVEINCOME FOR THE YEAR		**47,641,604**	31,456,512
Attributable to:			
- Owners of the parent		**48,025,680**	31,737,582
- Non-controlling interests		**(384,076)**	(281,070)
		47,641,604	31,456,512
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
- Basic earnings per share (RMB cents)		**7.18**	5.10
- Diluted earnings per share (RMB cents)		**7.18**	5.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2018**	2017
		RMB	RMB
NON-CURRENT ASSETS			
Property, plant and equipment		**199,586,539**	40,141,314
Investment properties		**5,989,795**	6,300,537
Prepaid land lease payments		**72,045,656**	3,248,863
Goodwill		**144,998,757**	596,369
Other intangible assets		**14,846,912**	-
Deferred tax assets		**4,212,878**	2,762,933
Trade and other receivables	10(i)	**32,023,284**	84,673,706
Prepayments	10(ii)	**208,963**	222,023
Total non-current assets		**473,912,784**	137,945,745
CURRENT ASSETS			
Prepaid land lease payments		**1,292,172**	104,942
Inventories		**80,188,203**	59,511,860
Trade and other receivables	10(i)	**574,743,632**	322,804,478
Prepayments	10(ii)	**128,671,118**	34,880,557
Pledged deposits		**69,697,182**	21,515,802
Cash and cash equivalents		**72,880,335**	50,554,277
Total current assets		**927,472,642**	489,371,916
CURRENT LIABILITIES			
Trade and other payables	11	**489,903,745**	228,067,991
Interest-bearing loans		**21,857,880**	8,626,000
Income tax payable		**6,675,441**	2,683,608
Other liabilities		**7,540,000**	-
Total current liabilities		**525,977,066**	239,377,599
NET CURRENT ASSETS		**401,495,576**	249,994,317
TOTAL ASSETS LESS CURRENT LIABILITIES		**875,408,360**	387,940,062
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**7,594,890**	800,512
Deferred income		**25,500,000**	-
Convertible bonds	12	**75,710,498**	66,821,857
Total non-current liabilities		**108,805,388**	67,622,369
NET ASSETS		**766,602,972**	320,317,693
EQUITY			
Equity attributable to owners of the parent			
Share capital		**6,107,141**	5,075,783
Share premium		**491,227,935**	93,615,618
Equity component of convertible bonds	12	**23,609,589**	23,609,589
Other reserves		**73,713,139**	65,867,660
Retained earnings		**171,129,174**	130,948,973
		765,786,978	319,117,623
Non-controlling interests		**815,994**	1,200,070
TOTAL EQUITY		**766,602,972**	320,317,693

1 Corporate information

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

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

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instrument at fair value. These financial statements are presented in RMB, unless otherwise stated.

2.2 Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs, for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in Annual Improvements 2014-2016 Cycle	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

2.3 Issued but not yet effective Hong Kong financial reporting standards

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

Amendments to HKFRS 2	*Classification and measurement of Share-based PaymentTransactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK (IFRIC) – Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK (IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKFRS 12 and HKAS 23*[2]

1. Effective for annual periods beginning on or after 1 January 2018
2. Effective for annual periods beginning on or after 1 January 2019
3. No mandatory effective yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 July 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 July 2018. During financial year 2018 (from 1 July 2017 to 30 June 2018), the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not except significant change in provision of impairment of account receivables and other receivables upon the initial adoption of the standard.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 July 2018. The Group has performed a detailed assessment on the impact of the adoption of HKFRS 15 during FY2017.

The Group's principal activities consist of the manufacture and sale of industrial products, project contracting services, environmental products and the supporting services. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Sale of project contracting services

The Group provides project contracting services for the customers. The main sales contract can be divided into design, procurement and installation while the performance obligations of the three parts of the contract are closely related and cannot be separated. Upon the adoption of HKFRS 15, revenue from the sale of project contracting services will be recognised as performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group has determined that when HKFRS 15 is adopted, no change in the revenue recognition of sale of project contracting services.

(b) Sale of machinery with industrial products, environmental products and the supporting services

The Group provides installation services for the sale of industrial products, environmental products and the supporting services. Currently, when installation services are bundled together with the sale of equipment, revenue from the sale of machinery is recognised after the installation services are completed. Upon the adoption of HKFRS 15, revenue from the sale of machinery will be recognised at a point in time when control of the asset is transferred to the customer. The Group has assessed that the goods or services are highly related that the Group would not be able to fulfill its promises by transferring each of the goods or services independently. Thus installation services bundled together with the sale of machinery are not considered distinct under HKFRS 15. Therefore, the Group recognized sales after the installation services are completed, no change in the revenue recognition of sale of industrial automation systems, pollution prevention equipment and after-sales and other services.

(c) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

3 Operating segment information

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

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

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

Segment assets include all assets of the Group except investment properties, derivative financial instruments, deferred tax assets, pledged deposits, and certain prepayments, certain other receivables, cash and cash equivalents, property plant and equipment and certain prepaid land lease payments, as these assets are managed on a group basis.

Segment liabilities include all liabilities of the Group except certain other payables, interest-bearing loans, deferred tax liabilities, tax payable, other liabilities, deferred revenue and convertible bonds, as these liabilities are managed on a group basis.

For year ended 30 June 2018	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue:					
Sales to external customers	**121,692,110**	**215,873,846**	**99,827,528**	**174,729,914**	**612,123,398**
Segment cost of sales	**(82,359,528)**	**(180,266,556)**	**(77,197,909)**	**(135,042,499)**	**(474,866,492)**
Segment gross profit	**39,332,582**	**35,607,290**	**22,629,619**	**39,687,415**	**137,256,906**
Segment results	**17,409,130**	**29,088,968**	**9,203,634**	**27,629,519**	**83,331,251**
Common expenses administrative					**(22,734,407)**
Other expenses					**(203,230)**
Other income and gains					**5,548,305**
Finance expense - net					**(5,519,647)**
Profit before tax					**60,422,272**
Income tax expense					**(12,521,204)**
Profit for the year					**47,901,068**

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	**302,380**	**-**	**405,248**	**162,500,146**	**280,129**	**163,488,063**
Depreciation of property plant and equipment	**886,942**	**-**	**1,181,896**	**743**	**1,973,197**	**4,042,778**
Amortisation of prepaid land lease payments	**51,029**	**-**	**67,704**	**836,189**	**61,055**	**1,015,977**
Depreciation of investment properties	**-**	**-**	**-**	**-**	**310,742**	**310,742**

The segment assets and liabilities as at 30 June 2018 are as follows:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Assets	**253,070,470**	**403,673,667**	**107,378,222**	**479,699,633**	**157,563,434**	**1,401,385,426**
Liabilities	**195,202,469**	**173,632,010**	**78,785,709**	**64,919,044**	**122,243,222**	**634,782,454**

For year ended 30 June 2017	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue:					
Sales to external customers	77,064,124	235,483,184	48,615,465	54,844,416	416,007,189
Segment cost of sales	(50,696,282)	(199,715,179)	(33,468,845)	(40,534,487)	(324,414,793)
Segment gross profit	26,367,842	35,768,005	15,146,620	14,309,929	91,592,396
Segment results	6,801,142	32,370,319	5,023,247	13,853,152	58,047,860
Common administrative expenses					(24,581,275)
Other expenses					(505,348)
Other income and gains					5,906,585
Finance expense - net					(2,158,173)
Profit before tax					36,709,649
Income tax expense					(6,351,771)
Profit for the year					30,357,878

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	225,494	-	299,181	-	269,801	794,476
Depreciation of property plant and equipment	803,779	-	1,159,719	-	2,850,707	4,814,205
Amortisation of prepaid land lease payments	29,786	-	39,519	-	35,637	104,942
Depreciation of investment properties	-	-	-	-	310,742	310,742

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

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

Geographical information

No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and return.

Information about major customers

Revenues from two customers of the project contracting services segment amounted to RMB58,726,505 and RMB56,896,630 representing over 10% and 9% of the Group's total revenue for the year ended 30 June 2018, respectively. Revenues from two customers of the project contracting services segment amounted to RMB111,001,490 and RMB39,157,319 each representing over 10% and 9% of the Group's total revenue for the year ended 30 June 2017.

4 Revenue, other income and gains

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of project contracting services; the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Revenue		
Project contracting services	**215,873,846**	235,483,184
Supporting services	**174,729,914**	54,844,416
Industrial products	**121,692,110**	77,064,124
Environmental products	**99,827,528**	48,615,465
	612,123,398	416,007,189
Other income and gains		
Bidding service income	**3,363,208**	1,466,084
Government grants *	**1,097,122**	1,051,593
Rental income	**381,566**	514,729
Scrap steel income	**209,817**	183,580
Consultation income	**-**	2,200,855
Others	**496,592**	489,744
	5,548,305	5,906,585

* Government grant mainly consist of subsidies for encouraging technological innovation and tax exemption. There are no unfulfilled conditions or contingencies attached to these grants.

5 Profit before tax

The Group's profit before tax is arrived at after charging:

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Raw materials used	**441,473,641**	326,969,206
Employee benefit expenses (excluding directors' and chief executive's remuneration)	**43,871,196**	34,052,606
Change in inventories of finished goods and work in progress	**14,529,162**	(16,769,658)
Travelling expenses	**8,603,407**	6,870,719
Depreciation of property, plant and equipment	**4,042,778**	4,814,205
Office expenses	**4,209,112**	3,331,586
Miscellaneous tax charges other than value added tax and income tax	**3,046,537**	1,884,908
Transportation expenses	**2,953,913**	2,136,623
Professional service fees	**2,992,388**	2,046,755
Impairment of trade receivables and other receivables (Note 10)	**2,560,211**	1,622,271
Auditors' remuneration	**2,555,136**	1,450,000
Utilities	**221,571**	286,807
Change in fair value of derivative financial instrument	**-**	430,000

6 Finance expense - net

An analysis of finance (expense)/income - net is as follows:

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Finance income		
-Interest income	**9,329,181**	2,164,023
-Exchange gain	**949,634**	-
	10,278,815	2,164,023
Finance expense		
-Interest expense on convertible bonds	**(14,804,185)**	(3,584,698)
-Interest expenses on loans	**(875,014)**	(392,587)
-Exchange loss	**-**	(344,911)
	(15,679,199)	(4,322,196)
Finance expense - net	**(5,400,384)**	(2,158,173)

7 Income tax expense

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Current – PRC		
Charge for the year	**13,287,529**	6,866,230
Deferred tax	**(766,325)**	(514,459)
Income tax expense	**12,521,204**	6,351,771

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the year ended 30 June 2018 (2017: Nil), as the Group had no taxable profits earned or derived in Hong Kong during the year.

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

EIT is provided on the assessable income of entities within the Group incorporated in the PRC.

Pursuant to the PRC Enterprise Income Tax Law (the "New EIT Law"), the EIT of companies established in the PRC is unified at 25%, effective from 1 January 2008.

Zhejiang Huazhang's applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the New EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar years of 2008, 2011 and 2014, with a validation period of three years each. The applicable EIT rate of Zhejiang Huazhang is 15% from 2008 till 2020.Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2018 (2017: 15%).

For Wukong, the applicable EIT rate of Wukong is 25% of taxable profit before tax.

(iv) PRC withholding income tax

According to the New EIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Profit before tax	**60,422,271**	36,709,649
Tax at the statutory tax rate	**15,105,568**	11,373,696
Lower tax rates for specific provinces or enacted by local authority	**(3,533,345)**	(4,375,045)
Expenses not deductible for tax	**238,086**	184,589
Additional deduction of research and development costs	**(1,147,642)**	(303,829)
Unrecognised tax losses	**1,906,891**	-
Re-measurement of deferred income tax	**-**	(352,175)
Adjustments in respect of current tax of previous periods	**(48,354)**	-
Effect of withholding tax on the expected distributable profits of the subsidiary in Mainland China	**-**	(175,465)
Tax charge for the year at the effective rate	**12,521,204**	6,351,771

8 Dividends

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Proposed final – 3.0 HK cents (2017: 2.4 HK cents) per share	**21,679,650**	12,511,258
	21,679,650	12,511,258

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9 Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 672,953,371 (2017: 600,648,000) in issue during the year, as adjusted to reflect the rights issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 30 June 2018 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The Group had no potentially dilutive ordinary shares in issue during the years ended 30 June 2018.

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

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**48,285,144**	30,638,948
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**672,953,371**	600,648,000
Basic and diluted earnings per share(RMB cents per share)	**7.18**	5.10

10 Trade and other receivables and prepayments

(i) Trade and other receivables

	As at 30 June	
	2018	2017
	RMB	RMB
Warranty receivables (a)	**24,294,874**	21,608,760
Amounts due from contract customers (b)	**74,894,609**	72,896,612
Other trade receivables (c)	**411,084,130**	265,060,443
	510,273,613	359,565,815
Less: provision for impairment of trade receivables (d)	**13,156,318**	6,529,385
Trade receivables-net	**497,117,295**	353,036,430
Bills receivable (e)	**83,702,261**	46,441,408
Trade and bills receivables	**580,819,566**	399,477,838
Other receivables due from a related party	**17,429**	17,428
Other receivables - performance guarantee	**5,697,560**	3,979,787
Deductible VAT input	**8,639,801**	-
Loan deposit (f)	**8,431,000**	-
Others	**5,317,650**	5,955,980
	28,103,439	9,953,195
Less: provision for impairment of other receivables (g)	**2,156,079**	1,952,849
Other receivables - net	**25,947,360**	8,000,346
Total trade and other receivables	**606,766,926**	407,478,184
Less: trade receivables - non-current portion	**32,023,284**	84,673,706
	574,743,642	322,804,478

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

The aged analysis of the warranty receivables as at the end of the reporting period is as follows:

	As at 30 June	
	2018	2017
	RMB	RMB
Up to 3 months	**12,198,937**	7,520,636
3 months to 6 months	**770,532**	3,475,779
6 months to 1 year	**2,454,884**	2,012,519
1 to 2 years	**1,396,772**	3,318,363
Over 2 years	**7,473,749**	5,281,463
	24,294,874	21,608,760

(b) Amounts due from contract customers at the end of the reporting period are as follows:

	For the year ended 30 June	
	2018	2017
	RMB	RMB
Cost incurred	**198,191,505**	229,456,211
Recognised profits	**63,113,838**	90,754,994
	261,305,343	320,211,205
Less: progress billings	**186,410,734**	247,314,593
	74,894,609	72,896,612
Represented by:		
Amounts due from contract customers	**74,894,609**	72,896,612

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

	As at 30 June	
	2018	2017
	RMB	RMB
Other trade receivables		
Up to 3 months	**310,309,198**	102,246,206
3 months to 6 months	**948,389**	1,750,061
6 months to 1 year	**48,487,548**	125,882,640
1 year to 2 years	**41,625,606**	24,801,412
Over 2 years	**9,713,389**	10,380,124
	411,084,130	265,060,443

(d) Movements in the Group's provision for impairment of trade receivables

The aged analysis of the warranty and other trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 30 June	
	2018	2017
	RMB	RMB
Neither past due nor impaired	**375,169,488**	242,887,841
Past due but not impaired	**47,053,198**	37,251,977
	422,222,686	280,139,818

Receivables that were neither past due nor impaired are mainly relate to a few customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The movements in provision for impairment of trade receivables are as follows:

	For the year ended 30 June	
	2018	2017
	RMB	RMB
At beginning of the year	**6,529,385**	6,888,899
Additions resulting from acquisition of subsidiary	**5,111,746**	-
Impairment losses recognised/(reversed) (Note 5)	**2,356,981**	(330,578)
Amounts written off as uncollectible	**(841,794)**	(28,936)
	13,156,318	6,529,385

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB13,156,318 (2017: RMB6,529,385) with a carrying amount before provision of RMB13,156,318 (2017: RMB6,529,385).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

	As at 30 June	
	2018	2017
	RMB	RMB
1 year to 2 years	**1,423,980**	2,721,816
Over 2 years	**11,732,338**	3,807,569
	13,156,318	6,529,385

(e) Bills receivable

Transfer of financial assets that are not derecognised in their entirety

At 30 June 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB43,272,816 to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB43,272,816 as at 30 June 2018.

The Group keeps monitoring the default risk of endorsed bills and as of 30 June 2018, all endorsed bills became mature except for the amount retained on the book totaling RMB43,272,816 and those bills that are derecognised as discussed below, which have a maturity from one to six months.

Transfer of financial assets that are derecognised in their entirety

At 30 June 2018, the Group endorsed certain bills receivables accepted by banks in Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount of RMB69,496,708. The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 30 June 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

(f) Loan deposit

The loan deposit is a guarantee provided to a third party in relation to an interest bearing loan of RMB14,057,880.

(g) Movements in the Group's provision for impairment of other receivables

The movements in provision for impairment of other receivables are as follows:

	As at 30 June	
	2018	2017
	RMB	RMB
At beginning of the year	**1,952,849**	-
Impairment losses recognised (Note 5)	**203,230**	1,952,849
	2,156,079	1,952,849

(ii) Prepayments

	As at 30 June	
	2018	2017
	RMB	RMB
Prepayments for procurement	**128,694,966**	25,507,970
Investment down payment	**-**	9,000,000
Others	**185,115**	594,610
Total prepayments	**128,880,081**	35,102,580
Less: prepayments - non-current portion	**208,963**	222,023
	128,671,118	34,880,557

11 Trade and other payables

	As at 30 June	
	2018	2017
	RMB	RMB
Trade payables	**136,756,489**	84,326,082
Bills payable	**67,797,047**	41,413,968
	204,553,536	125,740,050
Advances from customers	**229,297,919**	66,347,155
Other taxes payables	**31,863,486**	18,558,419
Payables for property, plant and equipment	**14,051,015**	75,344
Employee benefit payables	**2,630,637**	5,266,456
Accruals	**2,021,477**	2,801,397
Deposit	**681,457**	2,135,426
Provision for warranty expenses	**370,008**	570,470
Others	**4,434,210**	6,573,274
	285,350,209	102,327,941
	489,903,745	228,067,991

The aged analysis of the trade payables is as follows:

	As at 30 June	
	2018	2017
	RMB	**RMB**
Up to 3 months	**97,406,971**	43,113,547
3 months to 6 months	**15,447,171**	14,216,652
6 months to 1 year	**9,856,070**	14,102,033
1 year to 2 years	**11,053,489**	8,992,629
Over 2 years	**2,992,788**	3,901,221
	136,756,489	84,326,082

12 Convertible Bonds

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

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

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

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

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

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

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

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

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

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

	Liability component of Convertible Bonds RMB	Equity component of Convertible Bonds RMB	Total RMB
At 29 March 2017	65,051,769	23,728,231	88,780,000
Transaction cost allocation	(325,258)	(118,642)	(443,900)
Interest expense	3,584,698	-	3,584,698
Currency translation differences	(1,489,352)	-	(1,489,352)
At 30 June 2017	66,821,857	23,609,589	90,431,446
Interest expense	14,804,185	-	14,804,185
Interest paid	(4,277,500)	-	(4,277,500)
Currency translation differences	(1,638,044)	-	(1,638,044)
At 30 June 2018	75,710,498	23,609,589	99,320,087

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Over the past year, the overall economic situation of China improved steadily, which boosted the steady development of the paper-making industry so that the paper-making industry in China reaped a bumper harvest. The paper-making industry continued to benefit from an array of economic and environmental reform and development policies of the Chinese government. The demand-supply relationship further improved and the prices of paper-making rose, which provided great support to the performance of leading paper-making companies. The paper-making industry has been subject to more stringent environmental protection regulations since the second half of 2017. Under the regulations of the Provisions on the Environmental Protection Administration of Imported Waste Paper and the Implementation Plan on Advancing Reform of the Administration System on Import of Solid Wastes through Prohibiting Import of Foreign Rubbish, a great number of paper-making plants with outdated production capacity or which were not compliant with environmental protection standards were phased out or voluntarily withdrawn from the market. As market demand is growing steadily and outdated production capacity is being phased out, the paper-making companies have to continue to put new capacity into operation to satisfy market demand, and hence industry concentration will be further enhanced. Therefore, paper-making plants have to improve the existing production equipment, which includes equipment upgrading or retrofitting, in a bid to enhance the existing production capacity and product quality, while the market demand for papermaking equipment is also increasing.

Although the paper-making industry was subject to increasingly stringent environmental protection regulations, for the first half of 2018, the production of machine-made papers and cardboards in China grew 1.3% year-on-year to approximately 59.6 million tonnes, as reported by the National Bureau of Statistics. Operating revenue from the paper-making industry and the paper products industry for the six months ended 30 June 2018 was approximately RMB733.30 billion, a year-on-year increase of 12.5%; revenue from the principal business was approximately RMB721.07 billion, a year-on-year increase of 12.5%; and total profit was approximately RMB43.26 billion, a year-on-year increase of 13.5%. All these growth data indicate that the paper-making industry continues to maintain thriving growth momentum in 2018.

OPERATION DISCUSSION AND ANALYSIS

During the year, the Group actively facilitated the corporate affairs as well as business by upholding the policy principles of “New Huazhang, New Development, New Dream” and creating a new vision of “Integrating Together, Creating Together, Benefiting Together”. The Group played the role of providing all-encompassing services to maximize the interests by sharing, creating together and working together for win-win situation. For the year ended 30 June 2018, the Group recorded a turnover and profit of approximately RMB612.1 million and approximately RMB47.9 million, respectively, representing an increase of approximately 47.1% and approximately 57.8% as compared with the same period in 2017. With such results, the Group accomplished various performance and financial indicators set at the beginning of the year.

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

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

“Integrating Together” – optimize the role of providing all-encompassing services for the paper-making industry

During the year, the Company continued to integrate suppliers and service providers from all sectors of the paper-making industry, and optimized the role of providing all-encompassing services for the papermaking industry through the acquisition of the headbox and logistics businesses. In September 2017, the Group completed the acquisition of Hangzhou MCN Paper Technology Co., Ltd. and Hangzhou Haorong Technology Co., Ltd. (together, the “MCN Group”). MCN Group owns patents and know-how in the headbox production. In November 2017, the Group completed the acquisition of Fu An 777 Logistics Limited (“777 Logistics”, together with its subsidiaries, collectively known as the “777 Logistics Group”). The 777 Logistics Group is principally engaged in the logistics and warehouse businesses, and has established a logistics and warehouse centre in Yangjiang City, Guangdong Province, China, which officially commenced operation from July 2018.

To optimize the role of providing all-encompassing services, the Group worked together with a software company to launch an information-based project, in a bid to link up the entire process for sales, research and development, design, manufacturing, finance and office so as to integrate design and production for transparent management. To achieve the goal of "Made in China 2025", the Group continued to step up the research and development of information based software by collaborating with suppliers on Manufacturing Execution System (MES) and Parametric Technology Corporation (PTC) systems to be well prepared for the information-based management, upgrading and transformation in follow-up production for its customers.

"Creating Together" – create new opportunities for development

The Group worked together with suppliers and service providers to create new opportunities for development. Taking the headbox business as an example, its headbox products maintained advantages in the sector of printing paper, specialty paper and household paper by relying on the technology and service advantages of the MCN Group. The Group even succeeded in introducing its headbox in the market for packaging paper to strengthen its advantages. During the year, in addition to delivering the previous businesses for sludge treatment products and wastewater treatment, the Group also undertook a project involving reverse hanging membrane sealing and deodorization for the sewage tank of a paper-making plant, and a RDF product project for a paper-making plant. Upon completion of these projects, the Group possessed the technology in solving the odor problem of paper-making plants and in converting waste residue from paper-making as raw materials into fuel rods. These projects were demonstration projects of the Group and can be further promoted to existing customers in the future. Moreover, the Group began to deliver supply chain financing services to the paper-making companies in March 2018 to assist them in sourcing raw materials and to provide financing services through the Group's platform and its close relationships with suppliers.

During the year, the overseas business division of the Group actively explored the overseas markets. In the second half of 2017, the Group secured a master contractor contract in respect of slurry, flowing white water recovery system and automation equipment for the 250,000 tonnes paper machine project of a paper-making plant in Vietnam. In the past year, the Group's sales personnel visited a lot of customers in overseas countries or invited overseas customers to conduct site visits to the Company. The Group believes that the overseas markets are full of opportunities. For the year ended 30 June 2018, the new contract value of the overseas business division was RMB 5.6 million.

"Benefiting Together" – collaborate for common benefits

The Group created common benefits by working with all parties to optimize its role of providing all encompassing services. During the year, the Group's new contract value increased by more than 51.4% to approximately RMB1,141.3 million, thanks to the contribution by the headbox business, in addition to the market boom. For the year ended 30 June 2018, revenue from industrial products increased by approximately 57.9% to RMB121.7 million, of which revenue from the headbox business was approximately RMB32.1 million. Moreover, in terms of project contracting services, with the efforts made by the Group over the past few years, it manages to undertake projects with increasing degree of complexity and increasing contract value. For the year ended 30 June 2018, the new contract value of major projects was RMB794.4 million, an increase of 55.1% over 2017. For the year ended 30 June 2018, the new contract value of environmental products was RMB 102.5 million, an increase of 27.1% over 2017.

Common benefits are not only reflected in the performance, but "Integrating Together" and "Creating Together" have also kept the Group's competitiveness and awareness enhancing, which are recognized by the industry. In May 2018, with the unremitting efforts of our team, the Company won the "Quam IR Awards 2017 under Main Board Category", which indicated that the Group's outstanding performance in investor relations and corporate governance is highly endorsed and recognized by the market. Moreover, the Group also organized the "Working Conference on the Automation Professional Committee of the China Technical Association of Paper Industry（中國造紙學會自動化專業委員會工作會議）", and participated in a number of nationwide conferences during the year, such as the "China International Paper Technology Exhibition and Conference（中國國際造紙展及會議）", the "2017 China International Specialty Papers Expo（2017 中國國際特種紙展覽會）" as well as the "4th General Assembly of the China Paper and Pulp Industry Chamber of Commerce cum the 10th China Paper Industry Development Conference（全國工商聯紙業商會第四次會員大會暨第十屆中國紙業發展大會）".

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased significantly by approximately 47.1% from approximately RMB416.0 million for the year ended 30 June 2017 to approximately RMB612.1 million for the year ended 30 June 2018. Gross profit margin increased from approximately 22.0% for the year ended 30 June 2017 to approximately 22.4% for the year ended 30 June 2018.

Industrial products

Revenue from sales of industrial products increased by approximately 57.9% from approximately RMB77.1 million for the year ended 30 June 2017 to approximately RMB121.7 million for the year ended 30 June 2018. Such increase was primarily attributable to acquisition of head-box business in September 2017 and sales of industrial automation systems stimulated by project contracting services. The revenue from sales of headbox is approximated RMB32.1 million for the period from acquisition date to 30 June 2018. The gross profit margin of industrial products decreased from approximately 34.2% for the year ended 30 June 2017 to approximately 32.3% for the year ended 30 June 2018. Such decrease was attributable to sales of industrial automation systems to non-paper industries at a lower gross profit margin in order to explore new markets.

Project contracting services

Revenue from project contracting services remain decreased by 8.3% from approximately RMB235.5 million for the year ended 30 June 2017 to approximately RMB215.9 million for the year ended 30 June 2018. The gross profit margin of project contracting services increased from approximately 15.2% for the year ended 30 June 2017 to approximately 16.5% for the year ended 30 June 2018 due to the Group undertake new projects of the project contracting services which increase a higher profit margin.

Environmental business

Revenue from sales of environmental business was increased by 105.3% from approximately RMB48.6 million for the year ended 30 June 2017 to approximately RMB99.8 million for the year ended 30 June 2018, respectively. The revenue from sales of environmental business increased by sales of RDF products for the year ended 30 June 2018, which partially offset by decrease in sales of sludge treatment products as the Group currently operated with a Japanese company to develop new products. The gross profit margin of environmental business decreased from approximately 31.2% for the year ended 30 June 2017 to approximately 22.7% for the year ended 30 June 2018 due to the Group promoted the new RDF products which had a lower profit margin.

Supporting services

Revenue from provision of supporting services increased by approximately 218.6% from approximately RMB54.8 million for the year ended 30 June 2017 to approximately RMB174.7 million for the year ended 30 June 2018. The revenue from the provision of support services increased significantly mainly due to the Group provided new services to customers, including machine operation services and large paper company production line transformation projects and supply chain financial services for the year ended 30 June 2018. The gross profit margin for provision of supporting services decreased from approximately 26.1% for the year ended 30 June 2017 to approximately 22.7% for the year ended 30 June 2018. The gross profit margin decrease due to the amount of new business was large, but the gross profit margin decreased.

Other income and other gains

Other income and other gains decreased by approximately 6.1% from approximately RMB5.9 million for the year ended 30 June 2017 to approximately RMB5.5 million for the year ended 30 June 2018. As compared with 30 June 2017, decrease in other income and other gains for the year ended 30 June 2018 was primarily due to the increase in bidding service income of approximately RMB1.8 million, which offset by decrease in consultation income of approximately RMB2.2 million.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 35.1% from approximately RMB9.7 million for the year ended 30 June 2017 to approximately RMB13.1 million for the year ended 30 June 2018, accounting for approximately 2.3% and approximately 2.1% of the Group's revenue for the year ended 30 June 2017 and 2018, respectively. Increase in selling and distribution expenses was primarily attributing to an increase in transportation costs, traveling expenses and exhibitions costs to develop and visit the customers for maintenance and exploration of the client relationship.

Administrative expenses

The administrative expenses increased by approximately 31.6% from approximately RMB32.3 million for the year ended 30 June 2017 to approximately RMB42.5 million for the year ended 30 June 2018, accounting for approximately 7.8% and approximately 6.9% of the Group's revenue for the year ended 30 June 2017 and 2018, respectively. The increase in administrative expenses is mainly attributable to (i) administrative expenses contributed by subsidiaries from the new acquisitions during the period, which was amounting to RMB7.6 million; and (ii) increase in professional fee for provision of advisory service in relation to the acquisitions.

Research and development expenses

The research and development expenses significantly increased by approximately 29.7% from approximately RMB14.5 million for the year ended 30 June 2017 to approximately RMB18.7 million for the year ended 30 June 2018, accounting for approximately 3.5% and approximately 3.1% of the Group's revenue for the year ended 30 June 2017 and 2018, respectively. Increase in research and development expenses was primarily attributing to increase in headcount and usage of materials for the research and development activities, including RDF technology, internet of things, headboxes etc.. In addition, the Group co-operated with a Japanese company to develop a new sludge treatment products.

Finance expenses - net

The net finance expenses increased by approximately 1.5 times from approximately RMB2.2 million for the year ended 30 June 2017 to approximately RMB5.4 million for the year ended 30 June 2018. Increase in net finance costs was as a result of an increase in finance expenses in relation to the issuance of convertible bonds with a coupon rate of 5.0% with 2 years maturity from March 2017, which offset by an increase in finance income in relation to discounting the installments receivable in prior years.

Income tax expense

The income tax expense significantly increased by approximately 97.1% from approximately RMB6.4 million for the year ended 30 June 2017 to approximately RMB12.5 million for the year ended 30 June 2018. The increase was mainly attributable to an increase in the assessable profits as well as an increase in the revenue.

The effective tax rates of the Group for the year ended 30 June 2017 and 2018 were 17.3% and 20.7% respectively. Increase in effective tax rates is attributable to (i) increase in non-deductible expenses in relation to finance costs of the convertible bond for the year ended 30 June 2018, and (ii) profits contributed by some operating subsidiaries which tax rate is 25%.

Profit for the year and net profit margin

Profit for the year significantly increased by approximately 57.8% from approximately RMB30.4 million for the year ended 30 June 2017 to approximately RMB47.9 million for the year ended 30 June 2018. The net profit margin rose approximately 0.5% from approximately 7.3% for the year ended 30 June 2017 to approximately 7.8% for the year ended 30 June 2018. Such improvement is primarily attributable to the improvement of the gross profit margins.

Profit attributable to the owners of the parent

Profit for the period attributable to owners of the parent amounted to approximately RMB48.3 million, representing an increase of approximately RMB17.6 million or approximately 57.6% as compared with approximately RMB30.6 million for the corresponding period of last year.

Non-GAAP Financial Measures

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

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

The following tables set forth the reconciliation between the Non-GAAP financial measures and measures prepared in accordance with HKFRS for the year ended 30 June 2018 and 2017:

	Year ended 30 June 2018			
	As reported RMB	**Amortised costs of liability component of the Convertible Bond *(Note 1)* RMB**	**Financial components from provision for project contracting services *(Note 2)* RMB**	**Non-GAAP RMB**
Profit for the year	**47,901,068**	**10,646,425**	**(1,893,783)**	**56,653,710**
Profit attributable to owners of the Company	**48,285,144**	**10,646,425**	**(1,893,783)**	**57,037,786**
Earning per shares (RMB cents per share)				
- basic	**7.18**	**-**	**-**	**8.48**
- diluted	**7.18**	**-**	**-**	**8.48**

	Year ended 30 June 2017			
	As reported RMB	As reported RMB	As reported RMB	As reported RMB
Profit for the year	30,357,878	2,470,064	5,197,987	38,025,929
Profit attributable to owners of the Company	30,638,948	2,470,064	5,197,987	38,306,999
Earning per shares (RMB cents per share)				
- basic	5.11	-	-	6.38
- diluted	5.11	-	-	6.38

Note:

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

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources, interest-bearing loans, issuance of convertible bonds and new shares. As at 30 June 2018, the Group have cash and cash equivalent balance amounting to approximately RMB72.9 million (30 June 2017: approximately RMB50.6 million), interest-bearing loans amounting to approximately RMB21.9 million (30 June 2017: RMB8.6 million) and convertible bonds amounting to approximately RMB75.7 million (30 June 2017: RMB66.8 million). Cash and cash equivalents increased due to the Group issued a new shares in January 2018 to raise a fund of RMB98.6 million.

Convertible Bonds

On 29 March 2017, the Company issued Convertible Bonds in principal amount of HK$100.0 million (equivalent to approximately RMB88.8 million).

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

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

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

The net proceeds from the Convertible Bonds amounted to approximately HK$99.5 million (the "Net Proceeds"). As at 30 June 2018, the Net Proceeds, after deducting all relevant costs and expenses, had been fully utilised as to approximately HK$87.2 million for the Group's new intergraded solution projects and as to approximately HK$12.3 million for the Group's general working capital, respectively.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

Significant investments

The Group had no significant investments held and disposals during the year ended 30 June 2018, except for the followings:

Acquisitions

MCN Group

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

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

777 Logistics Group

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

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

Save as disclosed herewith, the Group did not make any other material mergers or acquisitions for the year ended 30 June 2018.

Borrowing and charges of assets

As at 30 June 2018, the Group's borrowings were approximately RMB21.9 million (30 June 2017: RMB8.6 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear interest rates ranging from 4.35% to 10.0% per annum. (30 June 2017: all denominated in RMB, and bear an interest rate of 7.2% per annum).

As at 30 June 2018, the unused banking facilities of the Group were approximately RMB37.6 million in aggregate (30 June 2017: approximately RMB53.8 million). The banking facilities granted by the bank was secured by prepaid land lease payments, property, plant and equipment and investment properties of the Group amounting to approximately RMB3.2 million and RMB29.8 million and RMB6.0 million respectively (30 June 2017: approximately RMB3.4 million and RMB32.2 million and RMB6.3 million, respectively).

Gearing ratio

The gearing ratios as at 30 June 2017 and 2018 were approximately 2.6% and 2.8% respectively. The increase in gear ratio was mainly attributable to increase in the Group's interest bearing loans from approximately RMB8.6 million as at 30 June 2017 to approximately RMB21.9 million as at 30 June 2017. Based on the gearing ratio as at 30 June 2018, the Group still maintained a good financial position.

Gearing ratio is calculated based on the total debt (excluding the Convertible Bonds) at the end of the year divided by total debt plus total equity at the end of the respective year and multiplied by 100%.

Trade and bills receivables

Trade and bills receivables increased by approximately RMB181.3 million from approximately RMB399.5 million as at 30 June 2017 to approximately RMB580.8 million as at 30 June 2018. The increase was mainly attributable to an increase in the provision of project contracting service, such revenue was approximately RMB215.9 million and RMB235.5 million for the years ended 30 June 2018 and 2017, respectively. The repayment period for the provision of project contracting service is around 2-3 years. The customers settle the receivable by installments through the finance lease companies. The Group believes that this model will enable the Group to improve market competitiveness, to provide more flexible services to customers. In addition, the Group begun to deliver supply chain financing services to the paper-making companies in March 2018 to assist them in sourcing raw materials and to provide financing services through the Group's platform which generated a trade receivables of approximately RMB70.6 million. The Group will strengthen customer credit risk management to guard against the increased in bad debt provision.

Capital Expenditure

For the year ended 30 June 2018, the Group's capital expenditure amounted to approximately RMB25.8 million (30 June 2017: RMB0.8 million).The capital expenditure of the Group for the year was mainly used to build a warehouse logistics center located in Yangjiang.

Commitments

As at 30 June 2018, the Group had no capital commitments.

Contingent liabilities

As at 30 June 2018, the Group had no other material contingent liabilities besides disclosed.

Foreign Currency Risk

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

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 318 employees (30 June 2017: 285 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2018 were approximately RMB47.1 million, as comparable to approximately RMB37.0 million for the year ended 30 June 2017.

The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the period, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

Looking ahead, economic restructuring in China will continue to deepen. Under the general direction of sustainable development, certain companies which are ill-managed, are not compliant with environmental protection standards and have outdated production capacity will be shut down one after another. The paper-making companies have to enhance production capacity to provide more high-quality products to replace low-quality products in the market. The Group is confident in and capable of playing a good role of providing all-encompassing services for the industry by recommending quality equipment suppliers to customers through the platform of Huazhang Technology so as to facilitate the deep integration of industrialization and intelligentization of the production and manufacturing industries, to switch the model and to modify the structure further for overall enhancement of quality and efficiency.

As a leading paper-making equipment supplier in China, the Group will step up its efforts in innovation as well as research and development, enabling "Made in China" to include more China created elements and rely more on Chinese equipment and Chinese brands, so that apart from being a large producer of paper, China will become one of the nations that provides complete equipment for the paper-making industry. Against this backdrop, China will enjoy a greater competitive advantage in the development of the papermaking industry under the "Belt and Road" initiative.

Looking ahead, the paper-making industry is expected to continue its positive momentum. The Group will seize the opportunities and challenges encountered by the paper-making companies, make timely response to the new direction of "Integrating Together, Creating Together, Benefiting Together" with appropriate adjustment of strategies so as to take the lead in the market.

OTHER INFORMATION

Purchase, sale or redemption of listed securities

For the year ended 30 June 2018, 1,266,000 of its ordinary shares were repurchased on the Stock Exchange at an aggregate price of approximately HK$4.5 million. Subsequent to these share repurchase exercises, the Company has acquired and cancelled approximately 0.175% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations.

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share Highest	Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
May 2018	742,000	3.53	3.47	2,609,600
June 2018	524,000	3.52	3.42	1,840,920
	1,266,000			4,450,520

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would lead to an enhancement of the earnings per share.

Saved as disclosed above, 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 2018.

Share Option Scheme

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

Compliance of Non-competition Undertakings

In order to protect the Group's interest in its business activities, on 19 December 2014, each of Florescent Holdings Limited, Lian Shun Limited, Mr. Zhu Gen Rong, Mr. Wang Ai Yan, Mr. Liu Chuan Jiang and Ms. Zhu Ling Yun, the controlling shareholders (the "Controlling Shareholders") of the Company, has entered into a non-competition undertaking (the "Deed") in favour of the Company, pursuant to which each of them undertakes and covenants with the Company that, for as long as it/he and/or its/his associates, directly or indirectly, whether individually or taken together, remain to be the controlling shareholders, it/he will not and will procure its/his associates not to directly or indirectly carry on, participate, engage or otherwise be interested in any business which is or may be in competition with the business of any members of the Group (the "Restricted Business") from time to time.

Each of the Controlling Shareholders has also covenanted to notify the Company shall he/she/it or his/ her/ its associates be offered or become aware of any business opportunity regarding the Restricted Business and shall provide the Company all necessary information. An independent board committee (the "Independent Board Committee") of the Company comprising all independent non-executive directors shall decide whether to accept such opportunity by simple majority, taking into account the Company's prevailing business, the financial resources required for the relevant opportunity and the commercial viability of such opportunity.

In this regard, each of the Controlling Shareholders has provided the Company a written confirmation in respect of his/its compliance with the Deed for the year ended 30 June 2018. The independent non-executive directors of the Company who forms the Independent Board Committee have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Deed and have confirmed that, as far as they can ascertain, there is no breach of any of the undertakings in the Deed given by the Controlling Shareholders.

As of the date of this announcement, the Company is not aware of any other matters regarding the compliance of the undertakings in the Deed that are required to be brought to the attention of the shareholders of the Company.

The Company will continue to disclose in its further annual reports the status of compliance to the Deed as reviewed by the Independent Board Committee.

Corporate governance practices

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value. Continuous efforts are made to review and enhance the Group's risk management, internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability. The Board is pleased to report compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 30 June 2018.

Model code for securities transactions by directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the year ended 30 June 2018 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, 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. Kong Chi Mo, Ms. Chen Jin Mei and Mr. Dai Tian Zhu. The audit committee is chaired by Mr. Kong Chi Mo.

The audit committee of the Company has discussed with the management and external auditors 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 2018.

Scope of Work of Messrs. Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 30 June 2018 as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditors in this respect did 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 the Company's auditors on the preliminary announcement.

Final dividend

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

The board of directors now recommend to pay the final dividend for 2018 at 3.0 HK cents per share (2017: 2.4 HK cents per share) payable to shareholders of the Company whose names are on the register of members on 12 December 2018. It is expected that the final dividend will be paid on 28 December 2018. The proposed distribution of final dividend is subject to the approval of the Annual General Meeting ("AGM").

Closure of register of members

The register of members of the Company will be closed during the following periods:

(i) from 20 November 2018 (Tuesday) to 23 November 2018 (Friday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 19 November 2018 (Monday); and

(ii) from 10 December 2018 (Monday) to 12 December 2018 (Wednesday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to the final dividend. In order to establish entitlements to the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 7 December 2018 (Friday).

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

Annual general meeting

The AGM will be held on Friday, 23 November 2018. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

Publication of annual results announcement and annual report

The annual report for the year ended 30 June 2018 will be dispatched to shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hzeg.com in due course. This announcement can also be accessed on these websites.

On behalf of the Board
Huazhang Technology Holding Limited
Zhu Gen Rong
Chairman

Yunnan Province, China, 21 September 2018

As at the date of this announcement, the executive Directors are Mr. Zhu Gen Rong, Mr. Wang Ai Yan, Mr. Jin Hao and Mr. Zhong Xin Gang, and the independent non-executive Directors are Ms. Chen Jin Mei, Mr. Dai Tian Zhu and Mr. Kong Chi Mo.