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 2020

**FINANCIAL HIGHLIGHTS**

| | For the year ended 30 June | | |
|---|---|---|---|
| | **2020** | 2019 | **change** |
| | **RMB** | RMB | **%** |
| **Revenue** | **368,159,248** | 763,974,066 | (51.8) |
| **Gross profit** | **74,195,176** | 120,976,684 | (38.7) |
| *Gross profit margin* | ***20.2%*** | *15.8%* | *4.4* |
| **Loss for the year** | **(77,189,440)** | (129,868,065) | (40.6) |
| *Net loss margin* | ***(21.0)%*** | *(17.0)%* | *(4.0)* |
| **Loss attributable to owners of the parent** | **(77,503,863)** | (128,269,107) | (39.6) |
| **Losses per share attributable to the ordinary equity holders of the parent (RMB cents per share)** | | | |
| **- basic** | **(10.56)** | (17.61) | |
| **- diluted** | **(10.56)** | (17.61) | |

**The Board does not recommend the payment of a final dividend for the year ended 30 June 2020 (2019: 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 2020, together with the comparative figures for the year ended 30 June 2019, 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<br>**2020**<br>**RMB** | <br>2019<br>RMB |
|---|---|---|---|
| **REVENUE** | 3 | **368,159,248** | 763,974,066 |
| Cost of sales | 3,5 | **(293,964,072)** | (642,997,382) |
| **GROSS PROFIT** | | **74,195,176** | 120,976,684 |
| Selling and distribution expenses | 5 | **(9,171,733)** | (13,361,947) |
| Administrative expenses | 5 | **(57,122,809)** | (56,982,127) |
| Research and development expenses | 5 | **(24,048,315)** | (22,924,758) |
| Net impairment losses on financial and contract assets | | **(83,861,306)** | (28,602,266) |
| Other income and gains/(losses), net | 4 | **27,291,315** | (108,630,916) |
| **OPERATING LOSS** | | **(72,717,672)** | (109,525,330) |
| Finance income | 6 | **276,510** | 1,258,747 |
| Finance costs | 6 | **(10,491,027)** | (12,777,131) |
| Finance costs - net | | **(10,214,517)** | (11,518,384) |
| **LOSS BEFORE INCOME TAX** | | **(82,932,189)** | (121,043,714) |
| Income tax expense | 7 | **5,742,749** | (8,824,351) |
| **LOSS FOR THE YEAR** | | **(77,189,440)** | (129,868,065) |
| Loss is attributable to: | | | |
| - Owners of the parent | | **(77,503,863)** | (128,269,107) |
| - Non-controlling interests | | **314,423** | (1,598,958) |
| | | **(77,189,440)** | (129,868,065) |
| **LOSSES PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| - Basic losses per share (RMB cents) | 8 | **(10.56)** | (17.61) |
| - Diluted losses per share (RMB cents) | 8 | **(10.56)** | (17.61) |
| **OTHER COMPREHENSIVE LOSS** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | **(3,816,712)** | (3,111,103) |
| **OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX** | | **(3,816,712)** | (3,111,103) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(81,006,152)** | (132,979,168) |
| Total comprehensive loss for the year is attributable to: | | | |
| - Owners of the parent | | **(81,320,575)** | (131,380,210) |
| - Non-controlling interests | | **314,423** | (1,598,958) |
| | | **(81,006,152)** | (132,979,168) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 30 June 2020 RMB | 2019 RMB |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **79,483,658** | 81,993,507 |
| Right-of-use assets | | **5,303,580** | - |
| Investment properties | | **109,975,507** | 115,929,946 |
| Prepaid land lease payments | | **77,087,727** | 78,799,512 |
| Goodwill | 10 | **39,934,884** | 39,934,884 |
| Other intangible assets | | **12,664,279** | 14,557,893 |
| Deferred tax assets | | **14,318,685** | 8,353,095 |
| Trade and other receivables | 11(i) | **125,321,393** | 7,075,588 |
| Prepayments | 11(iii) | **182,843** | 195,903 |
| Total non-current assets | | **464,272,556** | 346,840,328 |
| **CURRENT ASSETS** | | | |
| Inventories | | **113,679,076** | 86,875,342 |
| Trade and other receivables | 11(i) | **529,419,356** | 606,753,581 |
| Prepayments | 11(iii) | **135,171,764** | 79,861,762 |
| Financial assets at fair value through other comprehensive income | | **50,049,740** | 28,760,512 |
| Pledged deposits | | **28,602,729** | 29,976,599 |
| Contract assets | 11(ii) | **11,035,234** | 82,261,590 |
| Cash and cash equivalents | | **40,394,804** | 24,196,754 |
| Total current assets | | **908,352,703** | 938,686,140 |
| **TOTAL ASSETS** | | **1,372,625,259** | 1,285,526,468 |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **6,110,739** | 6,847,232 |
| Deferred income | | **24,187,500** | 25,537,500 |
| Lease liabilities | | **4,038,619** | - |
| Total non-current liabilities | | **34,336,858** | 32,384,732 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 12 | **354,215,675** | 305,179,522 |
| Contract liabilities | | **206,393,720** | 141,166,067 |
| Interest-bearing loans | | **107,208,500** | 54,785,664 |
| Income tax payable | | **7,048,968** | 11,911,209 |
| Lease liabilities | | **1,201,155** | - |
| Convertible bonds | 13 | **91,245,279** | 85,525,913 |
| Total current liabilities | | **767,313,297** | 598,568,375 |
| **TOTAL LIABILITIES** | | **801,650,155** | 630,953,107 |
| **NET ASSETS** | | **570,975,104** | 654,573,361 |

| | Notes | As at 30 June 2020 RMB | 2019 RMB |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | | **6,203,955** | **6,203,955** |
| Share premium | | **509,708,723** | **509,708,723** |
| Equity component of convertible bonds | 13 | **35,161,248** | **23,609,589** |
| Other reserves | | **61,516,759** | **78,411,838** |
| (Accumulated deficits)/retained earnings | | **(41,147,040)** | **37,422,220** |
| Capital and reserves attributable to the owners of the parent | | **571,443,645** | **655,356,325** |
| Non-controlling interests | | **(468,541)** | **(782,964)** |
| **TOTAL EQUITY** | | **570,975,104** | **654,573,361** |

## 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").

During the year ended 30 June 2020, the Group reported a revenue slump of as much as approximately RMB396 million mainly as the novel coronavirus disease ("COVID-19") pandemic forced the Group to delay the delivering of goods and providing project contracting services. With the emerging from the pandemic in the second-half of 2020, management was well-positioned for a recovery.

These consolidated financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the Board on 25 September 2020.

## 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 financial statements are for the Group consisting of the Company and its subsidiaries.

### 2.1 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance ("HKCO") Cap. 622.

(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"), which are carried at fair value.

(c) New and amended standards adopted by the Group

The following new standards and amendments and interpretations to standards are mandatory for the Group's financial year beginning 1 July 2019.

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

The Group had to change its accounting policies as a result of adopting HKFRS 16. Please refer to Note 2.1(e) for details. The other newly adopted standards or amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New standards, amendments and interpretations not yet adopted by the Group

A number of new standards and amendments to standards and interpretations that are relevant to the Group but not yet effective for the financial year beginning at 1 July 2019 and have not been early adopted by the Group are as follows:

| **Standards, Amendments and Interpretations** | **Key requirements** | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material | 1 January 2020 |
| HKFRS 3 (Amendments) | Definition of a Business | 1 January 2020 |
| Revised Conceptual Framework | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| HKAS 1 (Amendments) | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| HKAS 16 (Amendments) | Property, Plant and Equipment: Proceeds before Intended Use | 1 January 2022 |
| HKAS 37 (Amendments) | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| HKFRS 3 (Amendments) | Reference to the Conceptual Framework | 1 January 2022 |
| HKFRS 17 | Insurance Contracts | 1 January 2023 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| Annual Improvements to HKFRS Standards 2018-2020 | | 1 January 2022 |

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation.

(e) Changes in accounting policy

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1(c) above, the Group has adopted HKFRS 16 from 1 July 2019, but has not restated comparatives for last reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

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

*(i) Practical expedients applied*

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

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

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

*(ii) Measurement of lease liabilities*

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

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

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

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

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

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

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

*(v) Lessor accounting*

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

## 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/(losses), net, finance costs - net and income tax expense are excluded from such measurement.

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

Segment liabilities include all liabilities of the Group except convertible bonds, income tax 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 2020:

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Total RMB |
|---|---|---|---|---|---|
| Segment revenue from external customers | **85,442,850** | **169,023,902** | **58,246,368** | **55,446,128** | **368,159,248** |
| Timing of revenue recognition | | | | | |
| At a point in time | **85,442,850** | **-** | **30,468,706** | **55,446,128** | **171,357,684** |
| Over time | **-** | **169,023,902** | **27,777,662** | **-** | **196,801,564** |
| Segment cost of sales | **(59,978,876)** | **(144,532,256)** | **(43,553,823)** | **(45,899,117)** | **(293,964,072)** |
| Segment gross profit | **25,463,974** | **24,491,646** | **14,692,545** | **9,547,011** | **74,195,176** |
| Segment results | **3,313,003** | **(39,317,629)** | **750,679** | **(33,761,564)** | **(69,015,511)** |
| Common administrative expenses | | | | | **(30,993,476)** |
| Other income and gains/(losses), net (Note 4) | | | | | **27,291,315** |
| Finance costs – net (Note 6) | | | | | **(10,214,517)** |
| Loss before income tax | | | | | **(82,932,189)** |
| Income tax expense (Note 7) | | | | | **5,742,749** |
| Loss for the year | | | | | **(77,189,440)** |

Other segment information:

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| Capital expenditure | **4,148,327** | **153,540** | **117,003** | **812,194** | **579,670** | **5,810,734** |
| Depreciation of property, plant and equipment | **1,002,953** | **141,160** | **1,662,309** | **4,388,007** | **-** | **7,194,429** |
| Depreciation of right-of-use assets | **-** | **-** | **-** | **-** | **1,204,752** | **1,204,752** |
| 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 | **2,047,850** | **-** | **-** | **375,700** | **-** | **2,423,550** |

The segment results for the year ended 30 June 2019:

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Total RMB |
|---|---|---|---|---|---|
| Segment revenue from external customers | 203,307,550 | 261,329,219 | 48,041,591 | 251,295,706 | 763,974,066 |
| Timing of revenue recognition | | | | | |
| At a point in time | 203,307,550 | - | 39,730,535 | 251,295,706 | 494,333,791 |
| Over time | - | 261,329,219 | 8,311,056 | - | 269,640,275 |
| Segment cost of sales | (150,189,743) | (217,942,033) | (46,506,390) | (228,359,216) | (642,997,382) |
| Segment gross profit | 53,117,807 | 43,387,186 | 1,535,201 | 22,936,490 | 120,976,684 |
| Segment results | 20,749,634 | 26,257,902 | (11,247,163) | (15,519,824) | 20,240,549 |
| Common administrative expenses | | | | | (21,134,963) |
| Other income and gains/(losses), net (Note 4) | | | | | (108,630,916) |
| Finance costs – net (Note 6) | | | | | (11,518,384) |
| Loss before income tax | | | | | (121,043,714) |
| Income tax expense (Note 7) | | | | | (8,824,351) |
| Loss for the year | | | | | (129,868,065) |

Other segment information:

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| Capital expenditure | 2,155,231 | 75,239 | 54,687 | 12,798,487 | - | 15,083,644 |
| Depreciation of property, plant and equipment | 1,452,854 | 25,146 | 1,660,317 | 3,644,361 | - | 6,782,678 |
| Depreciation of investment properties | - | - | - | 6,114,005 | 310,742 | 6,424,747 |
| Amortisation of prepaid land lease payments | 106,539 | - | 141,355 | 1,622,361 | 127,474 | 1,997,729 |
| Amortisation of other intangible assets | 2,047,850 | - | - | 98,763 | - | 2,146,613 |
| Impairment of goodwill (Note 10) | - | - | - | 105,063,873 | - | 105,063,873 |

Revenues of approximately RMB118,173,924 are derived from a single external customer (2019: revenues of approximately RMB201,493,775 and RMB83,995,625 are derived from two external customers). These revenues are attributed to the project contracting services segment (2019: project contracting services and supporting services segments).

| **Segment assets** | **As at 30 June** **2020** **RMB** | As at 30 June 2019 RMB |
|---|---|---|
| Project contracting services | **587,588,549** | 490,983,666 |
| Supporting services | **368,174,479** | 443,391,478 |
| Industrial products | **258,161,109** | 212,327,398 |
| Environmental products | **64,530,169** | 70,422,522 |
| **Total segment assets** | **1,278,454,306** | 1,217,125,064 |
| Unallocated: | | |
| Cash and cash equivalents | **40,394,804** | 24,196,754 |
| Pledged deposits | **28,602,729** | 29,976,599 |
| Deferred tax assets | **14,318,685** | 8,353,095 |
| Right-of-use assets | **5,303,580** | - |
| Investment properties | **5,368,312** | 5,679,053 |
| Prepayments - non-current portion | **182,843** | 195,903 |
| **Total assets as per the statement of financial position** | **1,372,625,259** | 1,285,526,468 |

| **Segment liabilities** | **As at 30 June 2020 RMB** | 2019 RMB |
|---|---|---|
| Industrial products | **230,487,233** | 121,413,440 |
| Project contracting services | **228,941,947** | 201,993,421 |
| Supporting services | **189,776,195** | 149,700,093 |
| Environmental products | **40,248,552** | 59,759,940 |
| **Total segment liabilities** | **689,453,927** | 532,866,894 |
| Unallocated: | | |
| Convertible bonds (Note 13) | **91,245,279** | 85,525,913 |
| Other payables | **8,662,207** | 649,091 |
| Income tax payable | **7,048,968** | 11,911,209 |
| Lease liabilities | **5,239,774** | - |
| **Total liabilities as per the statement of financial position** | **801,650,155** | 630,953,107 |

The Group has recognised the following assets and liabilities related to contracts with customers:

| | **As at 30 June 2020 RMB** | 2019 RMB |
|---|---|---|
| **Contract assets (i):** | | |
| Contract assets relating to sales of goods | **4,791,885** | 16,435,710 |
| Contract assets relating to sales of project contracting services | **6,796,732** | 66,797,352 |
| Less: provision for impairment | **(553,383)** | (971,472) |
| Total contract assets | **11,035,234** | 82,261,590 |
| **Contract liabilities (i) (ii):** | | |
| Contract liabilities relating to sales of goods | **144,894,727** | 101,549,740 |
| Contract liabilities relating to sales of project contracting services | **61,498,993** | 39,616,327 |
| Total contract liabilities | **206,393,720** | 141,166,067 |

(i) Significant changes in contract assets and liabilities

The decrease in contract assets was mainly due to reclassification to trade receivables as the rights to consideration relating to sales of project contracting services become unconditional. The increase in contract liabilities was mainly due to increased receipt in advance from customers.

(ii) Revenue recognised in relations to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

| | **As at 30 June 2020 RMB** |
|---|---|
| Revenue recognised that was included in the contract liabilities balance at the beginning of the period | **85,982,947** |

(iii) Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from long-term contracts:

| | **As at 30 June 2020 RMB** |
|---|---|
| Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 30 June 2020 | **170,490,401** |

Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2020 will be recognised as revenue during the next reporting period.

## 4 Other income and gains/(losses), net

| | **For the year ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Interest income from customer delaying on payment | **10,580,304** | 12,670,796 |
| Interest income recognised from project contracting services | **7,968,988** | 4,729,429 |
| Government grants | **3,515,292** | 3,121,071 |
| Reversal of interest | **2,924,713** | - |
| Tax refund | **1,141,863** | 1,388,268 |
| Rental income | **655,375** | 617,554 |
| Interest income from loan to a customer | **311,975** | 368,115 |
| Lawsuit | **-** | 2,298,000 |
| Exhibition service income | **-** | 1,132,076 |
| Gain on scrap steel sale | **-** | 204,203 |
| Change in fair value of contingent consideration | **-** | (30,437,752) |
| Impairment of goodwill (Note 10) | **-** | (105,063,873) |
| Others | **192,805** | 341,197 |
| | **27,291,315** | (108,630,916) |

## 5 Expenses by nature

| | For the year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Raw materials used | **288,598,596** | 617,448,136 |
| Employee benefit expenses | **52,774,133** | 61,204,032 |
| Outsourcing service fees | **13,449,901** | 4,160,109 |
| Travelling expenses | **8,867,781** | 9,579,862 |
| Professional service fees | **8,604,291** | 3,922,562 |
| Depreciation of property, plant and equipment | **7,194,429** | 6,782,678 |
| Depreciation of investment properties | **5,954,439** | 6,424,747 |
| Addition of provision for write-down of inventories | **4,916,152** | 2,697,019 |
| Office expenses | **3,228,700** | 2,381,096 |
| Entertainment expenses | **2,489,046** | 3,587,276 |
| Amortisation of other intangible assets | **2,423,550** | 2,146,613 |
| Miscellaneous tax charges other than value added tax and income tax | **2,323,356** | 1,870,012 |
| Transportation expenses | **2,267,814** | 2,356,717 |
| Auditor's remuneration | | |
| - Audit services | **1,900,000** | 1,830,000 |
| Amortisation of prepaid land lease payments | **1,711,785** | 1,997,729 |
| Rental expenses | **1,354,142** | 1,624,856 |
| Depreciation of right-of-use assets | **1,204,752** | - |
| Warranty expenses | **1,052,854** | 2,675,543 |
| Utilities | **689,026** | 564,994 |
| Advertising costs | **417,999** | 653,057 |
| Change in inventories of finished goods and work in progress | **(29,962,862)** | (34,171) |
| Other expenses | **2,847,045** | 2,393,347 |
| | **384,306,929** | 736,266,214 |

## 6 Finance costs - net

| | For the year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Finance costs | | |
| Interest on convertible bonds (Note 13) | **(6,959,294)** | (10,819,398) |
| Interest on loans | **(3,187,835)** | (2,343,973) |
| Interest paid/payable for lease liabilities | **(336,936)** | - |
| Net foreign exchange losses | **(6,962)** | - |
| Amount capitalised | **-** | 386,240 |
| | **(10,491,027)** | (12,777,131) |
| Finance income | | |
| Interest income | **276,510** | 737,621 |
| Exchange gain, net | **-** | 521,126 |
| | **276,510** | 1,258,747 |
| Finance costs- net | **(10,214,517)** | (11,518,384) |

## 7 Income tax expense

| | For the year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Current income tax | | |
| PRC enterprise income tax (iii) | **959,334** | 13,124,571 |
| Deferred income tax | **(6,702,083)** | (4,300,220) |
| Income tax expense | **(5,742,749)** | 8,824,351 |

(i) Cayman Islands profits tax

Corporate income is not imposed on corporations in the Cayman Islands.

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the year ended 30 June 2020 (2019: nil), as the Group had no taxable profits earned 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 Technology Limited ("Zhejiang Huazhang")'s applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the New EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar year of 2017 with a validation period of three years. The applicable EIT rate of Zhejiang Huazhang is 15% from 2008 till 2019. Zhejiang Huazhang is now under application of new validation period. It's highly possible that preferential tax rate will be approved by tax bureau around November 2020. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2020 (2019: 15%).

The difference between the actual income tax expense in the consolidated statement of profit or loss and the amounts which would result from applying the enacted tax rate to profit before tax can be reconciled as follows:

| | For the year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Loss before income tax | **(82,932,189)** | (121,043,714) |
| | | |
| Tax calculated at the statutory tax rate of 25% | **(20,733,047)** | (30,260,929) |
| Tax effects of: | | |
| Different tax rate effect | **5,507,247** | 2,639,397 |
| Income not subject to tax | **-** | (651,050) |
| Expenses not deductible for income tax purpose | **28,329** | 5,095,277 |
| Research and development tax credit | **(2,313,487)** | (1,652,199) |
| Tax losses and temporary differences for which no deferred tax asset was recognised | **13,247,614** | 8,212,054 |
| Utilisation of previously unrecognised tax losses | **(130,538)** | - |
| Adjustments for current tax of prior years | **(1,348,867)** | (824,167) |
| Provision for goodwill impairment not deductible for income tax purpose | **-** | 26,265,968 |
| Income tax expense | **(5,742,749)** | 8,824,351 |

## 8 Earnings per share

The calculation of the basic earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 733,857,225 (2019: 728,246,767) which represents the shares in issue during the year.

The diluted earnings per share is same as the basic earnings per share for the year ended 30 June 2020 and 2019. For the year ended 30 June 2020, the Group had no potential dilutive ordinary shares in issue (2019: any potential ordinary shares would have anti-dilutive effect).

| | **For the year ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| **Basic** | | |
| Earnings | | |
| Loss attributable to ordinary equity holders of the parent | **(77,503,863)** | (128,269,107) |
| Number of shares | | |
| Weighted average number of ordinary shares in issue during the year | **733,857,225** | 728,246,767 |
| Basic losses per share (RMB cents) | **(10.56)** | (17.61) |
| **Diluted** | | |
| Earnings | | |
| Loss attributable to ordinary equity holders of the parent | **(77,503,863)** | (128,269,107) |
| 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 | **733,857,225** | 728,246,767 |
| Diluted losses per shares (RMB cents) | **(10.56)** | (17.61) |

## 9 Dividends

No dividend was paid during the year ended 30 June 2020 (2019: dividends of 3.0 HK cents per share, totally RMB18,994,497 was paid).

On 25 September 2020, the Board resolved not to declare any dividend for the year ended 30 June 2020 (2019: nil).

## 10 Goodwill

| | Headbox business | Logistics and warehousing services | Others | Total |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| **Year ended 30 June 2020** | | | | |
| Opening net book amount as at 1 July 2019 | **36,155,379** | **3,183,135** | **596,370** | **39,934,884** |
| **Closing net book amount as at 30 June 2020** | **36,155,379** | **3,183,135** | **596,370** | **39,934,884** |
| **Year ended 30 June 2019** | | | | |
| Opening net book amount as at 1 July 2018 | 36,155,379 | 108,247,008 | 596,370 | 144,998,757 |
| Impairment charge (Note 4) | - | (105,063,873) | - | (105,063,873) |
| **Closing net book amount as at 30 June 2019** | 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 2020** | **Headbox business** |
|---|---|
| Sales (% annual growth rate) | 2%-5% |
| Budgeted gross margin (%) | 32%-34% |
| Long term growth rate (%) | 3% |
| Pre-tax discount rate (%) | 19.3% |

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

These assumptions have been used for the analysis of 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.

As at 30 June 2020, no impairment charge arose in the aforesaid CGUs (30 June 2019: impairment charge of RMB 105,063,873 arose in the logistics and warehousing services CGU).

## 11 Trade and other receivables, contract assets and prepayments

(i) Trade and other receivables

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Warranty receivables (a) | **24,401,686** | 19,906,655 |
| Amounts due from contract customers | **-** | - |
| Other trade receivables (b) | **620,239,326** | 493,389,612 |
| | **644,641,012** | 513,296,267 |
| Less: provision for impairment of trade receivables (c) | **(101,333,200)** | (39,538,917) |
| Trade receivables - net | **543,307,812** | 473,757,350 |
| Bills receivables | **20,372,673** | 20,218,173 |
| Trade and bills receivables | **563,680,485** | 493,975,523 |
| Payment on behalf of an independent third party | **87,265,017** | 91,449,840 |
| Deductible input value added tax | **10,203,052** | 9,669,086 |
| Loan deposit to an independent third party | **9,134,400** | 8,796,600 |
| Loan to a customer | **4,088,398** | 7,228,531 |
| Other receivables - guarantee | **3,304,332** | 3,247,643 |
| Other receivables due from a related party | **-** | 23,612 |
| Others | **4,401,774** | 5,419,728 |
| | **118,396,973** | 125,835,040 |
| Less: provision for impairment of other receivables (d) | **(27,336,709)** | (5,981,394) |
| Other receivables - net | **91,060,264** | 119,853,646 |
| Total trade and other receivables | **654,740,749** | 613,829,169 |
| Less: trade and other receivables - non-current portion | **(125,321,393)** | (7,075,588) |
| | **529,419,356** | 606,753,581 |

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

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

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Warranty receivables | | |
| 1 year to 2 years | **11,926,904** | 6,138,336 |
| Over 2 years | **12,474,782** | 13,768,319 |
| | **24,401,686** | 19,906,655 |

As at 30 June 2020 and 2019, the management expects that approximately RMB24,401,686 and RMB19,906,655 respectively, will be received within one year.

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

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Other trade receivables | | |
| Up to 3 months | **169,632,126** | 208,786,984 |
| 3 months to 6 months | **8,897,007** | 3,524,681 |
| 6 months to 1 year | **163,351,853** | 3,775,227 |
| 1 year to 2 years | **52,407,628** | 230,500,138 |
| Over 2 years | **225,950,712** | 46,802,582 |
| | **620,239,326** | 493,389,612 |

As at 30 June 2020 and 2019, the management expects that approximately RMB494,917,933 and RMB493,389,612 respectively, will be received within one year.

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

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Other trade receivables | | |
| Not due | **317,088,861** | 38,536,280 |
| Up to 3 months past due | **33,094,076** | 238,066,464 |
| 3 months to 6 months past due | **26,703,775** | 33,350,026 |
| 6 months to 1 year past due | **47,774,757** | 20,551,133 |
| 1 year to 2 years past due | **53,047,948** | 154,813,281 |
| Over 2 years past due | **142,529,909** | 8,072,428 |
| | **620,239,326** | 493,389,612 |

(c) Movements in the Group's provision for impairment of trade receivables are as follows:

| | For the year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| At beginning of the year | **39,538,917** | 13,156,318 |
| Amounts restated through opening retained earnings | **-** | 2,173,272 |
| Impairment losses recognised | **62,924,080** | 24,247,867 |
| Amounts written off as uncollectible | **(1,129,797)** | (38,540) |
| At the end of the year | **101,333,200** | 39,538,917 |

As at 30 June 2020, provisions amounting to RMB79,154,496 (30 June 2019: RMB11,898,699) were made on certain trade receivables given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these trade receivables.

(d) Movements in the Group's provision for impairment of other receivables are as follows:

| | For the year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| At beginning of the year | **5,981,394** | 2,156,079 |
| Impairment losses recognised | **21,355,315** | 3,825,315 |
| At the end of the year | **27,336,709** | 5,981,394 |

As at 30 June 2020, provisions amounting to RMB24,585,572 (30 June 2019: nil) were made on certain other receivables respectively given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these other receivables.

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.

The carrying amounts of trade and other receivables (including non-current portion) are denominated in the following currencies:

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| RMB | **644,166,400** | 603,253,912 |
| HKD | **9,370,188** | 9,029,847 |
| USD | **1,204,161** | 1,545,410 |
| | **654,740,749** | 613,829,169 |

(ii) Contract assets

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Contract assets | **11,588,617** | 83,233,062 |
| Less: provision for impairment of contract assets (a) | **(553,383)** | (971,472) |
| | **11,035,234** | 82,261,590 |

(a) Movements in the Group's provision for impairment of contract assets are as follows:

| | For the year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| At beginning of the year | **971,472** | - |
| Amounts restated through opening retained earnings | **-** | 442,388 |
| Impairment losses recognised | **-** | 529,084 |
| Impairment losses reversed due to contract assets transferring to other trade receivables | **(418,089)** | - |
| At the end of the year | **553,383** | 971,472 |

As at 30 June 2020, all the carrying amounts of contract assets were denominated in RMB.

(iii) Prepayments

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Prepayments for procurement | **134,944,989** | 79,921,802 |
| Others | **409,618** | 135,863 |
| Total prepayments | **135,354,607** | 80,057,665 |
| Less: prepayments - non-current portion | **(182,843)** | (195,903) |
| | **135,171,764** | 79,861,762 |

## 12 Trade and other payables

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Trade payables | **153,320,676** | 129,178,810 |
| Bills payables | **64,577,308** | 110,852,396 |
| | **217,897,984** | 240,031,206 |
| Other taxes payables | **49,918,691** | 32,501,508 |
| Deposits for project contracting services | **29,986,987** | - |
| Interest-free loan from independent third parties | **18,050,800** | - |
| Amount due to suppliers on a customer's behalf | **13,618,244** | 13,775,461 |
| Accruals | **7,038,078** | 5,694,078 |
| Amounts due to related parties | **5,488,478** | 49,500 |
| Interest payable for convertible bonds | **2,283,600** | - |
| Employee benefit payables | **2,086,926** | 3,185,326 |
| Other deposits | **1,471,836** | 915,000 |
| Payables for property, plant and equipment | **1,471,346** | 6,487,991 |
| Provision for warranty expenses | **578,461** | 484,577 |
| Others | **4,324,244** | 2,054,875 |
| | **136,317,691** | 65,148,316 |
| | **354,215,675** | 305,179,522 |

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

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| Up to 3 months | **90,913,279** | 85,129,189 |
| 3 months to 6 months | **1,129,810** | 23,254,725 |
| 6 months to 1 year | **25,740,249** | 5,631,296 |
| 1 year to 2 years | **20,658,934** | 6,264,575 |
| Over 2 years | **14,878,404** | 8,899,025 |
| | **153,320,676** | 129,178,810 |

The carrying amount of trade and other payables are denominated in the following currencies:

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB** | RMB |
| RMB | **339,088,416** | 303,584,561 |
| HKD | **12,227,198** | 39,707 |
| USD | **2,900,061** | 1,555,254 |
| | **354,215,675** | 305,179,522 |

## 13 Convertible Bonds

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

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

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

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

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

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

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

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

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

On 29 September 2019, a supplemental deed in relation to the Convertible Bonds was executed by the Company to extend the maturity date to 28 September 2020 (the "Second Extension"). The Company accounted for the Second Extension as a 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.

| | Liability component of Convertible Bonds RMB | Equity component of Convertible Bonds RMB | Total RMB |
|---|---|---|---|
| **At 1 July 2019** | **85,525,913** | **23,609,589** | **109,135,502** |
| Interest expense (Note 6) | **11,708,524** | **-** | **11,708,524** |
| Interest paid and payable | **(4,515,977)** | **-** | **(4,515,977)** |
| Extinguishment (Note 6) | **(4,749,230)** | **11,170,841** | **6,421,611** |
| Currency translation differences | **3,276,049** | **380,818** | **3,656,867** |
| **At 30 June 2020** | **91,245,279** | **35,161,248** | **126,406,527** |
| | | | |
| **At 1 July 2018** | 75,710,498 | 23,609,589 | 99,320,087 |
| Interest expense (Note 6) | 17,773,286 | - | 17,773,286 |
| Interest paid | (2,176,667) | - | (2,176,667) |
| Modification (Note 6) | (6,953,888) | - | (6,953,888) |
| Currency translation differences | 1,172,684 | - | 1,172,684 |
| **At 30 June 2019** | 85,525,913 | 23,609,589 | 109,135,502 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

Global economies, almost without exception, have all suffered from the intertwined setbacks brought about by the trade war and COVID-19 pandemic over the past year. In 2019, under the context of Sino-US trade friction, China's annual gross domestic product (GDP) grew by 6.1% which points to a continued slowdown in economic growth. Having been affected by the COVID-19 pandemic by the first quarter of 2020, China's economy received yet another heavy blow since the Sino-US trade war, plunging at one time into deep recession as a result of business shutdowns, liquidity shortages and sharp decline in public consumption, the first quarter GDP fell 6.8% year-on-year, which was the first ever negative reading. With the official resumption of production activities by factories in China from April 2020 onwards, economic activities gradually returned to normal, and China's GDP grew by 3.2% in the second quarter. Amid the overall global economic downturn, China is one of the few countries in the world to record GDP growth.

According to the survey data of China Paper Association, there were about 2,700 paper and cardboards manufacturers in China in 2019 and the national production volume of paper and cardboards was 107.65 million tonnes, representing a 3.16% increase from the previous year. While the consumption volume reached 107.04 million tonnes, representing a 2.54% increase from the previous year. From 2010 to 2019, the average annual growth rate of paper and carboards production was 1.68%, and that of its consumption was 1.73%. Although the production and sales volume of the paper-manufacturing industry maintained growth, the growth rate itself has slowed down. In the first half of 2020, due to the COVID-19 pandemic, the national production volume of machine-made papers and cardboards was 57.573 million tonnes, representing a decrease of 4.8% over the same period last year.

In the short term, environmental policies for the industry will continue to become more stringent, waste paper imports will be further restricted, low-end production capacity will be phased out, and enterprises will be encouraged to develop and adopt more environmentally friendly technologies and equipment. In the long term, the state will continue to promote the transformation and upgrading of the industry, forcing the paper manufacturing industry to expedite its structural adjustment with greater emphasis on quality and technological innovation, which covers intelligent transformation and upgrading. The digitalized, networked and intelligent demands of the manufacturing industry will be undertaken through the Industry of Internet platform, establishing in the process a service system based on massive data collection, aggregation and analysis, in which software with ubiquitous connection for manufacturing resources, flexible supply and demand as well as efficient configuration will be supported. The development of Industry of Internet will open up a new technological ecosystem for the automation industry. In addition, as the impact of the pandemic subsides, the industry shows inclination to reduce its reliance on manual labour to cope with fluctuating labour supply and supply chain risks, whilst intelligent factories and smart manufacturing will see further development.

## BUSINESS REVIEW

During the year under review, the Group was affected by the COVID-19 pandemic and the Sino-US trade friction, which severely crippled the domestic and overseas economies and related activities, resulting in a significant impact on the Group's results and delays in the progress of projects and product shipment schedules. Although the gross profit margin improved significantly from approximately 15.8% for the year ended 30 June 2019 to approximately 20.2% for the year ended 30 June 2020, the Group's turnover for the year ended 30 June 2020 was approximately RMB368.2 million, representing a decrease of approximately 51.8% over the same period in 2019. In terms of loss, the Group also made an improvement with a loss of approximately RMB77.2 million for the year ended 30 June 2020, which represented a decrease of approximately 40.6% as compared to the loss for the same period in 2019.

In the past few years, the Group's main development strategies were "All-encompassing services", "Belt and Road" and "Integrating Together, Creating Together, Benefiting Together", the core values of which are to provide better services to customers, expand new businesses and lead the industry forward. During the year, the Group has adhered to and consistently implemented these values and strategies, it has also achieved breakthroughs in technical reserves and technological innovation.

**Establishment of Huazhang Research Institute and Enhancement in Technical Reserves**

At present, China's technical reserves for paper manufacturing are insufficient, in order to meet the demand of domestic and overseas customers and to guide the development of the paper manufacturing industry towards the intelligent direction, it is necessary to have adequate prowess in scientific research and technological innovation. To achieve this goal, the Group has established the Huazhang Research Institute this year, which sets the future direction of technological development for the Group, with its main objectives being:

1) adhere to the demands of the paper manufacturing industry in the development of new products
2) track the development trend of domestic and overseas paper manufacturing industries
3) venture into fringe fields based on paper manufacturing
4) revolutionize the concept of traditional paper as well as related functional materials.

During the year ended 30 June 2020, the Group obtained 8 new patents, including a remote monitoring system for frequency converters and a high-end household paper pulp system, as well as 6 computer software copyrights, accumulating 119 registered patents (including 25 invention patents, 75 utility new model patents and 19 software copyrights) in total.

**Completion of Representative Turnkey Projects and Accomplishment in Technical Breakthroughs**

During the year, the Group completed two representative turnkey projects, namely, the turnkey project of Anhui Linping Paper and the turnkey project of Chaozhou Hefeng Special Paper. The Group provided engineering design, pulp and paper making equipment, engineering installation services, as well as key components such as MCN's headboxes, plant-wide automation system and press filters, it has also joined hands with more than 60 well-known brand suppliers at home and abroad to form sets of equipment and components for their projects.

The Anhui Linping Paper project is the largest single project ever undertaken by the Group in its history of turnkey project business, with a total contract value of RMB350.0 million. The project was related to the contracted construction of a production line for two high-ended wrapping paper machines of the same specification for Anhui Linping Paper. The paper machines have a net paper width of 5,600 millimeters, with a designed speed of 900 meters/minute and a total production capacity of 500,000 tonnes. The Chaozhou Hefeng Special Paper project, in the meantime, is recognized with the Group's first independently designed and constructed paper manufacturing machine, for which the Group has assimilated all the experiences it acquired from leading international manufacturers of paper making machines with advanced paper making equipment in China. The machine produces corrugated paper and T-paper with a net paper width of 5,300 millimeters, a design speed of 700 meters/minute and a total production capacity of 200,000 tonnes. The total contract value of the Chaozhou Hefeng Special Paper project was RMB134.0 million.

The completion of the above two projects marks a major breakthrough in the Group's project undertaking capability as well as its design and development capabilities, it has provided valuable experience in improving the Group's full-time all-encompassing services for paper manufacturing enterprises, and has served to guide equipment suppliers in China's paper manufacturing industry forward into the field of scientific research.

**Continuous breakthroughs in the Research and Development of Headboxes and Acclaimed Quality in the Market**

In April 2020, the headbox products of Hangzhou MCN Paper Tech Co., Ltd. ("MCN"), a subsidiary of the Group, were included in the "Hangzhou Quality Products Recommended Catalogue 2020", which is a recognition of MCN's products and technologies. The Hangzhou Quality Products Catalogue primarily covers (i) products that have received national, provincial and local quality awards; (ii) industrial-leading products on the lists of Fortune Global 500, Fortune China 500 and Top 100 Zhejiang Enterprises; and (iii) industrial-leading products listed as individual champions or hidden champions.

With the accumulation of theoretical knowledge and experience, MCN has successfully delivered dozens of household paper machine headboxes with designed speed of 600 to 1,600 meters/minute and maximum width of 4,200 millimeters, and the quality and performance of these headboxes have been widely recognized by paper mills. At present, MCN's R&D team is pressing full steam ahead for 5,600 millimeters in paper width and 2,000 meters/minute or higher in terms of speed. Whilst MCN is developing headboxes for household paper machines, it is also seeking breakthroughs in the development of hydraulic headboxes as accessories for long-wire paper machines. From the headboxes trials on common long-wire paper machines (2640/500) in 2005, to the tryout design and manufacturing of headboxes as accessories to the 6000/800 paper machines for Vietnam Thuan An Paper in 2020, MCN's R&D team has long targeted a speed of 1,200 meters/minute and a width of over 6,600 millimeters for their headboxes. As at 30 June 2020, the outstanding orders of MCN amounted to approximately RMB81.0 million.

**Face up to overseas business challenges in a proactive manner**

With regard to overseas operations, the Group has entered into a US$19.0 million (approximately RMB130.9 million) project contracting services contract with a paper manufacturing enterprise in Vietnam for the construction of a 120,000 tonnes paper production line for the customer. As at 30 June 2020, the Group has been providing machinery, equipment and installation services for the project, its progress, however, has been delayed by the COVID-19 pandemic and is expected to be completed by the financial year 2021. The Group expects that the completion of the Vietnam project will help promote the Group's products and services in the Southeast Asian market. Due to the impact of the COVID-19 pandemic, a number of Southeast Asian countries are under lockdowns, which may pose difficulties to the Group's future sales plan or overseas promotion. The Group will liaise with existing and potential customers through the internet (including video conferencing), so as to minimise the impact of the pandemic to the Group's overseas business expansion.

In terms of marketing, during the period, the Group participated in the "2019 China Specialty Papers Conference, the 14th Annual Meeting of Specialty Papers Commission, and China International Specialty Papers Expo" as well as the "2019 China International Paper Technology Exhibition" to promote the Group's products and technologies to paper manufacturing enterprises in China.

## FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 51.8% from approximately RMB764.0 million for the year ended 30 June 2019 to approximately RMB368.2 million for the year ended 30 June 2020, primarily attributing to the impact of the COVID-19 pandemic. Gross profit margin increased from approximately 15.8% for the year ended 30 June 2019 to approximately 20.2% for the year ended 30 June 2020.

(i) Industrial products

Revenue from sales of industrial products decreased significantly by approximately 58.0% from approximately RMB203.3 million for the year ended 30 June 2019 to approximately RMB85.4 million for the year ended 30 June 2020. Such decrease was primarily attributable to decrease in demand on industrial automation system from the supporting service as well as the postponed delivery schedules under the impact of the COVID-19 pandemic. The sales of industrial automation systems decreased by approximately RMB117.4 million to RMB30.6 million for the year ended 30 June 2020 as compared with for the year ended 30 June 2019. However, the gross profit margin of industrial products increased from approximately 26.1% for the year ended 30 June 2019 to approximately 29.8% for the year ended 30 June 2020. Such increase was attributable to the Group reduced its profit margin in industrial products to support the supporting services for the year ended 30 June 2019 while no such strategy was implemented for the year ended 30 June 2020.

(ii) Project contracting services

Revenue from project contracting services decreased by approximately 35.3% from approximately RMB261.3 million for the year ended 30 June 2019 to approximately RMB169.0 million for the year ended 30 June 2020. Such decrease was mainly due to the postponed progress schedules under the impact of the COVID-19 pandemic. For the year ended 30 June 2020, the Group completed 2 project contracting services projects, the Anhui Linping Paper project and the Chaozhou Hefeng Special Paper project. The gross profit margins of project contracting services were 14.5% and 16.6% for the year ended 30 June 2020 and 2019.

(iii) Environmental business

Revenue from sales of environmental business increased by approximately 21.2% from approximately RMB48.0 million for the year ended 30 June 2019 to approximately RMB58.2 million for the year ended 30 June 2020. Such increase was primarily due to an increase in revenue from wastewater treatment business of approximately RMB19.5 million for the year ended 30 June 2020 after the Group strengthened the promotion and adjusted the sales strategies. Such increase was offset by a decrease in sales of sludge treatment products of approximately RMB10.5 million for the year ended 30 June 2020 as the Group was adjusting the business model and strategies of the business. The gross profit margin of environmental business increased significantly from approximately 3.2% for the year ended 30 June 2019 to approximately 25.2% for the year ended 30 June 2020, primarily due to several projects were suspended for the year ended 30 June 2019, the Group recognized the loss of these projects while no such losses were recognised for the year ended 30 June 2020.

(iv) Supporting services

Revenue from the provision of supporting services decreased significantly by approximately 77.9% from approximately RMB251.3 million for the year ended 30 June 2019 to approximately RMB55.4 million for the year ended 30 June 2020. The revenue from the provision of supporting services decreased significantly mainly due to the Group provided a new service in relation to the transformation work of an entire paper machine production line during the year ended 30 June 2019, such service generated a revenue of RMB159.8 million while no such service was incurred during the year ended 30 June 2020. The gross profit margin for the provision of supporting services increased from approximately 9.1% for the year ended 30 June 2019 to approximately 17.2% for the year ended 30 June 2020. The gross profit margin increased primarily due to the gross profit margin of the new service in 2019 was low.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately 31.4% from approximately RMB13.4 million for the year ended 30 June 2019 to approximately RMB9.2 million for the year ended 30 June 2020, accounting for approximately 1.7% and approximately 2.5% of the Group's revenue for the year ended 30 June 2019 and 2020 respectively. Decrease in selling and distribution expenses in absolute amounts was primarily attributable to decrease in traveling expenses and transportation costs as compared with same period of 2019 due to travel restriction under the impact of COVID-19.

Administrative expenses

The administrative expenses increased by approximately 0.2% from approximately RMB57.0 million for the year ended 30 June 2019 to approximately RMB57.1 million for the year ended 30 June 2020, accounting for approximately 7.5% and approximately 15.5% of the Group's revenue for the year ended 30 June 2019 and 2020 respectively. Increase in administrative expenses was mainly attributable to the Group invested amounts of approximately RMB10.3 million for the preparation work of the waste recycling and treatment project, such as hiring a project team and holding a global conference for the project, for the year ended 30 June 2020 while no such project was conducted for the year ended 30 June 2019, which was offset by a decrease in salary and employee benefits of RMB8.7 million in relation to the share option expenses and decrease in number of administrative staff.

Research and development expenses

The research and development expenses increased by approximately 4.9% from approximately RMB22.9 million for the year ended 30 June 2019 to approximately RMB24.0 million for the year ended 30 June 2020, accounting for approximately 3.0% and approximately 6.5% of the Group's revenue for the year ended 30 June 2019 and 2020 respectively. The Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes, the Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets increased significantly by approximately 193.2% from approximately RMB28.6 million for the year ended 30 June 2019 to approximately RMB83.9 million for the year ended 30 June 2020. Such increase was primarily due to several customers have difficulties, such as suspension of the projects or liquidities issues. As a result, the customers cannot repay the receivables timely in such economic environment. The management of the Group has actively monitored the settlement of the receivables, made prudent assessments and provided impairment losses on financial and contract assets of approximately RMB83.9 million. The Group have taken more actions, such as negotiation with the customers for the repayment and even legal action, to reduce the loss.

Other income and gains/(losses), net

Other income and gains/(losses), net changed from a loss of approximately RMB108.6 million for the year ended 30 June 2019 to a gain of approximately RMB27.3 million for the year ended 30 June 2020. For the year ended 30 June 2019, the Group recorded non-recurring expenditure in relation to change in fair value of contingent consideration from acquisition of headbox business of approximately RMB30.4 million and impairment of goodwill from acquisition of the logistic business of approximately RMB105.1 million while no such expenditures were incurred for the year ended 30 June 2020.

Finance costs - net

The finance costs - net decreased by approximately 11.3% from RMB11.5 million for the year ended 30 June 2019 to approximately RMB10.2 million for the year ended 30 June 2020, primarily attributing to a decrease in interest on convertible bonds of approximately RMB3.9 million for the year ended 30 June 2020, which offsetting an increase in interest on loans of approximately RMB0.8 million for the year ended 30 June 2020.

Income tax expense

The Group recorded an income tax credit of approximately RMB5.7 million for the year ended 30 June 2020 while there was an income tax expense of approximately RMB8.8 million for the year ended 30 June 2019. Such change was mainly attributable to sharply decrease in the PRC enterprise income tax as well as an increase in deferred income tax in relation to provision for impairment. The PRC enterprise income tax decreased from approximately RMB13.1 million for the year ended 30 June 2019 to approximately RMB1.0 million for the year ended 30 June 2020, primarily due to decrease in operating profits of the Group for the year ended 30 June 2020.

The effective tax rates of the Group changed from approximately -7.3% for the year ended 30 June 2019 to approximately 6.9% for the year ended 30 June 2020, such change was mainly attributable to decrease in non-deductible expenses in relation to provision for goodwill impairment and increase in tax losses and temporary differences for which no deferred tax asset was recognised.

Loss for the year and net loss margin

The loss for the year decreased by approximately 40.6% from approximately RMB129.9 million for the year ended 30 June 2019 to approximately RMB77.2 million for the year ended 30 June 2020. The net loss margin increased from approximately 17.0% for the year ended 30 June 2019 to approximately 21.0% for the year ended 30 June 2020, primarily due to a decrease in turnover for the year ended 30 June 2020.

Loss for the year attributable to owners of the parent

The loss for the year attributable to owners of the parent decreased by approximately 39.6% from approximately RMB128.3 million for the year ended 30 June 2019 to approximately RMB77.5 million for the year ended 30 June 2020.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources and loans from banks. As at 30 June 2020, the Group had cash and cash equivalent balance amounting to approximately RMB40.4 million (30 June 2019: approximately RMB24.2 million) and interest-bearing loans amounting to approximately RMB107.2 million (30 June 2019: RMB54.8 million).

### Convertible Bonds

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

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

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

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

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

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

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

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

## SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the year ended 30 June 2020.

### Borrowing and charges of assets

As at 30 June 2020, the Group's borrowings were approximately RMB107.2 million (30 June 2019: RMB54.8 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an interest range of 3.75% to 7.2% per annum (30 June 2019: all denominated in RMB, and bore an interest range of 5.31% to 7.2% per annum).

As at 30 June 2020, the Group's Convertible Bonds was approximately RMB91.2 million (30 June 2019: RMB85.5 million) which will mature on 28 September 2020 and the interest rate is 5.0% per annum.

As at 30 June 2020, the banking facilities granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB63.1 million, RMB110.0 million and RMB77.1 million respectively (30 June 2019: approximately RMB63.4 million, RMB115.9 million and RMB78.8 million respectively).

### Gearing ratio

The gearing ratios as at 30 June 2020 and 2019 were approximately 15.8% and 7.7% respectively. The increase in gearing ratio was mainly attributable to increase in the Group's interest bearing loans from approximately RMB54.8 million as at 30 June 2019 to approximately RMB107.2 million as at 30 June 2020. Based on the gearing ratio as at 30 June 2020, 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 increased by approximately RMB69.7 million from approximately RMB494.0 million as at 30 June 2019 to approximately RMB563.7 million as at 30 June 2020, primarily due to some contracting projects were completed during the year ended 30 June 2020. Due to overall downward economic environment, several customers had financial difficulties and delayed the settlement of the receivables, as a result, the Group increased to provide impairment losses on trade receivables and other receivables. The provision for impairment of trade receivables and other receivables increased by approximately RMB61.8 million and RMB21.4 million, respectively, for the year ended 30 June 2020. The Group will strengthen customer credit risk management to guard against the increased in bad debt provision, and will take legal action if necessary.

### Capital Expenditure

For the year ended 30 June 2020, the Group's capital expenditure amounted to approximately RMB5.8 million (2019: RMB15.1 million). The capital expenditure of the Group for the year was mainly used to expand the workshop in the production plant in Tongxiang, Zhejiang Province, the PRC.

## COMMITMENTS

As at 30 June 2020, the Group had no material capital commitments.

## CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no material contingent liabilities.

## FOREIGN CURRENCY RISK

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

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

## EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2020, the Group had 296 employees (30 June 2019: 314 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2020 were approximately RMB52.8 million, as comparable to approximately RMB61.2 million for the year ended 30 June 2019. 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 year, the Group continued its commitment to employees' training and development programme.

## FUTURE PROSPECTS

Looking ahead to the second half of 2020, the Group's operations will return to the right track with the resumption of the industry's supply chain and production as the epidemic in China comes under control. Since the end of the epidemic, the state has introduced a sequence of favourable policies for the expansion of domestic demand in an effort to stabilize the economy, which is expected to stimulate the industry's development. However, the ongoing trade disputes between China and the United States continue to bring uncertainties to the industry and the Group. As the leading paper manufacturing equipment supplier in the China, the Group will step up its innovation and research and development, enhance technical reserves and expand into new businesses.

In respect of overseas businesses, the Group considers the impact of the pandemic to be temporary and believes that the demand for the paper manufacturing industry in Southeast Asia still holds huge potential in the long run, for this reason the Company will sustain the momentum in its expansion into overseas market. Furthermore, the restructuring and upgrading of the industry will lead to intelligent restructuring and upgrading, and the pandemic has intensified the industry's demand for intelligent and automated equipment. The Group will continue to strengthen its technical reserves and seek technological breakthroughs to meet the industry's demand and maintain its competitiveness.

## OTHER INFORMATION

## PURCHASE, SALE OR REDEMPTION OF 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 2020.

However, the Company repurchased 698,000 of its ordinary shares on the Stock Exchange in July 2020 at an aggregate amount of approximately HK$1.4 million, representing approximately 0.095% of the total number of issued shares of the Company.

| Month of repurchases | Number of Shares purchased on the Stock Exchange | Price paid per Share Highest | Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| July 2020 | 698,000 | 2.2 | 1.84 | 1,402,635 |
| | 698,000 | | | 1,402,635 |

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.

Such shares have been cancelled on 10 September 2020.

## SHARE OPTION SCHEME

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

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

**For the year ended 30 June 2020**

| | Number of share options | | | | | |
|---|---|---|---|---|---|---|
| **Name or category of participant** | **At 1 July 2019** | **Granted during the year** | **Exercised during the year** | **Lapsed/ expired during the year** | **Cancelled/ forfeited during the year** | **At 30 June 2020** |
| Executive directors: | | | | | | |
| Jin Hao | 450,000 | - | - | - | - | 450,000 |
| Other Employees | 18,550,000 | - | - | - | - | 18,550,000 |
| In aggregate | 19,000,000 | - | - | - | - | 19,000,000 |

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

The share options were granted under the Share Option Scheme on 15 January 2019. The exercise price of the options granted under the Share Option Scheme was HK$4.04.

The directors have estimated the values of the share options granted during the year ended 30 June 2019, calculated using the binomial lattice model as at the date of grant of the options:

| Grantee | Number of options granted during the year | Theoretical value of share options RMB'000 |
|---|---|---|
| Jin Hao | 450,000 | 872 |
| Other Employees | 18,550,000 | 31,248 |
| | 19,000,000 | 32,120 |

The binomial lattice model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were risk-free rate of interest, dividend yield, volatility, exercise multiple and forfeiture rate. The measurement dates used in the valuation calculations were the dates on which the options were granted as follow:

| | |
|---|---|
| Share price (HK$) | 4.04 |
| Exercise price (HK$) | 4.04 |
| Expected volatility (%) | 39.81 |
| Expected dividend yield (%) | 0.74 |
| Risk-free interest rate (%) | 2.04 |

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

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

If all such share options is exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 2.52% as at 30 June 2020.

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

As at the date of this announcement, no share option is exercised.

**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 2020. 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 2020, except that in respect of the code provision A.6.7 of the CG Code, due to other business commitment, Mr. Heng, Keith Kai Neng, independent non-executive director of the Company, was unavailable to participate the extraordinary general meeting of the Company held on 20 December 2019.

## 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 2020 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, Mr. Dai Tian Zhu and Mr. Heng, Keith Kai Neng. 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 2020.

## SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2020 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2020. The work performed by PricewaterhouseCoopers 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 HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2020 (2019: nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 November 2020 (Thursday) to 24 November 2020 (Tuesday), 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 18 November 2020 (Wednesday).

During the period mentioned above, no transfers of shares will be registered.

## ANNUAL GENERAL MEETING

The AGM will be held on Tuesday, 24 November 2020. 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 2020 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*

Zhejiang Province, China, 25 September 2020

*As at the date of this announcement, the executive Directors are Mr. Zhu Gen Rong, Mr. Wang Ai Yan, Mr. Liu Chuan Jiang and Mr. Jin Hao, and the independent non-executive Directors are Mr. Dai Tian Zhu, Mr. Kong Chi Mo and Mr. Heng, Keith Kai Neng.*