

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **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)**

### **FULFILMENT OF RESUMPTION GUIDANCE**

This announcement is made by Huazhang Technology Holding Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09 and 13.24A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

References are made to the announcements of the Company (i) dated 30 September 2022, 3 October 2022 and 4 November 2022 in relation to, among others, the delay in publication of the audited annual results of the Company for the year ended 30 June 2022; (ii) dated 26 October 2022 in relation to the key findings of the independent forensic accounting review; (iii) dated 28 November 2022 in relation to the resumption guidance; (iv) dated 30 December 2022 in relation to annual results of the Company for the year ended 30 June 2022; (v) dated 2 January 2023, 31 March 2023 and 30 June 2023 in relation to the quarterly update on resumption progress; (vi) dated 24 February 2023 in relation to the key findings of the extended scope of the independent forensic accounting review; (vii) dated 27 February 2023 in relation to interim results of the Company for the six months ended 31 December 2022; and (viii) dated 12 May 2023 in relation to the key findings of internal control review (collectively, the “**Announcements**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

### **BACKGROUND OF SUSPENSION OF TRADING IN THE SHARES**

#### **Suspension of trading**

On 30 September 2022, the Company announced that the Company would not be able to publish the announcement on the 2022 Annual Results on or before 30 September 2022 in accordance with Rules 13.49(1) and 13.49(2) of the Listing Rules.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 3 October 2022 and will remain suspended pending the publication of the announcement on the 2022 Annual Results by the Company.

## **Resumption Guidance**

On 25 November 2022, the Company received a letter from the Stock Exchange setting out the following Resumption Guidance which the Company must fulfil to the satisfaction of the Listing Division of the Stock Exchange before the trading in Shares can resume:

- (1) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (2) conduct an independent forensic investigation into the Subject Transactions and Baoshan Paper Transactions, assess the impact on the Company's business operation and financial position, announce the findings and take appropriate remedial actions;
- (3) demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which will pose a risk to investors and damage market confidence;
- (4) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules;
- (5) demonstrate that the directors of the Company meet a standard of competence commensurate with their position as directors of a listed issuer to fulfil duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules;
- (6) demonstrate compliance with Rule 13.24 of the Listing Rules; and
- (7) announce all material information for the Company's shareholders and other investors to appraise the Company's position.

The trading in the Shares on the Stock Exchange will remain suspended until the Company fulfils the Resumption Guidance.

## **FULFILMENT OF ALL THE RESUMPTION GUIDANCE**

The Board is pleased to announce that the Company has fulfilled the Resumption Guidance, details of which are set out below.

### **First resumption guidance — publish all outstanding financial results and address any audit modification**

The Company had announced the 2022 Annual Results on 30 December 2022 and published the 2022 annual report (the "**2022 Annual Report**") on 3 February 2023; and had thereby published all outstanding financial results required under the Listing Rules. Thereafter, the Company announced its interim results for the six months ended 31 December 2022 on 27 February 2023 and published the Company's interim report for the six months ended 31 December 2022 (the "**2023 Interim Report**") on 15 March 2023, both within the time required under the Listing Rules. As at the date of this announcement, there is no outstanding unpublished financial results of the Company.

As disclosed in the 2022 Annual Report, the independent auditors of the Company (namely, KTC Partner CPA Limited) (“**KTC**”) did not express an opinion on the 2022 Annual Results because KTC were not able to obtain sufficient appropriate audit evidence in respect of the following matters to provide a basis for an audit opinion on the 2022 Annual Results:

- (i) the rationale and the validity of the Subject Transactions; and therefore the amounts due from Jiafu Paper (the Company’s former associate) and the trade and other receivables due from Yuxin Electric and Fibertech as of 30 June 2022 and 30 June 2021 (the “**Receivables**”) (“**Disclaimer 1**”); and
- (ii) the share of results of Jiafu Paper (the Company’s former associate) and the impairment loss of Jiafu Paper for years ended 30 June 2021 and 2022, and the net carrying amounts of the interest in Jiafu Paper as at 30 June 2021 (“**Disclaimer 2**”).

Save for the above, in all other respects, in the opinion of KTC, the 2022 Annual Results had been prepared in compliance with the disclosure requirements of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

#### *Disclaimer 1*

The Company, having considered (i) the lack of rationale, proper authority and supporting agreements or documents for the Subject Transactions, (ii) the Group’s previous attempts to recover the Receivables from the three counterparties to the Subject Transactions, namely Jiafu Paper, Yuxin Electric and Fibertech (the “**Three Counterparties**”), and (iii) the loss of contact of Mr. Zhu (former executive Director, former chairman of the Board and director of Zhejiang Huazhang) and Ms. Zhu (former financial controller of Zhejiang Huazhang), was of the view that the trade and other receivables arose from the Subject Transactions would highly unlikely be recovered, and the Company should make provision for impairment losses of trade and other receivables of RMB95,772,971 in its consolidated profit and loss for the year ended 30 June 2022. The Company accepted KTC’s disclaimer of opinion on the provision for impairment losses of trade and other receivables from the Three Counterparties of RMB95,772,971 for the year ended 30 June 2022.

The Company is of the view that it has addressed Disclaimer 1 for the following reasons:

- (a) The total outstanding amount in relation to the Subject Transactions was quantified (being RMB95,772,971) and full impairment of RMB95,772,971 was recognised for the year ended 30 June 2022.
- (b) The Independent Forensic Accountant had identified certain deficiencies in the Group’s internal control systems and disclosed the same in its review reports. In this respect, the Company had engaged a professional internal control firm, namely, Zhonghui Anda Risk Services Limited (the “**IC Adviser**”), to review the risk management and internal control systems of the Group and to assist the Company in improving the systems by devising and implementing remedial measures to remedy the deficiencies identified and to effectively prevent occurrence of the events similar to the transactions under the forensic accounting review by the Independent Forensic Accountant.

- (c) Both Mr. Zhu and Ms. Zhu who approved the entering into of the Subject Transactions without proper authority and the payments to the Three Counterparties without going through the proper internal payment procedures have been removed from the Group and no longer hold any position in the Group.
- (d) For the audit of the consolidated financial statements of the Company for the year ended 30 June 2023, the Company had engaged an independent valuer to value the expected credit loss on the Three Counterparties as at 30 June 2023 for audit reference. KTC have reviewed the valuation and confirmed the following:
- (1) KTC have reviewed and agreed with the valuation, including the expected credit loss rate of the Receivables was 100% and the expected credit loss on the Three Counterparties as at 30 June 2023 was reasonably estimated at RMB95,600,000;
  - (2) since the Receivables have been fully impaired as at 30 June 2022, KTC have confirmed that the Receivables would not be materially misstated as at 30 June 2023 and do not need to further disclaim on the Receivables as at 30 June 2023; and
  - (3) notwithstanding (1) and (2) above, KTC will still disclaim on the opening balances of the Receivables as at 30 June 2022 and the comparative figures for the preceding financial year only.

#### *Disclaimer 2*

KTC had advised that they were not provided with access to the management personnel and books and records of Jiafu Paper for them to determine whether the share of results of Jiafu Paper and the impairment loss of Jiafu Paper were properly accounted for. The Company, having understood that KTC were unable to obtain sufficient financial information of Jiafu Paper to form a view on the financial position of Jiafu Paper as at 30 June 2022, accepted KTC's disclaimer of opinion on the impairment loss of investment in Jiafu Paper of RMB4,897,538 for the year ended 30 June 2022.

Jiafu Paper was an associate company of the Company established in March 2020. Zhejiang Huazhang injected RMB5,000,000 into Jiafu Paper in June 2020 and owned 33.33% of its entire equity interest. On 29 December 2022, Zhejiang Huazhang sold its 33.33% equity interest in Jiafu Paper to an independent third party at a consideration of RMB50,000. Based on the consideration of RMB50,000, an actual impairment loss of investment in Jiafu Paper of RMB4,897,538 was recognised in the consolidated profit and loss of the Company for the year ended 30 June 2022. As Jiafu Paper had already been sold by the Group in December 2022, both the Company and KTC are of the view that the Company has addressed Disclaimer 2 and Disclaimer 2 will not appear in the financial results of the Company for the year ended 30 June 2023, except for qualification on the effect on comparative figures in respect of share of results of the associate and the impairment loss of the associate.

### *Fulfilment of the first resumption guidance*

Having considered the above, in particular, the Company has published all outstanding financial results and KTC have confirmed that the Receivables would not be materially misstated as at 30 June 2023 and do not need to further disclaim on the Receivables as at 30 June 2023, the Company believes that the first resumption guidance has been fulfilled.

### **Second resumption guidance — conduct independent forensic investigation into the Subject Transactions and the Baoshan Paper Transactions**

#### *Forensic review on the Subject Transactions*

During the first half of 2022, when reviewing the balance of the long outstanding receivables of the Zhejiang Huazhang, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang and the Three Counterparties which are not subsidiaries of the Company (i.e., the Subject Transactions), and reported the same to the Board. Subsequently, in August 2022, the Company established an independent investigation committee to the Board (the “IIC”) to conduct an internal review of the Group’s accounts, documents, records and affairs in relation to the Subject Transactions. To assist them in performing their duties, the IIC then engaged the Independent Forensic Accountant to conduct the First Forensic Review on the Subject Transactions which took place during the period from 1 July 2019 to 30 June 2022.

The Independent Forensic Accountant issued a report of the First Forensic Review on 26 October 2022. The IIC had reviewed the report and was of the view that the contents and findings in the report were reasonable and acceptable. For the details of the key findings of the First Forensic Review and the views of the IIC, please refer to the Company’s announcement dated 26 October 2022.

#### *Forensic review on the Baoshan Paper Transactions*

During the review of the receivables of Zhejiang Huazhang and the preparation of the 2022 Annual Results, the management of the Company noted the amount due from a material debtor, namely Baoshan Paper, was approximately RMB157,000,000 as at 30 June 2022 and the proposed impairment loss was approximately RMB123,000,000. In order to ascertain the details and nature of the Baoshan Paper Transactions, the Independent Forensic Accountant was engaged to conduct a forensic accounting review on the transactions entered into between the Group and Baoshan Paper up to 30 June 2022.

The Independent Forensic Accountant issued a report of the Extended Forensic Review on 30 December 2022. The IIC had reviewed the report and concurred with the findings of the Independent Forensic Accountant. The IIC was also of the view that the scope of work of the IC Adviser who was engaged to conduct an internal control review on the Subject Transactions and the Baoshan Paper Transactions had covered the internal control issues identified by the Independent Forensic Accountant. For the details of the key findings of the Extended Forensic Review and the views of the IIC, please refer to the Company’s announcement dated 24 February 2023.

### *Impact on the Company's business operation and financial position*

After the termination of Mr. Zhu as the chairman of the board of Zhejiang Huazhang in December 2021, all transactions or funding arrangements between Zhejiang Huazhang and the Three Counterparties that were unrelated to the Group's procurement business were terminated. Since the change in the management of Zhejiang Huazhang in April 2022, no further payment of any nature has been made to Jiafu Paper and Yuxin Electric by Zhejiang Huazhang. The Group had also ceased all transactions with Baoshan Paper during the financial year ended 30 June 2020. The transactions between Zhejiang Huazhang and Fibertech were very limited and the sale transactions and procurement transactions between Zhejiang Huazhang and Fibertech have remained normal.

The impact of the Subject Transactions and Baoshan Paper Transactions on the Company's financial position had been reflected in the audited consolidated financial statements of the Company for the year ended 30 June 2022 announced by the Company. The total outstanding amount in relation to the Subject Transactions was RMB95,772,971 and the Company had made full provision of loss allowance on expected credit loss of such receivables for the year ended 30 June 2022. As for the Baoshan Paper Transactions, the Company had made full provision of impairment loss of the receivables from Baoshan Paper of approximately RMB129,000,000 for the year ended 30 June 2022.

The Board is of the view that the issues identified in the report of the First Forensic Review and the report of the Extended Forensic Review did not affect the business operation of the Group. The Group's business has continued to operate as usual.

### *Internal control*

The Independent Forensic Accountant has recommended the Company to engage a professional team of internal control adviser (i) to advise whether there was any significant deficiency in the Group's risk management and internal control systems; and (ii) to recommend the remedial measures to strength the systems. As recommended, the Company engaged the IC Adviser to review the internal control systems of the Group, in particular, to perform certain agreed-upon procedures to specifically address the Subject Transactions and the Baoshan Paper Transactions, and to recommend the remedial measures for the management of the Company to consider and assess whether the Group's financial reporting procedure and internal control systems are effective. For details of the independent internal control review, please refer to the section headed "**Fourth resumption guidance — independent internal control review**" below.

### *Legal actions in PRC*

The Company, as recommended by the Independent Forensic Accountant, has engaged PRC legal advisers to advise on the possible legal remedies available to it as a result of the Subject Transactions. The PRC legal advisers, after reviewing the independent forensic accounting review report in respect of the Subject Transactions, have advised that the Company could file both criminal and civil claims against Mr. Zhu and Ms. Zhu and file claims against the Three Counterparties. The Company has taken various legal actions in the PRC as advised. Further announcements on the legal actions taken in the PRC will be made by the Company when appropriate.

### *Fulfilment of the second resumption guidance*

Having considered the above, in particular, the views of the IIC, the Company believes that the second resumption guidance regarding the independent forensic investigation on the Subject Transactions and the Baoshan Paper Transactions has been fulfilled.

### **Third resumption guidance — no reasonable regulatory concern about management integrity**

#### *Individuals involved in the Subject Transactions*

The Subject Transactions were initiated by Mr. Zhu who, with the assistance of Ms. Zhu, was also in control of the Subject Transactions. Other finance officers of Zhejiang Huazhang only executed the payments and receipts of the Subject Transactions and recorded the same in the accounting books on the instructions of Mr. Zhu and Ms. Zhu.

- (i) Mr. Zhu has resigned as director of all subsidiaries of the Company and was removed as an executive Director on 10 February 2022. Since February 2022, Mr. Zhu has not held any position, whether as a director or a legal representative or otherwise, in the Company or any subsidiary of the Company.
- (ii) Ms. Zhu was the financial controller of Zhejiang Huazhang and resigned on 13 April 2022. Following her resignation, Ms. Zhu ceased to hold any position within the Group.
- (iii) The First Forensic Review revealed that Mr. Wang Ai Yan, a former executive Director and chief executive officer of the Company, had some involvement in the Subject Transactions. Mr. Wang Ai Yan resigned as an executive Director and the chief executive officer of the Company on 1 December 2022. Following his resignation, Mr. Wang Ai Yan ceased to hold any position within the Group.
- (iv) The First Forensic Review revealed that several finance officers of Zhejiang Huazhang had acted under the instructions of Mr. Zhu and/or Ms. Zhu in relation to the Subject Transactions. As at the date of this announcement, those finance officers of Zhejiang Huazhang are still under the employment of Zhejiang Huazhang and are being closely monitored and supervised by the management of Zhejiang Huazhang and the management committee of the Group. In December 2021, the Group set up a management committee which function includes overseeing the Group's operation in the PRC, strategic planning and management of the PRC subsidiaries of the Company and monitoring the performance of the PRC subsidiaries in all respect. In-house training has also been provided to the finance officers of Zhejiang Huazhang to ensure their full understanding of the internal approval procedures of the Group. The current management of Zhejiang Huazhang will continue to review and assess the performance of the finance officers. Based on the above arrangement and considering that the finance officers involved in the Subject Transactions only hold junior positions in Zhejiang Huazhang without any approval authority, the Company believes that it is appropriate to give them a chance to continue to work in the Group.

### *Influence of Mr. Zhu*

Mr. Zhu is a shareholder of the Company who has been holding his Shares both directly and indirectly through Florescent Holdings Limited (“**Florescent**”). To the best of the Directors’ knowledge, information and belief, as at the date of this announcement, Mr. Zhu holds 50.6% shareholding interest in Lian Shun Limited, which in turn holds 94.5% shareholding interest in Florescent. The remaining shareholding interest in Lian Shun Limited is owned as to 17.1% by Mr. Wang Ai Yan, 14.8% by Mr. Liu Chuan Jiang (a former executive Director) and 17.5% by Mr. Jin Hao (a former executive Director).

Based on publicly available information, the Company is given to understand that by a series of agreements, Florescent has pledged 411,872,000 Shares to Wealthy Land Investments Group Limited (“**Wealthy Land**”) as security for a loan advanced by Wealthy Land in December 2017. At the time when the said loan arrangement was entered into, Florescent was the controlling shareholder (as defined in the Listing Rules) of the Company.

In late 2022, the Company noted the following changes in the number of Shares interested by Florescent and Wealthy Land from the disclosure of interests filed by them:

- (a) by 3 October 2022, the date on which trading of the Share was suspended, the number of Shares interested by Florescent was only 295,422,000, representing approximately 27.76% of the then issued share capital of the Company;
- (b) on 13 October 2022, Wealthy Land completed a transfer of 287,908,000 Shares by way of enforcement of security in respect of the loan arrangement between Florescent and Wealthy Land and held 287,908,000 Shares as beneficial owner; and
- (c) on 21 October 2022, Wealthy Land sold 57,581,600 Shares and thereafter held 230,326,400 Shares as beneficial owner, representing approximately 21.65% of the then issued share capital of the Company.

Based on the above information, after the transfer of 287,908,000 Shares to Wealthy Land described above, the number of Shares interested by Florescent has been reduced by 287,908,000 Shares and Florescent is no longer the single largest shareholder of the Company while Wealthy Land has become the single largest shareholder of the Company.

In consideration of the above, the Company is of the view that (1) Mr. Zhu cannot exert any substantial influence on the Company’s management and operations through his equity interest in Florescent; and (2) the substantial Shareholders will help to safeguard the interest of the Company and avoid any risk to investors and damage market confidence. In addition, the Company also confirms that it is able to maintain management independence, operational independence and financial independence from Florescent and its associate.

### *Fulfilment of the third resumption guidance*

Having considered the above, the Company believes that there is no evidence showing that there is a reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence (including Wealthy Land) over the existing



management and operation of the Company, which may pose a risk to investors and damage market confidence and accordingly the third resumption guidance regarding management integrity has been fulfilled.

#### **Fourth resumption guidance — independent internal control review**

The Company had engaged the IC Adviser, as its independent internal control adviser, to (i) conduct a comprehensive review of the internal control systems, policies and procedures of the Group (the “**Internal Control Review**”); (ii) provide corresponding recommendations to the management of the Company to rectify the deficiencies identified and to effectively prevent occurrence of the events similar to the transactions under forensic accounting review; and (iii) conduct a follow-up review on the status of the implementation of the remedial measures.

After conducting the Internal Control Review, the IC Adviser are of the view that, save and except for the internal control matters which did not occur during the follow-up review, the Group has adopted and implemented the recommended remedial measures and has rectified the internal control deficiencies identified by the IC Adviser and accordingly the Group is in principle in compliance with the requirements of the relevant Listing Rules. For details of the key findings of the Internal Control Review and the view of the Audit Committee, please refer to the Company’s announcement dated 12 May 2023.

#### *Fulfilment of the fourth resumption guidance*

Having considered that remedial measures have been adopted and implemented by the Group and the Audit Committee’s view that the remedial measures implemented by the Company are adequate and sufficient to address the key findings of the Internal Control Review, the Company believes that the fourth resumption guidance regarding the Group’s internal control has been fulfilled.

#### **Fifth resumption guidance — Directors meet a standard of competence**

As disclosed in the section headed “**Third resumption guidance — no reasonable regulatory concern about management integrity**” above, Mr. Zhu, the Director who was in control of the Subject Transactions, no longer holds any position, whether as a director or a legal representative or otherwise, in the Company or any subsidiary of the Company. Mr. Zhu is also not in any way involved in the business operation of the Group.

None of the members of the existing Board, namely Mr. Fang Hui and Mr. Chen Hongwei (executive Directors), Mr. Shi Chenghu (non-executive Director) and Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang (the independent non-executive Directors) was involved in the Subject Transactions.

The Company has engaged its legal advisers to provide directors’ training to members of the existing Board. The Company will continue to arrange for directors’ training on matters such as directors’ duties under the Listing Rules, corporate governance and notifiable and connected transactions to its Directors to ensure that each Director meets a standard of competent commensurate with his/her position as a director of a listed issuer to fulfil duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules.

Considering that (a) Mr. Zhu no longer holds any position within the Group; and (b) the Group has adopted and implemented the various remedial measures and has rectified the internal control deficiencies identified by the IC Adviser, the Board is not aware of any regulatory concerns on the Directors' competence which will pose a risk to investors and damage market confidence.

*Fulfilment of the fifth resumption guidance*

Having considered the above, the Company believes that the fifth resumption guidance regarding the Directors' standard of competence has been fulfilled.

**Sixth resumption guidance — compliance with Rule 13.24**

The Group is principally engaged in the research and development, manufacture and sale of industrial products, project contracting services, environmental products and the provision of supporting services in the People's Republic of China.

The Group recorded revenue from its principal activities of approximately RMB323,900,000 for the year ended 30 June 2022 and maintained a total asset position of approximately RMB1.04 billion as at 30 June 2022. For further details of the Group's business performance for the year ended 30 June 2022, please refer the 2022 Annual Report.

For the six months ended 31 December 2022, the Group's revenue was approximately RMB157,100,000. The total asset position of the Group was approximately RMB1.01 billion as at 31 December 2022. For further details of the Group's business performance for the six months ended 31 December 2022, please refer the 2023 Interim Report.

As at the date of this announcement, the business operations of the Group are continuing as usual in all material respects. Accordingly, the Company is of the view that the Group is at all times in full compliance with Rule 13.24 of the Listing Rules and warrants the continued listing of the Shares on the Stock Exchange.

*Fulfilment of the sixth resumption guidance*

Having considered the above, the Company believes that the sixth resumption guidance regarding the compliance with Rule 13.24 of the Listing Rules has been fulfilled.

**Seventh resumption guidance — announce all material information**

The Company has periodically made announcements for such material development of the Group so that its shareholders and other investors may be appraised of the Group's position.

*Fulfilment of the seventh resumption guidance*

According to the above, the Company believes that the seventh resumption guidance regarding the announcement of all material information has been fulfilled.

## **RESUMPTION OF TRADING**

Trading in Shares was suspended with effect from 9:00 a.m. on 3 October 2022 at the request of the Company. As all the Resumption Guidance have been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on Thursday, 10 August 2023 on the Stock Exchange.

**Shareholders and potential investors of the Company should exercise caution when dealing in the Shares of the Company.**

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

Hong Kong, 9 August 2023

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