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## 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 2021

#### FINANCIAL HIGHLIGHTS

	For the year ended 30 June		change %
	2021 RMB	2020 RMB	
<b>Revenue</b>	<b>496,906,070</b>	368,159,248	35.0
<b>Gross profit</b>	<b>105,627,700</b>	74,195,176	42.4
<i>Gross profit margin</i>	<i>21.3%</i>	<i>20.2%</i>	<i>1.1</i>
<b>Profit/(loss) for the year</b>	<b>16,515,929</b>	(77,189,440)	(121.4)
<i>Net profit/(loss) margin</i>	<i>3.3%</i>	<i>(21.0)%</i>	<i>24.3</i>
<b>Profit/(loss) attributable to the shareholders of the Company</b>	<b>17,984,484</b>	(77,503,863)	(123.2)
<b>Earnings/(losses) per share attributable to the shareholders of the Company for the year (RMB cents per share)</b>			
- <b>Basic earnings/(losses) per share</b>	<b>2.45</b>	(10.56)	
- <b>Diluted earnings/(losses) per share</b>	<b>2.45</b>	(10.56)	

**The Board does not recommend the payment of a final dividend for the year ended 30 June 2021 (2020: 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 2021, together with the comparative figures for the year ended 30 June 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards as below.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 30 June	
	Notes	2021 RMB	2020 RMB
<b>REVENUE</b>	3	<b>496,906,070</b>	368,159,248
Cost of sales	3,5	<b>(391,278,370)</b>	(293,964,072)
<b>GROSS PROFIT</b>		<b>105,627,700</b>	74,195,176
Selling and distribution expenses	5	<b>(9,481,146)</b>	(9,171,733)
Administrative expenses	5	<b>(51,588,442)</b>	(57,122,809)
Research and development expenses	5	<b>(27,360,497)</b>	(24,048,315)
Net impairment gains/(losses) on financial and contract assets		<b>4,850,835</b>	(83,861,306)
Other income and gains, net	4	<b>23,409,817</b>	27,291,315
<b>OPERATING PROFIT/(LOSS)</b>		<b>45,458,267</b>	(72,717,672)
Finance income	6	<b>623,198</b>	276,510
Finance costs	6	<b>(22,921,063)</b>	(10,491,027)
Finance costs, net		<b>(22,297,865)</b>	(10,214,517)
Share of net loss of associates accounted for using the equity method		<b>(52,462)</b>	-
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>23,107,940</b>	(82,932,189)
Income tax expense	7	<b>(6,592,011)</b>	5,742,749
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>16,515,929</b>	(77,189,440)
<b>PROFIT/(LOSS) IS ATTRIBUTABLE TO:</b>			
- The shareholders of the Company		<b>17,984,484</b>	(77,503,863)
- Non-controlling interests		<b>(1,468,555)</b>	314,423
		<b>16,515,929</b>	(77,189,440)
<b>EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY FOR THE YEAR (EXPRESSED IN RMB CENTS PER SHARE)</b>			
- Basic earnings/(losses) per share	8	<b>2.45</b>	(10.56)
- Diluted earnings/(losses) per share	8	<b>2.45</b>	(10.56)
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		<b>9,514,873</b>	(3,816,712)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>		<b>9,514,873</b>	(3,816,712)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<b>26,030,802</b>	(81,006,152)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR IS ATTRIBUTABLE TO:</b>			
- The shareholders of the Company		<b>27,499,357</b>	(81,320,575)
- Non-controlling interests		<b>(1,468,555)</b>	314,423
		<b>26,030,802</b>	(81,006,152)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>As at 30 June</b>	
	Notes	<b>2021</b>	2020
		<b>RMB</b>	<b>RMB</b>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		73,441,278	79,483,658
Other right-of-use assets		5,830,519	5,303,580
Investment properties		104,021,068	109,975,507
Prepaid land lease payments		75,375,942	77,087,727
Goodwill	10	39,934,884	39,934,884
Other intangible assets		10,668,801	12,664,279
Deferred tax assets		16,260,156	14,318,685
Investments in an associate		4,947,538	-
Financial assets at fair value through profit or loss		5,447,433	-
Trade and other receivables	11(i)	23,744,860	125,321,393
Prepayments	11(iii)	169,782	182,843
		<b>359,842,261</b>	<b>464,272,556</b>
<b>CURRENT ASSETS</b>			
Inventories		156,144,094	113,679,076
Trade and other receivables	11(i)	550,390,302	529,419,356
Prepayments	11(iii)	89,226,697	135,171,764
Financial assets at fair value through other comprehensive income		43,493,570	50,049,740
Pledged deposits		23,922,992	28,602,729
Contract assets	3,11(ii)	16,325,135	11,035,234
Cash and cash equivalents		145,299,486	40,394,804
		<b>1,024,802,276</b>	<b>908,352,703</b>
<b>TOTAL ASSETS</b>		<b>1,384,644,537</b>	<b>1,372,625,259</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		5,477,481	6,110,739
Deferred income		22,837,500	24,187,500
Lease liabilities		4,430,761	4,038,619
Trade and other payables		2,101,412	-
		<b>34,847,154</b>	<b>34,336,858</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	343,430,172	354,215,675
Contract liabilities	3	181,819,504	206,393,720
Interest-bearing loans		53,046,324	107,208,500
Income tax payable		6,287,003	7,048,968
Lease liabilities		1,086,252	1,201,155
Convertible bonds	13	81,314,234	91,245,279
		<b>666,983,489</b>	<b>767,313,297</b>
<b>TOTAL LIABILITIES</b>		<b>701,830,643</b>	<b>801,650,155</b>
<b>NET ASSETS</b>		<b>682,813,894</b>	<b>570,975,104</b>

	Notes	As at 30 June	
		2021 RMB	2020 RMB
<b>EQUITY</b>			
Share capital		7,471,631	6,203,955
Share premium		589,857,286	509,708,723
Equity component of convertible bonds	13	6,199,604	35,161,248
Other reserves		105,804,845	61,516,759
Accumulated deficits		(24,582,376)	(41,147,040)
Capital and reserves attributable to the shareholders of the Company		<u>684,750,990</u>	<u>571,443,645</u>
Non-controlling interests		(1,937,096)	(468,541)
<b>TOTAL EQUITY</b>		<u><b>682,813,894</b></u>	<u><b>570,975,104</b></u>

## 1 General information

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

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

The consolidated financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. The consolidated financial statements were approved and authorised for issue by the Board on 30 September 2021.

## 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 Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Companies Ordinance ("HKCO").

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

- (b) Historical cost convention

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

- (c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2020.

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform - phase 2
HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions

The standards, amendments and interpretations listed above did not have any 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, amendments and interpretations to existing standards that are relevant to the Group but not yet effective for the financial year beginning at 1 July 2020 and have not been early adopted by the Group are as follows:

<b>Standards, Amendments and Interpretations</b>		<b>Effective for annual periods beginning on or after</b>
Accounting Guideline 5 (Amendments)	Merger Accounting for Common Control Combination	1 January 2022
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
Annual Improvements to HKFRS Standards 2018-2020		1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17 (Amendments)	Insurance Contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 (Amendments) and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020)	Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause	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

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

### 3 Segment information

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

- (a) Industrial products;
- (b) Project contracting services;
- (c) Environmental products; and
- (d) Supporting services

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

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

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

The segment results for the year ended 30 June 2021:

	<b>Industrial products RMB</b>	<b>Project contracting services RMB</b>	<b>Environmental products RMB</b>	<b>Supporting services RMB</b>	<b>Total RMB</b>
Segment revenue from external customers	244,040,682	182,521,867	19,886,736	50,456,785	496,906,070
Timing of revenue recognition					
At a point in time	244,040,682	-	3,164,938	50,456,785	297,662,405
Over time	-	182,521,867	16,721,798	-	199,243,665
Segment cost of sales	<u>(196,369,075)</u>	<u>(139,034,873)</u>	<u>(17,007,587)</u>	<u>(38,866,835)</u>	<u>(391,278,370)</u>
Segment gross profit	47,671,607	43,486,994	2,879,149	11,589,950	105,627,700
Segment results	<u>22,105,187</u>	<u>36,633,605</u>	<u>(6,219,022)</u>	<u>(7,463,416)</u>	<u>45,056,354</u>
Common administrative expenses					(23,007,904)
Other income and gains, net (Note 4)					23,409,817
Share of net loss of associates					(52,462)
Finance costs, net (Note 6)					<u>(22,297,865)</u>
Profit before income tax					23,107,940
Income tax expense (Note 7)					<u>(6,592,011)</u>
Profit for the year					<u><u>16,515,929</u></u>

Other segment information:

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

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	<u>(59,978,876)</u>	<u>(144,532,256)</u>	<u>(43,553,823)</u>	<u>(45,899,117)</u>	<u>(293,964,072)</u>
Segment gross profit	25,463,974	24,491,646	14,692,545	9,547,011	74,195,176
Segment results	<u>3,313,003</u>	<u>(39,317,629)</u>	<u>750,679</u>	<u>(33,761,564)</u>	<u>(69,015,511)</u>
Common administrative expenses					(30,993,476)
Other income and gains, net (Note 4)					27,291,315
Finance costs, net (Note 6)					<u>(10,214,517)</u>
Loss before income tax					<u>(82,932,189)</u>
Income tax expense (Note 7)					<u>5,742,749</u>
Loss for the year					<u><u>(77,189,440)</u></u>

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 other 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	<u>2,047,850</u>	<u>-</u>	<u>-</u>	<u>375,700</u>	<u>-</u>	<u>2,423,550</u>

Revenues of approximately RMB122,047,449 are derived from a single external customer (2020: revenues of approximately RMB118,173,924 are derived from a single external customer). These revenues are attributed to the project contracting services segment (2020: project contracting services segment).

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

	<b>For the year ended 30 June</b>	
	<b>2021</b> <b>RMB</b>	<b>2020</b> <b>RMB</b>
PRC	<b>372,270,985</b>	347,885,536
Vietnam	<b>122,047,449</b>	17,581,664
Others	<b>2,587,636</b>	2,692,048
	<b><u>496,906,070</u></b>	<u>368,159,248</u>

<b>Segment assets</b>	<b>As at 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Project contracting services	<b>447,870,231</b>	587,588,549
Supporting services	<b>358,128,717</b>	368,174,479
Industrial products	<b>297,048,596</b>	258,161,109
Environmental products	<b>85,056,488</b>	64,530,169
<b>Total segment assets</b>	<b><u>1,188,104,032</u></b>	<b><u>1,278,454,306</u></b>
Unallocated:		
Cash and cash equivalents	<b>145,299,486</b>	40,394,804
Pledged deposits	<b>23,922,992</b>	28,602,729
Deferred tax assets	<b>16,260,156</b>	14,318,685
Other right-of-use assets	<b>5,830,519</b>	5,303,580
Investment properties	<b>5,057,570</b>	5,368,312
Prepayments - non-current portion	<b>169,782</b>	182,843
	<b><u>1,384,644,537</u></b>	<b><u>1,372,625,259</u></b>

<b>Segment liabilities</b>	<b>As at 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Industrial products	<b>267,007,692</b>	230,487,233
Project contracting services	<b>203,447,045</b>	228,941,947
Supporting services	<b>108,782,810</b>	189,776,195
Environmental products	<b>26,441,117</b>	40,248,552
<b>Total segment liabilities</b>	<b>605,678,664</b>	689,453,927
Unallocated:		
Convertible bonds (Note 13)	<b>81,314,234</b>	91,245,279
Other payables	<b>3,033,729</b>	8,662,207
Income tax payable	<b>6,287,003</b>	7,048,968
Lease liabilities	<b>5,517,013</b>	5,239,774
	<b>701,830,643</b>	801,650,155

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

	<b>As at 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
<b>Contract assets (Note 11(ii)) (i):</b>		
Contract assets relating to sales of goods	<b>11,297,306</b>	4,791,885
Contract assets relating to project contracting services	<b>5,535,969</b>	6,796,732
Less: provision for impairment	<b>(508,140)</b>	(553,383)
	<b>16,325,135</b>	11,035,234
<b>Contract liabilities (i) (ii):</b>		
Contract liabilities relating to sales of goods	<b>139,900,672</b>	144,894,727
Contract liabilities relating to project contracting services	<b>41,918,832</b>	61,498,993
	<b>181,819,504</b>	206,393,720

(i) Significant changes in contract assets and liabilities

The increase in contract assets was mainly due to the increase in sales. The decrease in contract liabilities was mainly due to recognition of revenue from project contracting service.

(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:

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	<b>147,311,978</b>	85,982,947

(iii) Unsatisfied long-term contracts

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

	<b>As at 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 30 June 2021 and 2020	<b>16,740,115</b>	<b>170,490,401</b>

Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2021 will be recognised as revenue during the next reporting period.

**4 Other income and gains, net**

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Interest income recognised from project contracting services	<b>10,885,693</b>	7,968,988
Government grants	<b>6,113,650</b>	3,515,292
Interest income from customer delaying on payment	<b>2,001,418</b>	10,580,304
Tax refund	<b>1,770,784</b>	1,141,863
Rental income	<b>1,115,723</b>	655,375
Net fair value gains on financial assets at FVPL	<b>447,433</b>	-
Interest income from loan to a customer	<b>81,686</b>	311,975
Reversal of interest	-	2,924,713
Others	<b>993,430</b>	192,805
	<b>23,409,817</b>	<b>27,291,315</b>

## 5 Expenses by nature

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Raw materials used	<b>345,717,766</b>	288,598,596
Employee benefit expenses	<b>54,362,477</b>	52,774,133
Outsourcing service fees	<b>11,197,467</b>	13,449,901
Addition of provision for write-down of inventories	<b>7,669,602</b>	4,916,152
Depreciation of property, plant and equipment	<b>6,708,733</b>	7,194,429
Travelling expenses	<b>6,409,696</b>	8,867,781
Depreciation of investment properties	<b>5,954,439</b>	5,954,439
Change in inventories of finished goods and work in progress	<b>5,928,042</b>	(29,962,862)
Professional service fees	<b>5,889,612</b>	8,604,291
Office expenses	<b>4,865,491</b>	3,228,700
Transportation expenses	<b>4,149,940</b>	2,267,814
Miscellaneous tax charges other than value added tax and income tax	<b>3,359,615</b>	2,323,356
Entertainment expenses	<b>3,008,379</b>	2,489,046
Amortisation of other intangible assets	<b>2,598,663</b>	2,423,550
Auditor's remuneration		
- Audit services	<b>2,150,000</b>	1,900,000
Amortisation of prepaid land lease payments	<b>1,711,785</b>	1,711,785
Depreciation of other right-of-use assets	<b>1,497,222</b>	1,204,752
Warranty expenses	<b>1,419,793</b>	1,052,854
Rental expenses	<b>1,028,273</b>	1,354,142
Advertising costs	<b>438,118</b>	417,999
Utilities	<b>306,624</b>	689,026
Other expenses	<b>3,336,718</b>	2,847,045
	<b><u>479,708,455</u></b>	<b><u>384,306,929</u></b>

## 6 Finance costs, net

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Finance costs		
- Interest on convertible bonds (Note 13)	<b>(13,308,299)</b>	(6,959,294)
- Interest on loans	<b>(5,161,210)</b>	(3,187,835)
- Net foreign exchange losses	<b>(4,043,178)</b>	(6,962)
- Interest paid/payable for lease liabilities	<b>(372,640)</b>	(336,936)
- Others	<b>(35,736)</b>	-
	<b><u>(22,921,063)</u></b>	<b><u>(10,491,027)</u></b>
Finance income		
- Interest income	<b>623,198</b>	276,510
	<b><u>623,198</u></b>	<b><u>276,510</u></b>
Finance costs, net	<b><u>(22,297,865)</u></b>	<b><u>(10,214,517)</u></b>

## 7 Income tax expense

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Current income tax		
PRC enterprise income tax (iii)	<b>6,446,107</b>	959,334
Hong Kong profits tax (ii)	<b>2,720,633</b>	-
Deferred income tax	<b>(2,574,729)</b>	(6,702,083)
	<b><u>6,592,011</u></b>	<b><u>(5,742,749)</u></b>

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax. Pursuant to Inland Revenue (Amendment) (No.7) Bill, for a year of assessment commencing on or after 1 April 2018, Hong Kong profits tax is chargeable at the rate of 8.25% on assessable profits up to HK\$2,000,000 and at the rate of 16.5% on any part of assessable profits over HK\$2,000,000 for a corporation.

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

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

The applicable EIT rate of Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang") is 25% according to the New EIT Law. Under the relevant regulations of the New EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar year of 2020 with a validation period of three years. The applicable EIT rate of Zhejiang Huazhang is 15% from 2020 till 2022. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2021 (2020: 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:

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Profit/(loss) before income tax	<b><u>23,107,940</u></b>	<b><u>(82,932,189)</u></b>
Tax calculated at the statutory tax rate of 25%	<b>5,776,985</b>	(20,733,047)
Tax effects of:		
Different tax rate effect	<b>(769,667)</b>	5,507,247
Income not subject to tax	<b>(271,360)</b>	-
Expenses not deductible for income tax purpose	<b>180,301</b>	28,329
Research and development tax credit	<b>(2,307,931)</b>	(2,313,487)
Tax losses and temporary differences for which no deferred tax asset was recognised	<b>2,920,781</b>	13,247,614
Utilisation of previously unrecognised tax losses	<b>(1,164,402)</b>	(130,538)
Reversal of previously recognised deferred tax assets	<b>866,050</b>	-
Adjustments for current tax of prior years	<b><u>1,361,254</u></b>	<b><u>(1,348,867)</u></b>
	<b><u>6,592,011</u></b>	<b><u>(5,742,749)</u></b>

## 8 Earnings/(losses) per share

The calculation of the basic earnings/(losses) per share amount is based on the profit/(loss) for the year attributable to the shareholders of the Company and the weighted average number of ordinary shares of 733,206,978 (2020: 733,857,225) which represents the shares in issue during the year.

The Company has two categories of potentially dilutive potential ordinary shares: share options and convertible bonds. The diluted earnings/(losses) per share is same as the basic earnings/(losses) per share as any potential ordinary shares would have anti-dilutive effect for the years ended 30 June 2021 and 2020.

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
<b>Basic</b>		
Earnings/(losses)		
Profit/(loss) attributable to the shareholders of the Company	<u>17,984,484</u>	<u>(77,503,863)</u>
Number of shares		
Weighted average number of ordinary shares in issue during the year	<u>733,206,978</u>	<u>733,857,225</u>
Basic earnings/(losses) per share (RMB cents)	<u>2.45</u>	<u>(10.56)</u>
<b>Diluted</b>		
Earnings/(losses)		
Profit/(loss) attributable to the shareholders of the Company	<u>17,984,484</u>	<u>(77,503,863)</u>
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	<u>733,206,978</u>	<u>733,857,225</u>
Diluted earnings/(losses) per shares (RMB cents)	<u>2.45</u>	<u>(10.56)</u>

## 9 Dividends

No dividend was paid during the year ended 30 June 2021 (2020: no dividend was paid).

The Board does not recommend to declare any dividend for the year ended 30 June 2021 (2020: nil).

## 10 Goodwill

	Headbox business	Logistics and warehousing services	Others	Total
	RMB	RMB	RMB	RMB
<b>Year ended 30 June 2021</b>				
Opening net book amount as at 1 July 2020	36,155,379	3,183,135	596,370	39,934,884
<b>Closing net book amount as at 30 June 2021</b>	<b>36,155,379</b>	<b>3,183,135</b>	<b>596,370</b>	<b>39,934,884</b>
<b>Year ended 30 June 2020</b>				
Opening net book amount as at 1 July 2019	36,155,379	3,183,135	596,370	39,934,884
<b>Closing net book amount as at 30 June 2020</b>	<b>36,155,379</b>	<b>3,183,135</b>	<b>596,370</b>	<b>39,934,884</b>

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

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:

<b>30 June 2021</b>	<b>Headbox business</b>
Sales (% annual growth rate)	2% - 3%
Budgeted gross margin (%)	28% - 34%
Long-term growth rate (%)	2.5%
Pre-tax discount rate (%)	19.4%
<b>30 June 2020</b>	<b>Headbox business</b>
Sales (% annual growth rate)	2% - 5%
Budgeted gross margin (%)	32% - 34%
Long-term growth rate (%)	3%
Pre-tax discount rate (%)	19.3%

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 2021, no impairment charge arose in the aforesaid CGUs (30 June 2020: nil).

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

### (i) Trade and other receivables

	As at 30 June	
	2021 RMB	2020 RMB
Warranty receivables (a)	14,405,121	24,401,686
Other trade receivables (b)	510,358,827	620,239,326
	<u>524,763,948</u>	<u>644,641,012</u>
Less: provision for impairment of trade receivables (c)	<u>(96,219,937)</u>	<u>(101,333,200)</u>
Trade receivables - net	428,544,011	543,307,812
Bills receivables	49,097,554	20,372,673
Trade and bills receivables	<u>477,641,565</u>	<u>563,680,485</u>
Payment on behalf of an independent third party	87,287,538	87,265,017
Other receivables due from related parties	11,297,003	-
Deductible input value added tax	9,624,065	10,203,052
Loan to a customer	5,312,236	4,088,398
Other receivables - guarantee	4,158,422	3,304,332
Loan deposit to an independent third party	-	9,134,400
Others	6,865,375	4,401,774
	<u>124,544,639</u>	<u>118,396,973</u>
Less: provision for impairment of other receivables (d)	<u>(28,051,042)</u>	<u>(27,336,709)</u>
Other receivables - net	<u>96,493,597</u>	<u>91,060,264</u>
Total trade and other receivables	574,135,162	654,740,749
Less: trade and other receivables - non-current portion	(23,744,860)	(125,321,393)
	<u>550,390,302</u>	<u>529,419,356</u>

(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	
	2021 RMB	2020 RMB
Warranty receivables		
1 year to 2 years	3,678,837	11,926,904
Over 2 years	10,726,284	12,474,782
	<u>14,405,121</u>	<u>24,401,686</u>

As at 30 June 2021 and 2020, the management expects that approximately RMB14,405,121 and RMB24,401,686 respectively, will be received within one year.

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

	<b>As at 30 June</b>	
	<b>2021</b>	2020
	<b>RMB</b>	RMB
Other trade receivables		
Up to 3 months	<b>115,150,537</b>	169,632,126
3 months to 6 months	<b>9,839,748</b>	8,897,007
6 months to 1 year	<b>3,197,708</b>	163,351,853
1 year to 2 years	<b>195,188,791</b>	52,407,628
Over 2 years	<b>186,982,043</b>	225,950,712
	<b><u>510,358,827</u></b>	<u>620,239,326</u>

As at 30 June 2021 and 2020, the management expects that approximately RMB486,613,967 and RMB494,917,933 respectively, will be received within one year.

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

	<b>As at 30 June</b>	
	<b>2021</b>	2020
	<b>RMB</b>	RMB
Other trade receivables		
Not due	<b>215,009,057</b>	317,088,861
Up to 3 months past due	<b>77,014,715</b>	33,094,076
3 months to 6 months past due	<b>9,852,866</b>	26,703,775
6 months to 1 year past due	<b>9,546,056</b>	47,774,757
1 year to 2 years past due	<b>53,907,174</b>	53,047,948
Over 2 years past due	<b>145,028,959</b>	142,529,909
	<b><u>510,358,827</u></b>	<u>620,239,326</u>

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

	<b>For the year ended 30 June</b>	
	<b>2021</b>	2020
	<b>RMB</b>	RMB
At beginning of the year	<b>101,333,200</b>	39,538,917
Impairment (gains)/losses recognised	<b>(4,200,464)</b>	62,924,080
Amounts written off as uncollectible	<b>(912,799)</b>	(1,129,797)
At the end of the year	<b><u>96,219,937</u></b>	<u>101,333,200</u>

As at 30 June 2021, provisions amounting to RMB79,154,496 (30 June 2020: RMB79,154,496) 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:

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
At beginning of the year	27,336,709	5,981,394
Impairment losses recognised	714,333	21,355,315
At the end of the year	<u>28,051,042</u>	<u>27,336,709</u>

As at 30 June 2021, provisions amounting to RMB24,585,572 (30 June 2020: RMB24,585,572) 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:

	<b>As at 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
RMB	550,092,427	644,166,400
HK\$	4,103,914	9,370,188
USD	19,938,821	1,204,161
	<u>574,135,162</u>	<u>654,740,749</u>

(ii) Contract assets

	<b>As at 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
Contract assets	16,833,275	11,588,617
Less: provision for impairment of contract assets (a)	(508,140)	(553,383)
	<u>16,325,135</u>	<u>11,035,234</u>

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

	<b>For the year ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB</b>	<b>RMB</b>
At beginning of the year	553,383	971,472
Impairment losses reversed	(45,243)	(418,089)
At the end of the year	<u>508,140</u>	<u>553,383</u>

As at 30 June 2021 and 2020, the carrying amounts of contract assets are denominated in the following currencies:

	As at 30 June	
	2021	2020
	RMB	RMB
RMB	11,446,442	11,588,617
USD	5,386,833	-
	<u>16,833,275</u>	<u>11,588,617</u>

(iii) Prepayments

	As at 30 June	
	2021	2020
	RMB	RMB
Prepayments for procurement	89,012,131	134,944,989
Others	384,348	409,618
Total prepayments	<u>89,396,479</u>	<u>135,354,607</u>
Less: prepayments - non-current portion	<u>(169,782)</u>	<u>(182,843)</u>
	<u>89,226,697</u>	<u>135,171,764</u>

**12 Trade and other payables**

	As at 30 June	
	2021	2020
	RMB	RMB
Trade payables	166,489,237	153,320,676
Bills payables	<u>52,868,655</u>	<u>64,577,308</u>
	<u>219,357,892</u>	<u>217,897,984</u>
Other taxes payables	42,233,017	49,918,691
Deposits for project contracting services	35,295,556	29,986,987
Interest-free loan from independent third parties	13,580,800	18,050,800
Amount due to suppliers on a customer's behalf	13,419,622	13,618,244
Provision for legal claims (a)	7,447,420	-
Accruals	5,980,742	7,038,078
Employee benefit payables	3,496,196	2,086,926
Other deposits	581,402	1,471,836
Provision for warranty expenses	523,838	578,461
Payables for property, plant and equipment	77,716	1,471,346
Amounts due to related parties	5,920	5,488,478
Interest payable for convertible bonds	-	2,283,600
Others	3,531,463	4,324,244
	<u>126,173,692</u>	<u>136,317,691</u>
Total trade and other payables	345,531,584	354,215,675
Less: trade and other payables - non-current portion		
- Employee benefit payables	<u>(2,101,412)</u>	<u>-</u>
	<u>343,430,172</u>	<u>354,215,675</u>

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

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

	<b>As at 30 June</b>	
	<b>2021</b>	2020
	<b>RMB</b>	RMB
Up to 3 months	<b>88,015,427</b>	90,913,279
3 months to 6 months	<b>9,185,944</b>	1,129,810
6 months to 1 year	<b>16,991,364</b>	25,740,249
1 year to 2 years	<b>31,631,302</b>	20,658,934
Over 2 years	<b>20,665,200</b>	14,878,404
	<b><u>166,489,237</u></b>	<u>153,320,676</u>

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

	<b>As at 30 June</b>	
	<b>2021</b>	2020
	<b>RMB</b>	RMB
RMB	<b>343,891,371</b>	339,088,416
HK\$	<b>964,267</b>	12,227,198
USD	<b>675,946</b>	2,900,061
	<b><u>345,531,584</u></b>	<u>354,215,675</u>

### 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 “old Convertible Bonds”).

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

- (a) convertible at the option of the bond holders into ordinary shares of the Company at HK\$2.50 per share (subject to adjustment) at any time on or after 29 April 2017 up to the close of business on the 30th day prior to the maturity date;
- (b) the maturity date is 29 March 2019 and it is at the Company’s discretion to extend one additional year.

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

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

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

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

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

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

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

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

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

- (a) convertible at the option of the bond holders into ordinary shares of the Company at HK\$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and
- (b) the maturity date is 30 November 2021 and unless previously converted or cancelled, after 1 June 2021, the Bondholders shall have the option to request for the redemption by the Issuer of the Bonds by serving onto the Issuer a prior written notice of not less than two weeks from the intended date of early redemption of the Bonds.

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

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

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

	<b>Liability component of Convertible Bonds RMB</b>	<b>Equity component of Convertible Bonds RMB</b>	<b>Total RMB</b>
<b>At 1 July 2020</b>	<b>91,245,279</b>	<b>35,161,248</b>	<b>126,406,527</b>
Extinguishment of the old Convertible Bonds	<b>(85,041,000)</b>	<b>(35,161,248)</b>	<b>(120,202,248)</b>
Issue of the new Convertible Bonds	<b>78,841,396</b>	<b>6,199,604</b>	<b>85,041,000</b>
Interest expense (Note 6)	<b>13,308,299</b>	-	<b>13,308,299</b>
Interest paid and payable	<b>(8,944,740)</b>	-	<b>(8,944,740)</b>
Currency translation differences	<b>(8,095,000)</b>	-	<b>(8,095,000)</b>
<b>At 30 June 2021</b>	<b>81,314,234</b>	<b>6,199,604</b>	<b>87,513,838</b>
<b>At 1 July 2019</b>	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
<b>At 30 June 2020</b>	<b>91,245,279</b>	<b>35,161,248</b>	<b>126,406,527</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

Despite the impact of the COVID-19 in 2020, China was the first country in the world to resume work and production, which put China on the fast track of economic recovery, resulting in a gradual rebound in consumer demand. By strengthening the adjustment of raw materials and products structures, the paper making industry has rapidly resumed production and maintained a relatively good momentum. According to the survey data of China Paper Association, there were about 2,500 paper and cardboards manufacturers in China in 2020, and the national production volume of paper and cardboards was 112.60 million tonnes, representing a 4.60% increase from the previous year. The consumption volume reached 118.27 million tonnes, representing a 10.49% increase from the previous year.

As an essential primary raw material, paper products are used in many industries and fields, including education, technology, industry and daily life. Therefore, the paper making industry plays a vital role in the national economy. In spite of this, the paper making industry is a highly polluting and energy-intensive industry, which will face the challenge to peak carbon emissions and achieve carbon neutral production after they were first included in the report on the work of the PRC government in the first half of 2021. Issues in five aspects are required for the paper making industry to address in order to peak carbon emissions and achieve carbon neutral target, namely the prediction of total paper demand and peak production capacity, scientific and reasonable control of the growth rate of additional production capacity, identifying alternative energy sources and making breakthroughs in existing technology and equipment, determination of new energy consumption standards and elimination of outdated production capacity, addition of carbon sinks and securing precipitated carbon sources. The best solution to these problems is to upgrade or renovate existing equipment and use modern sensors, industrial network, big data and other key intelligent technologies to manage energy consumption and production efficiency, which will provide more opportunities for domestic innovative equipment manufacturers.

### BUSINESS REVIEW

During the year under review, benefiting from the full recovery of the paper making industry, the accelerated progress of projects under execution and the increase in customer demand, the Group's revenue and gross profit both experienced significant increase. Moreover, the Group has made appropriate provisions in previous years based on actual circumstances. As a result, the Group turned around from a loss of approximately RMB77.2 million for the year ended 30 June 2020 to a profit of approximately RMB16.5 million for the year ended 30 June 2021, reversing the loss for the past two financial years in one go.

#### *Project Delivery*

For the Group, although the COVID-19 pandemic disrupted all project execution plans in the first half of 2020, with the efforts of all the Group's engineering and technical personnel and the strong support of our customers, in the second half of 2020, we achieved a total of 5 projects involving the turnkey and renovation of paper making equipment delivered for the year, including the delivery and operation of PM40 special paper machine (4800/800) for Shandong Sun Paper, the delivery and installation of a turnkey project of boxboard machine for Vietnam Miza (越南米亞) and the initial delivery and installation of two tobacco paper making machines for Yunnan Zhongyan. The successful delivery of numerous projects demonstrates the caliber and execution capability of the Group's technical personnel. The Group strongly believes that its technical personnel currently have a leading edge in the paper making industry in terms of quantity, design and installation expertise in industry.

### ***Successful Completion of the First Overseas Turnkey Project***

On 28 April 2021, the Group's first overseas turnkey project, "Vietnam Mia 4800/450 paper machine", successfully started operation in Thanh Hoa Province, Vietnam. It is the first overseas turnkey project undertaken by the Group, which provides engineering design, paper pulp system, flow feed system, paper making and related equipment, wastewater treatment, electrical control system, equipment installation services and start-up services for Vietnam Mia. The project is the largest paper production line in northern Vietnam, with a daily production capacity of 350 tonnes of finished paper and a daily wastewater treatment capacity of 4,000 cubic meters. It also perfectly illustrates the Group's philosophy of "Integrating Together, Creating Together, Sharing Together". As the general contractor of the project, the Group provides core products such as paper making equipment, headboxes, wastewater treatment and automation control, and joins force with outstanding domestic and foreign component suppliers to offer high-quality products and services to customers.

The Vietnam Mia project is the manifestation of the Group's strategy to integrate with the "Belt and Road" Initiative of the PRC and the in-depth implementation of the nation's "Go Global" Initiative. In the future, the Group will focus on developing the construction of paper making projects in the countries along the "Belt and Road" route, increasing the efforts to develop the markets of the countries along the route, and promoting the market share of domestic paper making equipment in paper making lines in countries along the "Belt and Road" route. With its capability and reputation, Huazhang Technology will shape its brand in the international market with firmer foothold. Due to the impact of the pandemic, sales staff are unable to go overseas freely for the time being. The Group will continue to communicate with existing and potential customers through the Internet, with means such as video conferencing, to minimize the impact on the Group's overseas business expansion.

### ***Various Technical Innovations***

During the year, the Group continued to make significant investments in scientific research and established a research institute last year. For the year ended 30 June 2021, the Group invested RMB27.4 million in research and development. The Group actively expanded its paper making equipment product line and, on top of its existing paper-making transmission, DCS and other automation systems, key components such as headboxes, high-frequency shakers, paper making project turnkey, clean production such as exhaust gas, solid waste RDF, wastewater treatment, etc., introduced key equipment and systems such as high-efficiency pulper, taper mill, equipment status monitoring, paper-making video monitoring, cordless paper guide system, auxiliary equipment for paper-making netting operation.

In addition, in respect of headbox, the Group has produced and delivered some leading paper making and forming equipment in China, such as the largest domestically manufactured 7640/1200 fourdrinier paper making machine headbox, the largest domestically manufactured 5600/1300 crescent-shape paper machine headbox, and 3500/200 non-woven wet molding equipment, which shorten the gap with the world's advanced standards. In terms of technologies in paper making equipment, the Group has completed the technical solution proposal and preliminary design of the 6600/1200 rice paper machine, as well as the preparation of key components. The Group will make efforts in the research and development of domestic paper making equipment with the goal of narrowing the standard gap between domestically produced equipment and the world's leading ones.

During the year ended 30 June 2021, the Group registered 11 new patents, including 1 invention patents and 10 software copyrights, with a total of 127 registered patents (including 26 invention patents, 72 utility model patents and 29 software copyrights).

## FINANCIAL REVIEW

### Revenue and gross profit margin

Revenue increased by approximately 35.0% from approximately RMB368.2 million for the year ended 30 June 2020 to approximately RMB496.9 million for the year ended 30 June 2021, primarily attributing to increase in progress of the projects and demands from our customers. Gross profit margin increased from approximately 20.2% for the year ended 30 June 2020 to approximately 21.3% for the year ended 30 June 2021.

#### (i) Industrial products

Revenue from sales of industrial products increased significantly by approximately 185.6% from approximately RMB85.4 million for the year ended 30 June 2020 to approximately RMB244.0 million for the year ended 30 June 2021. Such increase was primarily attributable to recovery of the paper industry and increase in demand on headbox equipment. Such increase are mainly attributing to (i) the sales of industrial automation systems increased by approximately RMB127.4 million to approximately RMB158.0 million, primarily attributing to increase in project scale and number of projects; and (ii) the sales of headbox equipment increased by approximately RMB31.2 million to approximately RMB86.0 million, primarily attributing to increase in market shares and launch of new products, for the year ended 30 June 2021 as compare with last year. However, the gross profit margin of industrial products decreased from approximately 29.8% for the year ended 30 June 2020 to approximately 19.5% for the year ended 30 June 2021. Such decrease was attributable to the market competition was keen, the Group reduced the profit margin to enhance its competition.

#### (ii) Project contracting services

Revenue from project contracting services increased by approximately 8.0% from approximately RMB169.0 million for the year ended 30 June 2020 to approximately RMB182.5 million for the year ended 30 June 2021. Such increase was mainly due to the installation work of contracting projects in Vietnam was started since the 2nd quarter of 2020 and most of installation works were completed for the year ended 30 June 2021. For the year ended 30 June 2021, the Group completed 2 project contracting services projects, the Vietnam Miaz project and Fantai Paper project. The gross profit margins of project contracting services increased from approximately 14.5% for the year ended 30 June 2020 to approximately 23.8% for the year ended 30 June 2021, primarily attributing to profit margin of overseas projects was relatively high as compared with domestic projects.

#### (iii) Environmental business

Revenue from sales of environmental business decreased by approximately 65.9% from approximately RMB58.2 million for the year ended 30 June 2020 to approximately RMB19.9 million for the year ended 30 June 2021. Such decrease was primarily due to a decrease in demand in sludge treatment products and wastewater treatment business as the market competition was keen. The gross profit margin of environmental business decreased from approximately 25.2% for the year ended 30 June 2020 to approximately 14.5% for the year ended 30 June 2021, primarily attributing to increase the trading portion rather than the manufacturing portion in sales of sludge products as the profit margin of the trading business is low.

#### (iv) Supporting services

Revenue from the provision of supporting services decreased by approximately 9.0% from approximately RMB55.4 million for the year ended 30 June 2020 to approximately RMB50.5 million for the year ended 30 June 2021. The revenue from the provision of supporting services decreased mainly due to the scale of after-sales service contracts was reduced for the year ended 30 June 2021. The gross profit margin for the provision of supporting services increased from approximately 17.2% for the year ended 30 June 2020 to approximately 23.0% for the year ended 30 June 2021. The gross profit margin increased primarily due to gross loss generated by the supply chain business was decreased as the rental rate was increased for the year ended 30 June 2021 as compared with last year.

## Selling and distribution expenses

The selling and distribution expenses increased by approximately 3.4% from approximately RMB9.2 million for the year ended 30 June 2020 to approximately RMB9.5 million for the year ended 30 June 2021, accounting for approximately 2.5% and approximately 1.9% of the Group's revenue for the year ended 30 June 2020 and 2021 respectively. Increase in selling and distribution expenses in absolute amounts was primarily attributable to increase in employee benefit expenses as the revenue of the Group was increased for the year ended 30 June 2021.

## Administrative expenses

The administrative expenses decreased by approximately 9.7% from approximately RMB57.1 million for the year ended 30 June 2020 to approximately RMB51.6 million for the year ended 30 June 2021, accounting for approximately 15.5% and approximately 10.4% of the Group's revenue for the year ended 30 June 2020 and 2021 respectively. Decrease in administrative expenses was mainly attributable to (i) a decrease in traveling expenses as business trips were not encouraged after the COVID-19 and (ii) a decrease in expenditures of approximately RMB4.8 million in relation to the waste recycling and treatment business for the year ended 30 June 2021 as compared with the respective period in 2020 due to no preparation expenditures were incurred.

## Research and development expenses

The research and development expenses increased by approximately 13.8% from approximately RMB24.0 million for the year ended 30 June 2020 to approximately RMB27.4 million for the year ended 30 June 2021, accounting for approximately 6.5% and approximately 5.5% of the Group's revenue for the year ended 30 June 2020 and 2021 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 gains/(losses) on financial and contract assets

The Group recorded a change from net impairment losses on financial and contract assets of approximately RMB83.9 million to reversal of net impairment losses on financial and contract assets of approximately RMB4.9 million for the year ended 30 June 2021. Reference is made to the announcement dated 21 February 2020, the Group made impairment on financial assets of several customers amounting to approximately RMB81.2 million for the year ended 30 June 2020, due to these customers have difficulties, such as suspension of the projects or liquidities issues, since the second half of 2018. As a result, the customers cannot repay the receivables timely in such economic environment. For the year ended 30 June 2021, the situation of these customers did not have any material change, therefore, the Group did not make further impairment on these customers and considered that the impairment provision was sufficient as at 30 June 2021. The Group still continue to work with the financing lease companies in a joint effort for collection. The Group holds on-going discussion with those customers with regard to collection. The Group is also considering further engaging legal counsels to enforce the judgment, if a cost-efficient arrangement with legal counsels can be reached. For the other financial and contract assets, the management of the Group has actively monitored the settlement, made prudent assessments and provided impairment losses on financial and contract assets based on their best estimates. For the year ended 30 June 2021, the ageing of trade receivable was improved, over 6 months past due was decreased sharply, as a results, the Group reversed the impairment losses on financial assets in previous years.

## Other income and gains, net

Other income and gains, net decreased by 14.2% from approximately RMB27.3 million for the year ended 30 June 2020 to approximately RMB23.4 million for the year ended 30 June 2021, such decrease was mainly attributing to a decrease of approximately RMB8.6 million in relation to the interest income from customers delaying on payment as our customers settled its bill timely for the year ended 30 June 2021.

## Finance costs, net

The finance costs, net increased by approximately 118.3% from RMB10.2 million for the year ended 30 June 2020 to approximately RMB22.3 million for the year ended 30 June 2021, primarily attributing to an increase in interest on convertible bonds as the Company issued a new convertible bond with interest of 12% in December 2020 and an exchange loss of approximately RMB4.0 million as the contracting project in Vietnam were settled in USD which increased the bank deposits in US dollar at as 30 June 2021 and generated the unrealized exchange loss.

## Income tax expense

The Group recorded an income tax expense of approximately RMB6.6 million for the year ended 30 June 2021 while there was an income tax credit of approximately RMB5.7 million for the year ended 30 June 2020. Such change was mainly attributable to the Group recorded operating profits for the year ended 30 June 2021 as operating loss was recorded for the year ended 30 June 2020. The PRC enterprise income tax and Hong Kong profit tax increased from approximately RMB1.0 million and nil, respectively, for the year ended 30 June 2020 to approximately RMB6.4 million and RMB2.7 million, respectively, for the year ended 30 June 2021, primarily due to increase in operating profits of the Group for the year ended 30 June 2021.

The effective tax rates of the Group changed from approximately 6.9% for the year ended 30 June 2020 to approximately 28.5% for the year ended 30 June 2021, such change was mainly attributable to decrease in tax losses for which no deferred tax asset was recognised and adjustments for current tax of prior years for the year ended 30 June 2021.

## Profit/(loss) for the year and net profit/(loss) margin

As a result of the foregoing, the Group recorded a net profit of approximately RMB16.5 million for the year ended 30 June 2021 as compared with a net loss of approximately RMB77.2 million for the year ended 30 June 2020. The margin changed from net loss margin of approximately 21.0% for the year ended 30 June 2020 to net profit margin of approximately 3.3% profit for the year ended 30 June 2021.

## Profit/(loss) for the year attributable to the shareholders of the Company

The Group recorded a profit for the year attributable to the shareholders of the Company amounting to approximately RMB18.0 million for the year ended 30 June 2021 as compared with loss for the year attributable to the shareholders of the Company amounting 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, loans from banks and equity financing. As at 30 June 2021, the Group had cash and cash equivalent balance amounting to approximately RMB145.3 million (30 June 2020: approximately RMB40.4 million) and interest-bearing loans amounting to approximately RMB53.0 million (30 June 2020: approximately RMB107.2 million). Increase in cash and cash equivalents is primarily attributing to the Group recorded a cash inflow from operating activities amounting to approximately RMB119.0 million for the year ended 30 June 2021 (30 June 2020: cash outflow amounting to approximately RMB45.9 million)

### Convertible Bonds

On 29 March 2017, the Company issued the old Convertible Bonds in principal amount of HK\$100,000,000 (equivalent to RMB88,780,000), was expired on 28 September 2020 and replaced by issuance of new Convertible Bond on 1 December 2020.

On 1 December 2020, the Company issued the new Convertible Bonds in principal amount of HK\$100,000,000 (equivalent to RMB85,041,000).

Given the current environment, it was difficult for the Company to raise the necessary financing to repay the amount due under the old Convertible bonds. The net proceeds from issued the new Convertible Bonds have been used to repay the old Convertible bonds and the old Convertible Bond have been settled as at 31 December 2020.

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

The new Convertible Bond can be convertible into 140,845,070 (with a nominal value of HK\$1,408,450) new ordinary shares of the Company

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

- (a) convertible at the option of the bond holders into ordinary shares of the Company at HK\$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and
- (b) the maturity date is 30 November 2021 and unless previously converted or cancelled, after 1 June 2021, the Bondholders shall have the option to request for the redemption by the Issuer of the Bonds by serving onto the Issuer a prior written notice of not less than two weeks from the intended date of early redemption of the Bonds.

Dao He Investment Limited is the investor of new Convertible Bonds and Mr. Fang Hui is the ultimate beneficial owner of Dao He Investment Limited. Since 29 April 2021, Mr. Fang Hui, the ultimate beneficial owner has been appointed to act as executive Director of the Company.

For more details, please refer to the related announcements of the Company dated 1 and 28 December 2020.

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

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

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

Save as disclosed as below, the Group had no significant investments held and disposals during the year ended 30 June 2021.

### ***Investments in an associate***

On 18 December 2020, the Group and an independent third party entered into a shareholder agreement, pursuant to which the Group and a shareholder agreed to established a new company, Tongxiang Jiafu Paper Machine Co., Ltd.\* (桐鄉加福造紙設備有限公司 or “Jiafu”). The Group and the shareholder would invest RMB5.0 million and RMB10.0 million, respectively, and hold 33.3% and 66.7% equity interests in the Jiafu, respectively. The principal business of the Jiafu is to provision of start-up services, consulting services and trading services. As at 30 June 2021, the Group have paid the cash consideration of RMB5.0 million.

### ***Financial assets at fair value through profit or loss***

On 3 December 2020, the Group and an independent third party entered into a shareholder agreement, pursuant to which the Group and a shareholder agreed to establish a new company, Zhejiang Hua Zhang Fibre Technology Co., Ltd.\* (浙江華章纖維科技有限公司 or “Fibre”). And the Group would invest RMB5.0 million and hold 15.0% equity interests in the Fibre and a shareholder would invest RMB0.5 million and provide design and development, technical supports and know-how of pulping and papermaking equipment and hold 85.0% equity interests in the Fibre. The principal business of the Fibre is to engage the design, manufacture and sales of pulping and papermaking equipment and provision of the after-sales services. As at 30 June 2021, the Group have paid the cash consideration of RMB5.0 million.

## **Borrowing and charges of assets**

As at 30 June 2021, the Group's borrowings were approximately RMB53.0 million (30 June 2020: approximately RMB107.2 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an interest range of 5.1% to 8.4% per annum (30 June 2020: all denominated in RMB, and bore an interest range of 3.75% to 7.2% per annum).

As at 30 June 2021, the Group's convertible bonds was approximately RMB81.3 million (30 June 2020: approximately RMB91.2 million) which will mature on 30 November 2021 and the interest rate is 12.0% per annum.

As at 30 June 2021, 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 RMB59.5 million, RMB104.0 million and RMB75.4 million respectively (30 June 2020: approximately RMB63.1 million, RMB110.0 million and RMB77.1 million respectively).

## **Gearing ratio**

The gearing ratios as at 30 June 2021 and 2020 were approximately 7.2% and 15.8%, respectively. The decrease in gearing ratio was mainly attributable to a decrease in the Group's interest-bearing loans from approximately RMB107.2 million as at 30 June 2020 to approximately RMB53.0 million as at 30 June 2021 and proceeds from issue of shares amounting to RMB82.7 million on 10 May 2021. Based on the gearing ratio as at 30 June 2021, the Group still maintained a good financial position.

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

## **Trade and other receivables**

Trade and bills receivables decreased by approximately RMB86.1 million from approximately RMB563.7 million as at 30 June 2020 to approximately RMB477.6 million as at 30 June 2021, primarily due to most of customers settled the receivables in accordance with the contract terms for the year ended 30 June 2021 as the paper industry is recovering. The provision for impairment of trade receivables and other receivables decreased by approximately RMB5.1 million to approximately RMB96.2 million and increased by approximately RMB0.7 million to approximately RMB28.1 million, respectively, for the year ended 30 June 2021 as compared with last year. 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 2021, the Group's capital expenditure amounted to approximately RMB7.9 million (2020: RMB5.8 million). The capital expenditure of the Group for the year was mainly used to recognition of right-of-use assets in relation of leasing an office and purchase of machines.

## **COMMITMENTS**

As at 30 June 2021, the Group had no material capital commitments.

## **CONTINGENT LIABILITIES**

As at 30 June 2021, the Group had no material contingent liabilities.

## **FOREIGN CURRENCY RISK**

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

The RMB is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group will enter into foreign currency forward contracts to manage and reduce the risk involved in the net position in each foreign currency, if necessary.

## **EMPLOYEE AND REMUNERATION POLICIES**

As at 30 June 2021, the Group had 301 employees (30 June 2020: 296 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2021 were approximately RMB54.4 million, as comparable to approximately RMB52.8 million for the year ended 30 June 2020. 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**

According to the Central Economic Work Conference in May 2021, China aims to peak CO2 emissions by 2030 and achieve carbon neutrality by 2060. Green development has become a major development trend for all industries. The Group will continue to rely on our innovative equipment and research investment to assist paper manufacturers to achieve carbon neutrality.

Moreover, the Group will also strengthen the development of green business. Against the backdrop of carbon neutrality, the recycled metal business has high compatibility with the task of reducing carbon emissions, and will benefit from China's national development and policy support. Enterprises can reduce carbon emission costs by using recycled resources. In addition, recycled resources can make up for the gap of resources shortage due to the hampered expansion of energy-intensive industries and the ban on the shipment of foreign waste. In view of the rising metal prices in the past year, the Group started to engage in metal scrap trading as the first step to expand the Group's recycled metal business. Through the connection of Mr. Fang Hui, an executive director of the Group, the Group has started to contract with new suppliers (especially metals) and customers (in the PRC and globally) of waste materials. Our current focus is to expand its supplier and customer base to obtain industry information on more types of recyclable metals and lay a better foundation for its future development.

## OTHER INFORMATION

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 30 June 2021, the Company repurchased 962,000 of its ordinary shares on the Stock Exchange in July, September and October 2020, respectively, at an aggregate amount of approximately HK\$1.7 million, representing approximately 0.11% of the total number of issued shares of the Company as at 30 June 2021.

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid  HK\$
		Highest HK\$	Lowest HK\$	
2020				
July	698,000	2.20	1.84	1,402,635
September	206,000	1.22	1.03	235,090
October	58,000	1.37	1.32	77,601
	<u>962,000</u>			<u>1,715,326</u>

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 and 17 November 2020.

Save 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 2021.

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

On 2 March 2021, the Company and Dao He Investment Limited (the "Subscriber"), a company incorporated in the British Virgin Islands with limited liability, entered into a subscription agreement pursuant to which the Company has agreed to allot and issue, and the Subscriber has agreed to subscribe for, an aggregate of 153,846,153 ordinary shares as subscription shares (with a nominal value of HK\$1,538,461.53) at the subscription price of HK\$0.65 per subscription share (the "Subscription Agreement"), which was already approved at an extraordinary general meeting held on 28 April 2021. Since 29 April 2021, Mr. Fang Hui, the ultimate beneficial owner of the Subscriber, was appointed to act as executive Director of the Company.

The subscription price of HK\$0.65 per subscription share represents:

- (i) a discount of approximately 22.62% to the closing price of HK\$0.840 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;
- (ii) a discount of approximately 23.17% over the average closing price of approximately HK\$0.846 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;
- (iii) a discount of approximately 22.62% over the average closing price of approximately HK\$0.840 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement;
- (iv) a discount of approximately 64.86% to the closing price of HK\$1.85 per Share as quoted on the Stock Exchange on the 12 April 2021 ("Latest Practicable Date");
- (v) a discount of approximately 29.8% to the audited consolidated net asset value of the Group of approximately RMB0.78 per Share as at 30 June 2020 (equivalent to approximately HK\$0.93 based on the exchange rate on the Latest Practicable Date) and calculated based on the audited consolidated net assets of the Group of approximately RMB570,975,104 as at 30 June 2020 as extracted from the annual report of the Company for the year of 2020 and the number of issued Shares as at the Latest Practicable Date); and

(vi) a discount of approximately 33.0% to the unaudited consolidated net asset value of the Group of approximately RMB0.82 per Share as at 31 December 2020 (equivalent to approximately HK\$0.97 based on the exchange rate on the Latest Practicable Date) and calculated based on the unaudited consolidated net assets of the Group of approximately RMB601,560,069 as at 31 December 2020 as extracted from the interim report of the Company for the six months ended 31 December 2020 and the number of issued Shares as at the Latest Practicable Date).

Taking into account the Company's expenses for the subscription, the net price is approximately HK\$0.65 per share.

Starting in early 2018, the Government of China began the process of banning the import of foreign waste materials (including recyclable plastics, waste paper and scrap metal) for recycling and until recently, the Government of China implemented a complete ban of import of solid wastes. For decades, China was the world's largest importer of waste. The import ban policy caused the world's major waste-exporting countries to scramble for alternative destinations and for investors to consider getting in on recycling business in both developed and emerging countries. As one of the Group's major segments, the Group's "Environmental Products" segment provides comprehensive treatment for wastewater, sludge, and solid waste produced in paper-making companies. The Company considers that the waste recycling is not a new business segment for the Company and the potential market for this business is considerably large given the amount of global waste. Hence, for some years, the Company has been looking to expand the Group's environmental services business by investing in and establishing waste recycling plants outside China using the existing skills, technology and expertise of the Group.

The net proceeds from the issue of the subscription shares will be HK\$100 million. The Company intends to use the net proceeds to fund part of its investment in the waste recycling plants outside China. It is estimated that the Group would start to use the proceeds from the subscription after the commencement of recycling project in Dubai, United Arab Emirates ("Dubai Recycling Project") and the proceeds will be fully utilised towards the costs of purchasing and leasing plants and machineries in early 2022.

On 8 June 2021, the Group decided to temporarily use the proceeds from the subscription as working capital to purchase waste material for processing and/or re-sale. It was due to the continuing travel restrictions imposed for COVID-19, the Group cannot yet make progress on the development of the Dubai Recycling Project. Hence, in the short term, it was unlikely that the Company would need to spend the proceeds from the subscription on capital expenditure for the Dubai Recycling Project. The temporary use of the proceeds from the subscription as additional working capital should not affect the ability of the Company to deploy the funds for capital expenditure for the Dubai Recycling Project when required.

As at 30 June 2021, the Group has temporarily used the proceeds from the subscription of approximately 13.1 million as working capital to purchase waste material for processing and/or re-sale and the unused balance of approximately HK\$86.9 million was currently placed into deposits and/or money market instruments, which will be remains to use for potential acquisition of the Group in the future.

Reference is made to the announcements of the Company dated 2 March 2021, 28 April 2021 and 10 May 2021, 8 June 2021 and the circular of the Company dated 13 April 2021 in relation to the subscription under specific mandate.

## 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

Name or category of participant	At 1 July 2020	Number of share options			At 30 June 2021
		Granted during the year	Exercised during the year	Lapsed/ expired during the year	
Executive directors:					
Jin Hao (Resigned on 7 May 2021)	450,000	-	-	-	450,000
Other Employees	18,550,000	-	-	-	18,550,000
In aggregate	<u>19,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,000,000</u>

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.

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 2021. 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 2021.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the year ended 30 June 2021 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. Heng, Keith Kai Neng and Mr. Yao Yang Yang. 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 2021.

## **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 2021 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 2021. 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 2021 (2020: nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 19 November 2021 (Friday) to 24 November 2021 (Wednesday), 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 2021 (Thursday).

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

## **ANNUAL GENERAL MEETING**

The AGM will be held on Wednesday, 24 November 2021. 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 2021 will be dispatched to shareholders and published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.hzeg.com](http://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, 30 September 2021

*As at the date of this announcement, the executive directors are Mr. Zhu Gen Rong, Mr. Wang Ai Yan and Mr. Fang Hui, the non-executive Director is Mr. Shi Chenghu, and the independent non-executive directors are Mr. Kong Chi Mo, Mr. Heng, Keith Kai Neng and Mr. Yao Yang Yang.*