华章科技
HUAZHANG TECHNOLOGY

華章科技控股有限公司
Huazhang Technology Holding Limited

(Incorporated in Cayman Islands with limited liability)
Stock code：1673

2023
Annual Report

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Chen Hongwei
Mr. Fang Hui

Non-Executive Director

Mr. Shi Chenghu

Independent Non-Executive Directors

Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

AUDIT COMMITTEE

Mr. Heng, Keith Kai Neng (Chairman)
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

REMUNERATION COMMITTEE

Mr. Heng, Keith Kai Neng (Chairman)
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

NOMINATION COMMITTEE

Mr. Yao Yang Yang (Chairman)
Mr. Fang Hui
Mr. Heng, Keith Kai Neng
Ms. Zhang Dong Fang

COMPANY SECRETARY

Ms. Yeung Wing Yan

AUTHORISED REPRESENTATIVES

Mr. Fang Hui
Ms. Yeung Wing Yan

LEGAL ADVISOR

As to Hong Kong Law
Stevenson, Wong & Co.

Corporate Information

AUDITORS

KTC Partners CPA Limited

REGISTERED ADDRESS

Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Room 1101, Block 2
Canal Advertising Industry Building
No. 99 Xiangyuan Road, Gongshu District
Hangzhou City, Zhejiang Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 901, 9/F, Ocean Centre
5 Canton Road, Tsim Sha Tsui
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

1673

WEBSITE

www.hzeg.com

Financial Summary

Year ended 30 June	2023 RMB	2022 RMB	2021 RMB	2020 RMB	2019 RMB
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**528,921,014**	323,868,801	496,906,070	368,159,248	763,974,066
Gross profit	**83,163,610**	33,154,639	105,627,700	74,195,176	120,976,684
Gross profit margin	**15.7%**	10.2%	21.3%	20.2%	15.8%
(Loss)/profit attributable to the shareholders of the Company	**(51,248,791)**	(363,753,165)	17,984,484	(77,503,863)	(128,269,107)
Net (loss)/profit margin	**(9.7%)**	(112.3%)	3.6%	(21.1%)	(16.8%)

At 30 June					
Major Items of Consolidated Statement of Financial Position					
Non-current assets	**267,014,266**	329,758,940	359,842,261	464,272,556	346,840,328
Current assets	**705,292,389**	712,047,236	1,024,802,276	908,352,703	938,686,140
Non-current liabilities	**28,153,648**	30,030,727	34,847,154	34,336,858	32,384,732
Current liabilities	**592,552,761**	615,712,183	666,983,489	767,313,297	598,568,375
Capital and reserves attributable to the shareholders of the Company	**358,105,285**	400,986,036	684,750,990	571,443,645	655,356,325
Gearing ratio (Note)	**16.4%**	8.9%	7.2%	15.8%	7.7%

Note: 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 (excluding the convertible bonds) plus total equity at the end of the respective year and multiplied by 100%.

Board Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Huazhang Technology Holding Limited ("Huazhang Technology" or the "Company"), I would like to submit to you annual results of the Company and its subsidiaries (collectively referred to as the "Group") as of 30 June 2023 (the "year under review").

During the year under review, macro economy began to retake its vitality in the PRC after a change in the epidemic prevention and control policy. However, the current post-epidemic recovery on economy is mainly reflected in consumption spurred by consumer sentiment, with trivial effect on stimulating demand for many kinds of packing papers. Since last year, the paper making industry has been under several types of pressure such as "demand contraction, supply shocks and frustrating expectation" alongside with cost raising factors such as rising prices for raw material and energy, resulting in a sharp decline in economic benefits for the industry. Under such kind of environment, investment in fixed assets by paper making enterprises has become more conservative, when a more severe business environment was faced by the Group.

Amid a complex macro environment, the Group has also experienced internal challenges. The shares of the Company had been suspended for trading on the Stock Exchange since 3 October 2022. Under full support of the management, who have conducted investigation actively and thus adopted appropriate remedial measures to strengthen our internal control for satisfying the resumption guidelines, trading of our shares on the Stock Exchange resumed on 10 August 2023. During the suspension, we managed to operate normally, under the leadership of the new management of the Group, and the Company continues to realize our sustainable and healthy development with relentless determination for reform after the resumption.

The Group's revenue and gross profit for the year ended 30 June 2023 recorded approximately RMB528.9 million and approximately RMB83.2 million, representing an increase of approximately 63.3% and approximately 150.8% as compared to that of last year, respectively. Facing immense challenges for survival and development, all employees of the Group have been enthusiastically tackling and thus overcome multiple unfavorable matters to ensure the stable development of our operations.

During the year under review, the Group continued to explore markets and enhance our corporate competitiveness, in order to consolidate our position in the paper making equipment industry. Through our cooperation with strategic partners such as Siemens, Rockwell, Danfoss and VACON, markets would be jointly explored. On the other hand, the Group focused on innovation and breakthroughs in terms of technology, and was awarded the "Jiaxing Top50 of High-tech Enterprises with Innovation and Investment 2022 (2022年度嘉興高新技術企業創新投入五十強)". Overseas markets represent another place of growth for the Group. By entering the markets with domestic customers, the Group completed a number of overseas projects during the year under review. In addition, despite the sluggish market for paper making industry, we made breakthroughs, explored new areas, and hence secured general contracting projects for non-woven fabrics and tobacco production equipment.

Board Statement

Although it is still uncertain whether the economy and the consumption sentiment would recover, the Group is confident in the growth potential of our business and will continue to cope with various challenges. Providing services to the paper making industry is our first dream, for which the Group will continue to make contribution in the paper making industry in the PRC, when at the same time looking for other suitable opportunities for development in the field of automation. By injecting more resources, technologies of Huazhang Technology would be developed and deployed in different industries to increase revenue diversity and stability.

Finally, I, on behalf of the board of directors, would like to express our sincere gratitude to the management team and staff for their unremitting efforts and outstanding contributions to the development of the Group over the past year. I would also like to express my deep gratitude to the shareholders, investors, customers and partners who have always supported the Group.

However difficult the external environment is and however it changes, the Company will continue to be courageous and diligent, moving forward with determination, so as to make unremitting efforts to achieve our sustainability, and will continue to protect the interests of shareholders and thus improve their returns!

Yours faithfully,
Fang Hui
Executive director

Hong Kong
27 September 2023

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Hongwei (陳宏衛), aged 50, was appointed as executive director of the Company on 1 April 2022. Mr. Chen graduated from Hubei Institute for Nationalities* (湖北民族學院) with a Certificate in Mechanical Manufacturing and Automation in 1997. Mr. Chen has over 27 years of experience in corporate management and operations management during which he has gained industry knowledge and experience in the management of effective production automation in various businesses. Prior to joining the Group, Mr. Chen worked as a project manager in Guangdong Sanxing Machinery Equipment Company Limited* (廣東三星機械設備有限公司) from 1998 to 2002. From 2003 to 2017, Mr. Chen worked in Chiho-Tiande Group Limited (齊合天地集團有限公司) (currently known as Chiho Environmental Group Limited (齊合環保集團有限公司)) (a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 0976)) as deputy manager of the equipment and general department and deputy chief engineer. He worked as assistant general manager, deputy chief engineer and director of the equipment and general department at Zhejiang Hehe Environmental Resources Company Limited* (浙江和合環境資源有限公司) from March 2017 to February 2022. Mr. Chen has been working as a technical director of Hua Zhang Environmental Resources Investment Limited (華章環境資源投資有限公司), a subsidiary of the Company, since 2019. Since February 2022, Mr. Chen has been serving as deputy general manager of Zhejiang Huazhang Technology Limited* (浙江華章科技有限公司) and director of Guangdong Huazhang Logistics Warehouse Limited* (廣東華章物流倉儲有限公司), both of which are subsidiaries of the Company.

Mr. Fang Hui (方暉), aged 35, was appointed as an executive director and a member of the Nomination Committee of the Company on 29 April 2021 and as the authorised representative of the Company on 10 January 2022. Mr. Fang is responsible for the overall business development direction and supervision of our Group and the operations management and development of solid waste metal resources recycling.

Mr. Fang has strong background in solid waste recycling and recovery, waste disposal and environmental protection and successfully secured the necessary licenses for the Group's recycling project in Dubai in 2019. Between 2013 and 2014, he was an assistant of the general manager at Chiho-Tiande (HK) Limited, a subsidiary of Chiho Environmental Group Limited ("Chiho"). Chiho is a global leader in metal recycling and environmental protection and is listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 0976). In 2015, Mr. Fang found a group of companies which seeks to identify and invest in environmental projects throughout the world and subsequently in 2017, a PRC joint venture company based in Taizhou, China, was established with a total investment amount of USD50 million with the aim to build a 500 mu waste recycling and recovery park in Taizhou, China. The park is intended to use modern technologies and practices to transform and upgrade the solid waste recycling industry in Taizhou, to enhance their competitiveness and to help Taizhou create its own version of the circular economy.

Mr. Fang obtained a Bachelor of Science degree in Economics from the University of Bradford, United Kingdom, in 2012. Mr. Fang is also a director of Hua Zhang Environmental Resources Investment Limited which is a wholly owned subsidiary of the Company.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Shi Chenghu (石成虎), aged 48, was appointed as non-executive director of the Company on 27 April 2021. He is the founding partner and the chief executive officer of BANDS Financial Limited ("BANDS"), which is a commodity and financial futures broker based in Hong Kong. BANDS currently holds a type 2 (dealings in futures contracts) licence under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and Mr. Shi is currently a responsible officer to carry out type 2 (dealing in futures contracts) (since October 2015) regulated activities under the SFO. Mr. Shi started his career with China's State Reserve Bureau in 1996, where he was involved in the strategic reserve management of ferrous and non-ferrous metals for the nation. In 2003, Mr. Shi joined Sempra Metals Far East Limited, a subsidiary of Sempra Energy, where he worked primarily for its London subsidiary, Sempra Metals Limited, a category 1 member of the London Metal Exchange (the "LME"). In 2008, as the China Chief Representative of Newedge Financial Inc. ("Newedge"), Mr. Shi founded CITIC Newedge Futures Co., Ltd., one of the first three Sino-foreign future joint ventures in China. The joint venture was regarded as the first step of the internationalisation of the China's commodities futures market. Before establishing BANDS, Mr. Shi was a registered representative and responsible officer for type 2 (dealing in futures contracts) under SFO since 2006 and held several senior roles at a number of international financial institutions, including as managing director and head of commodities futures for Jefferies Hong Kong Limited in Asia between 2012 to 2015 and head of metals for Newedge in Asia between 2008 to 2012. Mr. Shi's career has witnessed the phenomenal growth of Chinese economy and its influence to the global commodities market. Mr. Shi is widely recognised as a leading figure on promoting globalisation of Chinese commodities companies, Chinese metals market and Renminbi internationalisation on commodities trading. In 2020, Mr. Shi has been appointed as the member of the User Committee of the LME where he can voice the interests of metal trading community particularly from an Asian perspective. Mr. Shi obtained a Bachelor degree in Metallurgical Engineering from the University of Science and Technology Beijing in 1996 and an Executive Master of Business Administration from the China Europe International Business School in 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Heng, Keith Kai Neng (邢凱能), aged 44, was appointed as independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee, of the Company, on 2 January 2019. Mr. Heng was appointed the chairman of the Audit Committee of the Company on 17 December 2021. Mr. Heng obtained a Bachelor of Arts degree in Accounting and Finance from The University of Manchester in 2001 and a Master of Corporate Governance from The Hong Kong Polytechnic University in 2018. Mr. Heng is a fellow of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, an associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and an associate of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Mr. Heng is currently a director of a secretarial firm. He has extensive experience in corporate governance, auditing and accounting in Hong Kong.

Mr. Yao Yang Yang (姚楊洋), aged 35, was appointed as independent non-executive director, the chairman of Nomination Committee and a member of the Audit Committee and the Remuneration Committee, of the Company, on 31 March 2021. He obtained a Bachelor's degree in Urban Planning and Design from Suzhou University of Science and Technology in 2011 and a Master of Urban Planning and Design degree from Huazhong University of Science and Technology in 2014. From March 2014 to December 2020, Mr. Yao worked at the group companies of Poly Developments and Holdings Group Co. Ltd (保利發展控股集團股份有限公司): started as a designer of the design division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司), took up the post of vice general manager and subsequently, manager of the design division of Poly Yancheng Property Development Limited* (保利鹽城房地產發展有限公司), and his last position in the group as senior manager of the investment division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司). From December 2020 to December 2022, Mr. Yao was the vice president of Tianjin Yikai Tomorrow Asset Management Co., Ltd.* (天津易凱明天資產管理有限公司). Mr. Yao is currently the managing partner of Nanjing Wanliyuejiang Management Consulting Partnership* (南京萬鯉躍江管理諮詢合夥企業). He has over 8 years of experience in the fields of business development and investment in China.

Ms. Zhang Dong Fang (張東方), aged 61, was appointed as independent non-executive director and a member of the Audit Committee on 7 December 2021 and a member of the Remuneration Committee and the Nomination Committee of the Company on 17 December 2021. Ms. Zhang graduated from Guangdong Foreign Language and Trade University with a Bachelor's degree in Arts. Ms. Zhang has extensive experience in business management. From 1998 to 2010, she worked at Firemenich, a private group which is engaged in the production of flavors and fragrances for perfumes, cosmetics, foods and beverages, and household products. Ms. Zhang was the managing director and vice president, North Asia, of the said group overseeing its business in Greater China. From 2010 to 2015, Ms. Zhang was the chief executive officer and executive director of Vinda International Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 3331). From 2016 to 2020, Ms. Zhang was the chief executive officer and chairperson of the board of Shanghai Jahwa United Co. Ltd, a company listed on the Shanghai Stock Exchange Market, which is principally engaged in research, development, manufacture and distribution of skin care, personal care and home care.

SENIOR MANAGEMENT

Ms. Yeung Wing Yan (楊詠恩), aged 43, was appointed as the company secretary and authorised representative of the Company on 26 November 2021. Ms. Yeung holds a BA (Hons) in Accounting & Finance from the Lancaster University, United Kingdom. She is a fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She has over 16 years of experience in accounting and financial management. Between 2010 and 2015, she was the financial controller of Chiho-Tiande Limited (currently known as Chiho Environmental Group Limited) (Stock Code: 0976) which is listed on the main board of The Stock Exchange of Hong Kong Limited. Ms. Yeung currently runs a CPA practice which involved in the provision of corporate secretarial services and audit and assurance services for clients that involved in trading, manufacturing, property investments and consumer products in mainland China, Hong Kong and elsewhere.

* *For identification purpose only*

Management Discussion and Analysis

INDUSTRY REVIEW

Year 2023 resembles the year when the pandemic impact subsided and the economy returned to normal. In the first half of 2023, annual gross domestic product (GDP) grew by 5.5% year-on-year in the PRC and faster than the previous year when the annual economic growth rate was 3% as well as the three years during the pandemic when the average annual growth rate was 4.5%. In addition, as both the domestic and the overseas environments for macro economy have improved, policies for the macro economy retained the basis for steady growth. Therefore, the adverse effect caused by the real estate market on the economy was reduced. It is also expected that the Chinese economy would demonstrate a recovery and a positive trend in the second half of the year, as the PRC government released a series of measures to revitalize the economy.

Paper as an important basic raw material, the development level of the paper making industry is also one of the benchmarks for national modernization. Compared to many other industries, the cycle of paper making industry is relatively distinct. Since 2012, the paper making industry has experienced a complete cycle of changes for the past ten years, during which, its growth rate slowed down, the market demand fell, and various kinds of development restrictions appeared. In general, sluggish market demand and rising raw material costs are two major obstacles currently in front of the paper industry. According to the data from the National Bureau of Statistics of China, the value increase of the national paper making and paper products industry dropped by 0.6% in aggregate in 2022, of which a year-on-year decrease of 3.4% was recorded in December. The national output of machine-made papers and paperboards (excluding purchased base papers for processing) was 136.914 million tons, representing a year-on-year decrease of 1.3%.

Considering the cyclical development difficulties of the industry, the PRC has also adopted a series of policies to support the industry. Particularly, the Customs Tariff Commission* (關稅稅則委員會) of the State Council issued an announcement on 29 December 2022 stating that some paper-related products would be subject to zero tariffs with effect from 1 January 2023, which will further revitalize the industrial chain and supply chain of the paper making industry. From the perspective of market dynamics of global supply, the continuous increase in pulp production capacity worldwide will push down pulp prices, significantly lowering the cost pressure. Therefore, the profitability of paper enterprises will gradually improve with increasing production capacity.

Although the paper making industry has entered a cyclical trough, the potential of the paper making equipment industry has been released in other fields related to automation, when the technologies and solutions of paper making equipment enterprises can be applied to the rapidly developing non-woven fabric industry. Despite the fact that the scale of non-woven fabric industry tends to shrink in the PRC as the pandemic is being gradually tamed, generally speaking, it only refers to the application in aspects such as epidemic prevention materials and medical treatment for the non-woven fabric industry. Apart from those aspects, non-woven fabrics can also be applied to fields such as all kinds of industries, automobiles, packing materials and household papers. Therefore, it is obvious that there is a huge room for the non-woven fabric industry to develop in the future, as the potential demand for non-woven fabrics still exists.

* *For identification purpose only*

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, our revenue and gross profit increased significantly by approximately 63.3% to approximately RMB528.9 million and approximately 150.8% to approximately RMB83.2 million, respectively as compared to the corresponding period of last year despite the fact that the Group was negatively affected by factors such as the cyclical downturn in the industry and the loss of experienced staff. Through the best efforts of the management team of the Group, the Group succeeded to explore a new market in non-woven fabrics and to run certain sizable projects in project contracting service sector and no exceptional loss on project contracting service was recognized in financial year of 2023. In terms of losses, there was also a significant improvement when the losses for the year ended 30 June 2023 was approximately RMB52.8 million, showing a decrease of approximately 85.6% compared to the losses for the corresponding period in 2022, as the Group, based on the latest information on hand and the best estimation, has made sufficient impairments in certain financial and contracts assets last year. As a result, the impairment loss for the year significantly decreased as compared to the corresponding period in 2022.

Paper Making Related Business

Contracts

For the year ended 30 June 2023, although the Group continued to adopt active marketing strategies, the adverse impact of the downturning industry and marco environment has affected our new business. As at 30 June 2023, the outstanding contract amount was approximately RMB449.9 million (2022: RMB599.3 million).

During the year under review, the Group cooperated with Vinda Paper again to provide a driving system for its new composite tissue machine project. In addition, the Group obtained a number of iconic projects in the industry such as the paper machine driving and DCS control system and the full set of pulp preparation production line of Henan Fangsheng Paper, two technological transformation projects of Henan Longyuan Paper, the full set of machine driving and MCS system for PM13 6700/1000 high-strength corrugated paper of Renfeng* (仁豐) and the technological transformation for the first phase of a Minfeng Special Paper project in Haiyan New Area* (海鹽新區). In order to enhance its competitiveness, the Group has fully leveraged its technology and experience in the paper making industry to make breakthroughs and explore new areas, and hence secured general contracting projects for non-woven fabrics and tobacco production equipment.

Cost Reduction and Efficiency Enhancement for New Image

During the year under review, the Group adhered to lean management, cost reduction and efficiency enhancement, facing challenges with a new image. Particularly, the technology centre for smart manufacturing was committed to building a mechatronics laboratory to prompt our digitalized production, when focusing on technological innovation and engineer training. Through lean management, the smart manufacturing workshop could operate with optimized automated equipment, as a result of which, efficiency was improved rapidly, thereby creating a new image of the Group.

* *For identification purpose only*

In order to boost the competitiveness, the research institute of the Group provided strong technical support for the sustainable and high-quality development of the Group with the development concept of "Research-Production-Use". During the year under review, Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a major subsidiary of the Group, was successfully selected as the "National Technologically Advanced 'Little Giant' Enterprise", the "Technologically Advanced Small and Medium-sized Enterprise in Zhejiang Province", the "Provincial Industrial Digitalization Service Provider" and the "Provincial Industrial Internet Platform for Green Manufacturing in Paper Making Industry (省級造紙行業綠色製造工業互聯網平台)", and was awarded the "Jiaxing Top50 of High-tech Enterprises with Innovation and Investment 2022 (2022年度嘉興高新技術企業創新投入五十強)". For the year ended 30 June 2023, the Group's research and development expenses amounted to approximately RMB28.6 million.

As to internal problems in the past, the new management of the Group have made up their minds to reinforce internal control and create a new image of the Group. As such, the Group engaged an external internal control consultant to assist the Group in improving its internal management system and strengthening risk management, so as to cope with the ever-changing market changes and enable the Group to operate more efficiently.

Initiative for Breakthroughs and New Area Exploration

In view of the downturn in the paper making industry, the Group actively explored the market potential in other fields related to automation. Our entry into the field of non-woven fabrics hydroforming has relied on the superb technologies and mature techniques accumulated over years, which could provide our customers with a full set of high-level engineering solutions.

The first production line for flushable products that the Group has provided to Xiezhuo Medical* (協卓醫療) as a general contract represents the first demonstration for the full set solutions that the Group provides jointly with top suppliers in the non-woven industry. In addition, the key equipment that the Group has provided to Sateri Tongling* (賽得利銅陵) for its flushable wet wipe project was the inclined wire former (斜網成型器), which can provide the market with popular flushable and biodegradable non-woven fabrics, and promote the green and sustainable development of the industry chain for spunlace non-woven fabrics.

The value of the two giant projects amounted to RMB70 million in aggregate, enabling the Group to become a leader in the two domestic industries of paper making equipment and wet non-woven fabric equipment. The Group's success in making breakthrough in the field of non-woven fabrics is attributable to its accumulated expertise and extensive experience in the paper making industry. Such projects represent the Group's iconic projects in the new areas, which successfully tapped into new markets with commonalities comparable with the Group's products and technologies.

* *For identification purpose only*

Management Discussion and Analysis

Win-win Cooperation for New Market Exploration

"Win-win cooperation" has always been one of the Group's development strategies. Through closer cooperation with strategic partners such as Siemens, Rockwell and VACON, we will jointly explore and develop markets in due course. In the 30th China International Paper Technology Exhibition where Rockwell, Siemens and Zhejiang Huazhang have jointly participated in, Zhejiang Huazhang has been awarded the "Long-term Strategic Partner Award for Paper Making Industry 2023 (2023年度造紙行業長期戰略合作夥伴獎)". Besides, the Group deepened our communication with partners such as Danfoss and Rockwell for fully leveraging advantages on both sides during the year under review, so as to provide customers with simpler and more integrated solutions of higher added value through digitization, intelligence and networking, thereby achieving sustainability. Furthermore, we have become an integrator of choice for Rockwell.

The Group is eager for exploring new markets in countries along the "Belt and Road". During the year under review, the Group completed the provision of paper machines and rewinder driving systems for PM2 paper machines of Dahua Paper in Nigeria; the provision of paper machines and rewinder driving, DCS and MCS systems for Lee & Man Paper's four 5600/900 packing paper machines in the Malaysia production base; and the provision of non-reactive high-speed shaking box (無反作用力高頻搖振機) for the PM9 transformation project of Muda Paper* (慕達紙業) in Malaysia. After the relaxation of epidemic control measures, the Group will continue to explore overseas markets with domestic customers to seek new customers.

Renewable Resources Related Business

The Group has been committed to the development of green business, in particular, to set up of waste recycling treatment plants outside of China since 2019 to capture the opportunities of expanding global waste recycling treatment. As at 30 June 2023, the Group is still looking for opportunities in overseas and negotiating with overseas governments and business partners to secure the best investment terms.

The Group has started the trading of waste materials, especially metal scraps since 2021. For the year ended 30 June 2023, the trading volume of waste trading business was approximately RMB21.9 million and recognized income of RMB1.7 million. In the future, considering the market potential of global waste recycling treatment, the Group will allocate further resources to environmental related business and believes that the business in the sector will grow further.

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FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased by approximately 63.3% from approximately RMB323.9 million for the year ended 30 June 2022 to approximately RMB528.9 million for the year ended 30 June 2023, primarily attributing to the exploration of a new market in non-woven fabrics and run of certain sizable contracting service projects in project contracting services segment. The gross profit margin increased from approximately 10.2% for the year ended 30 June 2022 to approximately 15.7% for the year ended 30 June 2023, primarily attributing to provisions for the loss incurred from a project for the year ended 30 June 2022 and no such loss was incurred for the year ended 30 June 2023.

(i) Industrial products

Revenue from sales of industrial products increased by approximately 75.6% from approximately RMB164.9 million for the year ended 30 June 2022 to approximately RMB289.6 million for the year ended 30 June 2023. Such increase was primarily attributable to (i) increase in revenue from headbox business by approximately RMB67.2 million to RMB151.4 million due to the exploration of a new market in non-woven fabrics; and (ii) increase in sales of industrial automation products as the supply chain became stable and more projects were ran on schedule. The gross profit margin of industrial products decreased slightly from approximately 21.3% for the year ended 30 June 2022 to approximately 20.3% for the year ended 30 June 2023.

(ii) Project contracting services

Revenue from project contracting services increased by approximately 112.8% from approximately RMB83.8 million for the year ended 30 June 2022 to approximately RMB178.5 million for the year ended 30 June 2023. Such increase was mainly due to 3 sizable contracting service projects are performed by the Group during the year, which contributed revenue of approximately RMB165.8 million, while several contracting projects were delayed by the customers during the year ended 30 June 2022. The gross profit margins of project contracting services improved from approximately -20.1% for the year ended 30 June 2022 to approximately 5.0% for the year ended 30 June 2023, such change was primarily due to a loss from an engineering procurement construction project (the "EPC Project") being recognised for the year ended 30 June 2022 and no such loss was recognised for the year ended 30 June 2023.

The Group undertook the EPC Project for Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) ("Yunnan Yunhong") amounting to approximately RMB320.0 million which started in April 2018. The project was suspended for nearly three years. Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly-owned subsidiary of the Company, received a first instance judgment dated 24 December 2021 (the "Judgment") handed down by the Intermediate People's Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the "Court") in the People's Republic of China (the "PRC") in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) (the "Plaintiff") as plaintiff and Yunnan Yunhong as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. According to the Judgment, Yunnan Yunhong and Zhejiang Huazhang were ordered, among others, to pay an aggregate amount of approximately RMB37.6 million to the Plaintiff. On 22 August 2022, Zhejiang Huazhang has obtained the approval of the appeal application with the Higher People's Court of Yunnan Province（雲南省高級人民法院）(the "Appeal Court") against the Judgment, whereby the Appeal Court ordered, among other things, to set aside the Judgement and the legal proceedings in question be retried at the Court (the "Re-trial"). As of the date of this report, no hearing date of the Re-trial has been fixed. In addition, Zhejiang Huazhang received a first instance judgment dated 28 January 2022 (the "2nd Judgement") handed down by the People's Court of Tongxiang City (桐鄉市人民法院) (the "Tongxiang Court") in relation to a claim from a supplier (the "2nd Plaintiff") for the settlement of the purchase of equipment (the "Purchase") due to the project was suspended for a long time. According to the 2nd judgement, Zhejiang Huazhang were ordered, among others, to pay an aggregate amount of approximately RMB0.9 million to the 2nd Plaintiff. On 22 August 2022, the Intermediate People's Court of Jiaxing City of Zhejiang Province (浙江省嘉興市中級人民法院) maintained the 2nd Judgement and rejected the appeal application lodged by Zhejiang Huazhang. As the Group have similar purchases from other suppliers with the same terms in respect of this project, the management considered that other suppliers probably will make the same claim against the Group after the 2nd Judgement, therefore, the Group estimated a loss for the claims from other suppliers amounting to RMB18.0 million and recognised in the costs of sales for the year ended 30 June 2022.

(iii) Environmental business

Revenue from sales of environmental business decreased by approximately 20.8% from approximately RMB12.8 million for the year ended 30 June 2022 to approximately RMB10.1 million for the year ended 30 June 2023. Such decrease was primarily due to a decrease in demand in sludge treatment products and wastewater treatment business as the market competition was keen. However, the gross profit margin of environmental business increased from approximately 5.5% for the year ended 30 June 2022 to approximately 27.4% for the year ended 30 June 2023 due to an increase in sales of parts.

(iv) Supporting services

Revenue from the provision of supporting services decreased by approximately 18.5% from approximately RMB62.3 million for the year ended 30 June 2022 to approximately RMB50.8 million for the year ended 30 June 2023. The revenue from the provision of supporting services decreased mainly due to the decrease in numbers and size of the renovation projects for the year ended 30 June 2023 as compared with the corresponding period in 2022. As the Group focused on the after-sales services and trading of the spare parts during the year ended 30 June 2023, the gross profit margin for the provision of supporting services increased from approximately 22.8% for the year ended 30 June 2022 to approximately 24.8% for the year ended 30 June 2023.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately 24.3% from approximately RMB12.8 million for the year ended 30 June 2022 to approximately RMB9.7 million for the year ended 30 June 2023, accounting for approximately 3.9% and approximately 1.8% of the Group's revenue for the years ended 30 June 2022 and 2023 respectively. Decrease in selling and distribution expenses is mainly attributable to a decrease in staff costs in relation to the incentive paid.

Administrative expenses

The administrative expenses increased by approximately 3.8% from approximately RMB77.0 million for the year ended 30 June 2022 to approximately RMB80.0 million for the year ended 30 June 2023, accounting for approximately 23.8% and approximately 15.1% of the Group's revenue for the years ended 30 June 2022 and 2023 respectively. Increase in administrative expenses is mainly attributable to an increase in professional fee in relation to handle the litigation matters between the customers and the Group, the investigation and handling of the unusual transactions and resumption of the shares trading, which partially offset by (i) a decrease in staff costs due to a decrease in staff salaries and incentive payment; and (ii) a provision for the litigation amounting to RMB8.1 million in relation to the EPC project was recognised for the year ended 30 June 2022 and no such provision was recognised for the year ended 30 June 2023.

Research and development expenses

The research and development expenses decreased by approximately 37.7% from approximately RMB45.9 million for the year ended 30 June 2022 to approximately RMB28.6 million for the year ended 30 June 2023, accounting for approximately 14.2% and approximately 5.4% of the Group's revenue for the years ended 30 June 2022 and 2023 respectively. Decrease in research and development expenses is mainly attributable to a decrease in staff costs due to a decrease in incentive paid to staff. The Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets was sharply decreased by approximately 93.0% from approximately RMB234.7 million for the year ended 30 June 2022 to approximately RMB16.4 million for the year ended 30 June 2023. Such improvement was primarily attributing to the Group have made provisions of a customer and balance on the Subject Transactions at an aggregated amounts of RMB225.6 million for the year ended 30 June 2022, while no such impairment was incurred for the year ended 30 June 2023. After such impairments, the receivables from this customer and the Subject Transactions have been fully impaired. For the year ended 30 June 2023, the Group have engaged independent valuer to evaluate the expected credit loss of the financial and contract assets. Based on current economic conditions, historical collection experience and outlook, the Group was required to make a further impairment loss on the financial and contract assets amounting to approximately RMB16.4 million. The Group has strengthened its collection policies and holds on-going discussion with the customers with regards to collection and billings, and will even take legal action if necessary.

Other income and gains, net

Other income and gains, net decreased by 28.1% from approximately RMB18.3 million for the year ended 30 June 2022 to approximately RMB13.2 million for the year ended 30 June 2023, primarily attributing to a decrease in interest income recognised from project contracting service as the Group change its sales policy to reduce the co-operation with the finance lease companies, which partially offset by an increase in government grants due to the Group developed an internet platform which was recognised as a key industry of internet platform in Zhejiang Province for the year 2023, as a result of which the Group received an government grant of RMB5.0 million during the year.

Finance costs, net

Finance costs, net of the Group decreased from approximately RMB15.4 million for the year ended 30 June 2022 to approximately RMB1.9 million for the year ended 30 June 2023, primarily attributing to (i) a decrease in finance costs as the Group repay the convertible bonds in third quarter of the 2022; and (ii) an increase in finance income due to an increase in net foreign exchange gains for the year ended 30 June 2023 as compared with the corresponding period in 2022.

Impairment loss on goodwill, property, plant and equipment and investment properties

The Group engaged independent valuer to determine the recoverable amounts of business units of headbox and logistic and warehouse. For the year ended 30 June 2022, the Group recorded an impairment loss on goodwill of headbox business and logistics and warehousing services business of approximately RMB6.8 million and approximately RMB3.2 million, respectively, due to the impact of COVID-19 Outbreak in the Mainland China and downturn of the economy and the Group's headbox business and logistics and warehousing services business in the PRC was faced with downward pressure. The business was also affected by macroeconomic performance that was affecting the domestic economy, the gross profit margin and revenue of headbox business and logistic and warehousing services business were decreased for the year ended 30 June 2022. For the year ended 30 June 2023, the Group recorded an impairment loss on property, plant and equipment and investment properties of approximately RMB2.9 million and approximately RMB8.6 million, respectively.

Impairment loss on investment in an associate

The Group recorded an impairment loss on investment in associate amounting to approximately RMB4.9 million for the year ended 30 June 2022 and no such impairment was incurred for the year ended 30 June 2023. Due to the fact that the Group incurred huge loss in relation to the Subject Transactions, which is related to the transactions with the associate, and the associate have suspended the business as at 30 June 2022, the management of the Group considered that recoverability of the investment in associate was remote, and made impairment on this investment for the year ended 30 June 2022.

Income tax expense

The income tax decreased by approximately 91.8% from approximately RMB15.5 million for the year ended 30 June 2022 to approximately RMB1.3 million for the year ended 30 June 2023, such decrease was primarily due to decrease in deferred income tax, which was partially offset by increase in PRC enterprise income tax as operating profits of the Group's major subsidiaries increased for the year ended 30 June 2023 as compared with the corresponding period in 2022.

The effective tax rates of the Group decreased from approximately 4.4% for the year ended 30 June 2022 to approximately 2.5% for the year ended 30 June 2023.

Loss for the year and net loss margin

As a result of the foregoing, loss for the year reduced by approximately 85.6% from approximately RMB366.7 million for the year ended 30 June 2022 to approximately RMB52.8 million for the year ended 30 June 2023. The net loss margin improved from approximately 113.2% for the year ended 30 June 2022 to approximately 10.0% for the year ended 30 June 2023.

Loss for the year attributable to the shareholder of the Company

The loss for the year attributable to the shareholders of the Company reduced from approximately RMB363.8 million for the year ended 30 June 2022 to approximately RMB51.2 million for the year ended 30 June 2023.

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 2023, the Group had cash and cash equivalent balance amounting to approximately RMB44.0 million (30 June 2022: approximately RMB141.0 million) and interest-bearing loans amounting to approximately RMB69.0 million (30 June 2022: approximately RMB38.5 million).

The convertible bonds ("Convertible Bonds") in a principal amount of HK$100.0 million issued on 1 December 2020 were redeemed in July 2022. The net proceeds from the Convertible Bonds have been used to repay the convertible bonds issued on 29 March 2017 in year 2020.

No Convertible Bonds has been converted into ordinary shares during the years ended 30 June 2022 and 2023. No new convertible bonds has been issued during year ended 30 June 2023.

BORROWINGS AND CHARGES OF ASSETS

As at 30 June 2023, the Group's borrowings were approximately RMB69.0 million (30 June 2022: RMB38.5 million), which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an interest range of 4.15% to 6.0% per annum (30 June 2022: all denominated in RMB, and bore an interest range of 4.35% to 5.5% per annum).

As at 30 June 2023, the banking facilities granted to the Group were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB39.2 million, RMB81.1 million and RMB70.7 million respectively (30 June 2022: approximately RMB58.6 million, RMB98.1 million and RMB73.8 million respectively).

GEARING RATIO

The gearing ratios as at 30 June 2023 and 2022 were approximately 16.4% and 8.9%, respectively. The increase in gearing ratio was mainly attributable to an increase in balance of interest-bearing borrowing and a decrease in the Group's equity at 30 June 2023 as compared with 30 June 2022. Based on the gearing ratio as at 30 June 2023, the Group still maintained a good financial position.

Gearing ratio is calculated based on the total interest-bearing loans 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 other receivables decreased by approximately RMB47.2 million from approximately RMB222.5 million as at 30 June 2022 to approximately RMB175.3 million as at 30 June 2023, primarily due to decrease in trade receivables as at 30 June 2023. The provision for impairment of trade receivables increased by approximately RMB4.9 million to approximately RMB179.6 million for the year ended 30 June 2023 as compared with last year, due to the worsen economic environment and liquidity issues of certain customers. The Group will strengthen customer credit risk management to guard against the increase in bad debt provision, and will take legal action if necessary.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group (i) did not perform any material acquisition or disposal of subsidiaries, associates or joint ventures or investments during the year ended 30 June 2023; and (ii) did not hold any significant investment as at 30 June 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have future plans for material investments and capital assets during the year ended 30 June 2023 and up to the date of this report.

CAPITAL EXPENDITURE

For the year ended 30 June 2023, the Group's capital expenditure amounted to approximately RMB1.1 million (2022: RMB5.8 million).

CAPITAL COMMITMENTS

As at 30 June 2023, the Group had no material capital commitments (30 June 2022: Nil).

CONTINGENT LIABILITIES

Save as disclosed elsewhere in this report, the Group had no material contingent liabilities as at 30 June 2023 (30 June 2022: Nil).

TREASURY POLICY

The Group had a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business during the year ended 30 June 2023. The management will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of any future growth opportunities.

FOREIGN CURRENCY RISK

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

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2023, the Group had 245 employees (30 June 2022: 267 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2023 were approximately RMB72.6 million, as comparable to approximately RMB80.8 million for the year ended 30 June 2022. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. In addition to cash compensation and benefits, we may issue share options to our employees in accordance with our equity plans. During the year, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

At present, general economic recovery is picking up in the PRC. As an important industry of basic raw materials, the paper making industry will also experience rises in paper prices under the impetus from the recovery of overall demand, while it is expected that the price of wood pulp would be decreasing progressively. As a result, the paper making industry is anticipated to welcome an overall profit recovery which will come true gradually, when high-end, intelligent and green products have become the main directions for new project investment in the industry. Moreover, policies for the non-woven fabric industry mainly focus on incentives, as national measures such as encouragement on technology development for non-woven fabrics and recycling and reuse of waste non-woven fabrics would effectively safeguard the development of non-woven fabrics.

The Group has successfully overcome both the internal and the external difficulties, while the Company is currently united, regaining recognition from the market and our customers. Lean management, cost reduction and efficiency enhancement will continue to be adopted, aiming at achieving substantial breakthroughs and development by means of inducing internal potential, rejuvenating corporate vitality, increasing our competitiveness, strengthening external alliances, improving our outputs and treasuring cooperation. Relying on partners such as Siemens, the Group will continue to actively promote the high-end, intelligent and green development of paper making industry, so as to once again create a new chapter of win-win cooperation. In the future, demands in other markets relative to the field of automation will be explored, in addition to serving the paper industry, and new ideas will be conceived to further diversify our businesses, thereby enabling our expansion into the automation market as well as overseas markets.

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

The shares of the Company were listed on the Stock Exchange on 16 May 2013 (the "Listing Date") by way of placing, raising total net proceeds of approximately HK$48.1 million after deducting professional fees, underwriting commissions and other related listing expenses (the "Net Proceeds").

References are made to (i) the prospectus of the Company dated 9 May 2013 in relation to the listing on the GEM of the Stock Exchange (the "Listing"), which sets out the intended use of the Net Proceeds from the Listing; and (ii) the announcement of the Company dated 23 December 2014 in relation to the transfer of listing from the GEM to the Main Board of the Stock Exchange and (iii) the announcement of the Company dated 31 March 2022 regarding the change in use of the Net Proceeds. Since the Listing Date and up to 31 December 2021, the Company has utilised approximately RMB26.3 million out of the Net Proceeds. The amount of Net Proceeds which remains unutilised (the "Unutilised Net Proceeds") as at 31 December 2021 was approximately RMB21.8 million. Having carefully considered the current business environment and development needs of the Group, on 31 March 2022, the Board has resolved to change the proposed use of the Unutilised Net Proceeds in the amount of approximately RMB21.8 million, which was originally allocated for the purposes of (i) increasing production capacity; (ii) cost saving construction; and (iii) increasing market awareness and image of the Group, to the following purposes: (i) approximately RMB8 million for the repayment of bank loan and other borrowings; (ii) approximately RMB5 million for research and development expenses; and (iii) approximately RMB8.8 million for administrative and management expenses, of which approximately RMB3 million, approximately RMB1.5 million, approximately RMB3 million and approximately RMB1.3 million will be used for salary adjustment of key employees, hiring additional employees, settling legal and professional advisers' expenses and other corporate purposes, respectively.

Set out below is the original and revised allocation of the Net Proceeds and the actual use of the Net Proceeds from the Listing Date to 30 June 2023:

	Original planned use of the Net Proceeds RMB'000	Reallocation of Unutilised Net Proceeds as at 31 March 2022 RMB'000	Revised use of the Net Proceeds RMB'000	Actual use of Net Proceeds from the Listing Date to 30 June 2023 RMB'000	Unused Net Proceeds as at 30 June 2023 RMB'000	Expected date of full utilisation of unused Net Proceeds
Increase production capacity	23,521	(5,222)	18,299	18,299	–	–
Cost saving construction	15,709	(15,709)	–	–	–	–
Continuous product development and innovation	5,208	–	5,208	5,208	–	–
Increase market awareness and image of the Group	3,385	(869)	2,516	2,516	–	–
Improve the current information management system	260	–	260	260	–	–
Repayment of bank loan and other borrowings	–	8,000	8,000	8,000	–	–
Research and development expenses	–	5,000	5,000	5,000	–	–
Administrative and management expenses						
— Salary adjustment for key employees	–	3,000	3,000	–	3,000	On or before 31 December 2023
— Hiring of additional employees	–	1,500	1,500	–	1,500	On or before 31 December 2023
— Legal and professional advisers' expenses	–	3,000	3,000	3,000	–	–
— Other general corporate purposes	–	1,300	1,300	1,300	–	–
	48,083	–	48,083	43,583	4,500	

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

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

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

Environmental, Social and Governance Report

INTRODUCTION TO THE REPORT

This Environmental, Social and Governance Report (the "Report") summarises the environmental, social and governance ("ESG") initiatives, plans and performances of Huazhang Technology Holdings Limited (the "Company"), together with its subsidiaries (the "Group" or "We", "Us"), and demonstrates our commitment to environmental protection and sustainable development.

THE GROUP'S ESG APPROACH

In December 2021, the China Paper Association released the "Outline of the 14th Five Year Plan and Medium and Long-term High-Quality Development of Paper Manufacturing Industry (《造紙行業「十四五」及中長期高質量發展綱要》)" to formulate the industry's roadmap, guidelines, policies and strategies for medium- and long-term planning to create a low-carbon, environmentally sustainable green paper industry. Specific focus is given to energy saving and emission reduction and technological progress by advocating consolidation of emission reduction achievements, maintaining low emission levels of pollutants, and increasing the integrated utilization of solid waste and the energy utilisation of biomass in solid, liquid and gas waste, while strengthening the construction of independent innovation capacity of paper-making equipment manufacturing enterprises. The Group is committed to integrating sustainability into our business strategy and continuously improving our operation and technology to cope with national trends in ESG.

REPORTING PERIOD

This ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 30 June 2023 (the "Reporting Period" or "2023").

REPORTING FRAMEWORK

This ESG Report is prepared with reference to the requirements under the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock exchange of Hong Kong Limited ("SEHK").

REPORTING PRINCIPLES

During the preparation for this ESG Report, the Group has adopted the reporting principles stipulated in the ESG Reporting Guide as the following:

Materiality	The materiality assessment was conducted to identify material issues during the Reporting Period, thereby adopting the confirmed material issues as the focus for preparing the ESG Report. The materiality of issues was reviewed and confirmed by the ESG Committee. Please refer to the sections headed "Stakeholder Engagement" and "Materiality Assessment" for further details.
Quantitative	Supplementary notes are added along with quantitative data disclosed in the ESG Report to explain any standards, methodologies, and sources of conversion factors used during the calculation of emissions and energy consumption.
Consistency	The preparation approach of this ESG Report was substantially consistent with the previous year, and explanations were provided regarding data with changes in the scope of disclosure and calculation methodologies.

REPORTING SCOPE

This ESG Report mainly covers the Group's ESG performance of its offices in Hong Kong and in Zhejiang province of PRC. The core business of the Group is to supply, install and provide maintenance services for papermaking equipment and related environmental recycling products.

BOARD STATEMENT — The ESG Governance Structure

Oversight of ESG Issues

The board of directors (the "Board") holds the ultimate responsibility for monitoring the Group's ESG issues, including ESG management approach, strategy, and policies. To better manage the Group's ESG performance and identify potential risks, the Board conducts materiality assessment where necessary with the assistance of the ESG Committee to evaluate and prioritise material ESG-related issues with reference to the opinions of our stakeholders. The Board sets up a general direction for the Group's ESG strategies, ensuring the effectiveness in the control of ESG risks and internal control mechanisms.

Establishment of ESG Committee

The Group has established an ESG Committee (the "Committee"). This Committee comprises core members from different departments and is responsible for systematically managing ESG issues. The designated personnel are responsible for collecting relevant information on ESG aspects for the preparation of the ESG Report. It periodically reports to the Board, assists in identifying and assessing the Group's ESG risks, and evaluates the implementation and effectiveness of the internal control mechanism. It also examines and evaluates the performance in different aspects such as environment, labour practices, and other ESG performance.

STAKEHOLDER ENGAGEMENT

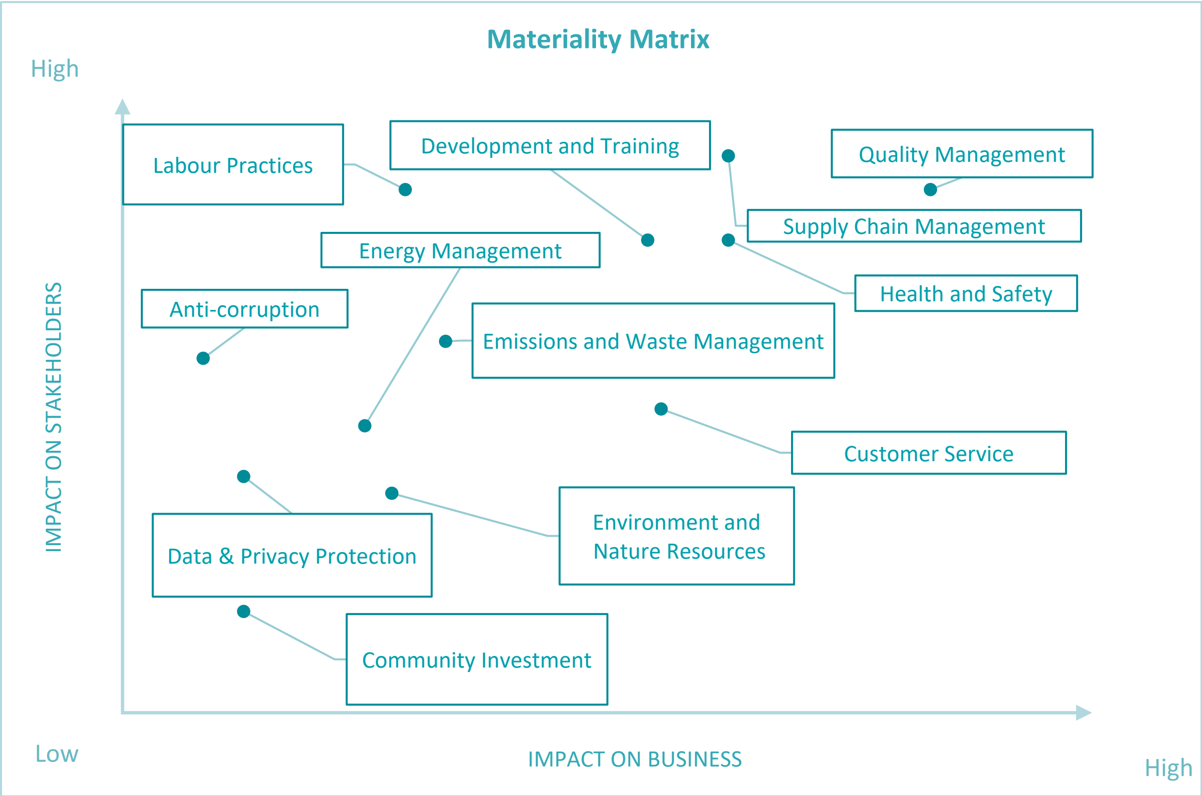
The Group recognises the responsibility and accountability of all our stakeholders. To understand and address their key concerns, the Group has maintained close communication with its key stakeholders. The Group takes stakeholders' expectations into consideration in formulating its businesses and ESG strategies by utilizing diversified engagement methods and communication channels, as shown below:

Stakeholders	Communication channels	Expectations
Investors and Shareholders	• Financial reports • Announcements and circulars • Annual general meetings	• Corporate governance • Financial results • Business compliance
Customers	• Face-to-face meeting • Interviews	• Project quality • Customer Service
Employees	• Training • Internal meetings • Annual performance appraisals	• Promotion, compensation, and benefits • Health and safety working environment
Suppliers	• Suppliers' assessments • Supplier meetings	• Sustainable supply chain • Fair and open tendering
Community and the Public	• Community investment • ESG reports • Social media	• Ethical operation • Environmental protection • Contribution to society
Regulatory Bodies and Government Authorities	• Meetings • Written or electronic correspondences	• Compliance with laws and regulations • Timely taxation

The Group aims to collaborate with its stakeholders to improve its ESG performance and to create greater value for the wider community continuously.

MATERIALITY ASSESSMENT

The ESG Committee of the Group is responsible for the preparation of this ESG Report. By reviewing the Group's operations and identifying relevant ESG issues, the Committee assesses the importance of related matters to the Group's businesses and stakeholders. Based on the material ESG issues identified, feedback is collected from the relevant internal and external stakeholders of the Group. The result of the assessment is as below:



The Group reviewed the materiality assessment results and considered the said result applies to the Group. The Group will continue to review whether its business operations can meet its ESG performance.

Forward-Looking Statements

This Report contains forward-looking statements which are based on the current expectations, estimates, projections, beliefs, and assumptions of the Group about the businesses and the markets in which it and its subsidiaries operate. These forward-looking statements are not guarantees of future performance and are subject to market risk, uncertainties, and factors beyond the control of the Group. Therefore, actual outcomes and returns may differ materially from the assumptions made and the statements contained in this Report.

Endorsement and Approval

This Report was compiled, endorsed by the ESG Committee, and approved by the Board.

Feedback and Contact Us

The Group welcomes all feedback and opinions from its stakeholders. If you have any advice or suggestions, you are welcomed to contact us at ir@hzeg.com.

A. ENVIRONMENTAL

The Group is committed to integrating environmental protection into our businesses and reducing our carbon footprint. The Group has established environmental management system and integrated the concept of sustainable development into its daily operation. The environmental management system has been compiled with the international standard ISO 14001.

During the Reporting Period, the Group was not aware of any material non-compliance with environmental laws and regulations relating to air and Greenhouse Gas ("GHG") emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a significant adverse impact on the Group, including but not limited to the Environmental Protection Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, Prevention and Control of Environmental Pollution by Solid Wastes of the PRC, Air Pollution Control Ordinance of Hong Kong, Waste Disposal Ordinance of Hong Kong, Noise Control Ordinance of Hong Kong, and Environmental Impact Assessment Ordinance of Hong Kong.

2030 Environmental Targets

To support global efforts to address climate change and to facilitate the assessment of the effectiveness of the Group's strategies and measures to mitigate the impacts of climate change, environmental objectives are set at the Group level as follows:

The target of reducing emission intensity by 2030, using 2021/2022 as a base year:

Electricity consumption	Water consumption	Non-hazardous waste	Greenhouse gas emissions
↓ 5%	↓ 5%	↓ 5%	↓ 5%

These targets will guide the Group's business strategy. The steps taken to achieve these goals are detailed below in each corresponding section.

A1 Emissions

Air emissions

The principal sources of air emissions arising out of the Group's operation were unleaded petrol consumed by vehicles and natural gas consumed in the office kitchen.

The exhaust gas generated by the Group includes nitrogen oxides ("NOx"), sulphur oxides ("SOx") and particulate matter ("PM").

During the Reporting Period, the Group's exhaust gas emissions performance was as below.

Types of Exhaust Gas	Unit	2023
Nitrogen oxidex ("NO_x")	Emissions tonnes	0.036
Sulphur oxidex ("$S0_x$")	Emissions tonnes	0.000053
Particulate matters ("PM")	Emissions tonnes	0.0034

GHG Emissions

The consumption of electricity at the office (Scope 2), unleaded petrol consumption for the vehicles and natural gas consumed in the office (Scope 1) are the major sources of GHG emissions of the Group.

The Group's GHG emissions performance was as follows:

Indicators[1]	Unit	2023
Direct GHG emissions (Scope 1)		
— Unleaded petrol consumption		
— Natural gas consumption	tCO_2e	8.55
Energy indirect GHG emissions (Scope 2)		
— Electricity consumption	tCO_2e	582.20
Total GHG emissions	tCO_2e	590.75
Total GHG emissions intensity[2]	tCO_2e/million Revenue	1.12

Remarks:

1. GHG emissions data is presented in carbon dioxide equivalent and was in reference to, including but not limited to, the reporting requirements of the "GHG Protocol Corporate Accounting and Reporting Standard" issued by the World Resources Institute and the World Business Council for Sustainable Development, the "How to prepare an ESG Report — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, the "CLP 2021 Sustainability Report" published by the CLP Holdings and the latest published Baseline Emission Factors for Regional Power Grids in China.

2. For the Reporting Period, the Group recorded revenue of RMB529 million (2022: RMB329 million). The data is also used for calculating other intensity indicators.

Reduction of Emissions

To achieve the 2030 environmental target, the Group has taken green practices in day-to-day operations. The measures taken for reducing GHG from vehicles (Scope 1) are:

- switch off idle engines;
- conduct regular maintenance services to ensure optimal engine performance;
- reduce in-person meetings and encourage the use of public transportation for business trips; and
- choose local vendors to reduce exhaust gas and GHG emissions.

Sewage Discharge

Due to the Group's business nature, wastewater generated by the Group's offices is mainly commercial wastewater, and its total amount is not significant. Wastewater has been discharged directly into the urban sewage pipe network. As the amount of wastewater generated by the Group largely depends on its water consumption, to improve water efficiency, the Group has taken specific water-saving measures. More water-saving initiatives will be described in the section headed "Water Management" under aspect A2.

The Group's business covered sewage treatment for the papermaking industry. At papermaking factories, its operation involves the process of screening, washing, and bleaching pulp, and a significant amount of papermaking wastewater is produced. The Group has researched and designed papermaking wastewater treatment solutions for our customers. By using our solutions, discharge water quality can then meet national and local discharge standards.

Waste Management

The Group is committed to properly managing and disposing of wastes produced by our business activities. To safeguard the health and welfare of the community from adverse environmental effects associated with the handling and disposal of wastes, our Group has developed sustainable waste management practice which has complied with relevant laws and regulations relating to environmental protection.

Waste Residue Utilisation

The Group provides waste residue utilisation solution for our clients. Refuse-derived fuel ("RDF") is a fuel produced from various types of waste such as municipal solid waste, industrial waste or commercial waste. The waste residue adopted to make solid refuse-derived fuel rods by sorting, crushing, winnowing, compression and drying process of different combinations. Papermaking RDF can be produced and mixed with coal and oil to use as fuels. This is one of the demonstrations of our green solutions benefiting both the clients and our community.

Hazardous Waste

As the Group provides pulp and papermaking equipment maintenance service, small amounts of hazardous wastes such as machine oil and grease will be produced during its repairing and maintenance process for the clients. The Group has established guidelines which detail the procedure in management and disposal of such hazardous wastes. The Group engages qualified waste collectors to handle the waste to comply with the relevant environmental laws and regulations.

Indicators	Unit	2023
Total hazardous wastes	tonnes	0.68
Intensity	tonnes/million revenue	0.0013

Non-hazardous Waste

The non-hazardous wastes generated by the Group's operations mainly consist of office paper and commercial wastes. During our business operation, we uphold the 5Rs principle, namely reduce, renew, reuse, recycle, and replace, for waste management and strive for resource utilisation. The Group has implemented measures to manage different types of waste and launched different waste reduction initiatives in different working areas. Employees are encouraged to use double-sided printing and electronic means for the circulation of documents to use less paper. A recycling bin is placed beside the printer to encourage paper recycling.

Indicators	Unit	2023
Total non-hazardous wastes	tonnes	10.30
Intensity	tonnes/million revenue	0.0195

A2 Use of resources

The Group is committed to becoming a resource-saving and environmentally friendly enterprise to promote environmental protection. We continue to introduce resource efficiency and eco-friendly measures to the Group's operations and optimise the use of resources in all our business operations. During our operation, fuel and electricity are consumed. The Group has established relevant policies and procedures for governing the efficient use of resources, intending to achieve higher energy efficiency and reduce the unnecessary use of resources.

Energy Management

Energy consumption of the Group includes unleaded petrol consumed by company vehicles, natural gas used in the office kitchen and electricity used in the office.

The Group's energy consumption performance is as follows:

Indicators	Unit	2023
Gasoline	kWh	32,377.93
Purchased electricity	kWh	723,585.00
Total energy consumption	kWh	755,962.93
Total energy consumption intensity	kWh/million revenue	1,429.25

Reduction of Energy Consumption

Consumption of electricity is accounted as the major source of energy consumption and indirect GHG emissions. To save electricity used at the office, the Group has conducted the following measures to improve the energy efficiency performance, including but not limited to:

- turn off idle machines, equipment, computers, and lighting;
- use natural light where possible;
- adopt power-saving features for office equipment and computers; and
- set the temperature control of air conditioners of the office at 25 degrees or above.

By adopting different energy saving measures, the Group believes it has set a role model for corporate social responsibility and improved employees' awareness of energy conservation.

Water Management

The Group does not consume a significant amount of water in its business activities due to its business nature. Water was mainly used in offices. The Group actively promotes the importance of water conservation to its employees. Apart from posting reminders next to water taps, the Group also regularly inspects water taps to prevent leakage. Through these water-saving measures, our employees' awareness was enhanced. The Group will continue to save water resources through different measures in the forthcoming year.

As explained, the Group's sewage treatment system can help our client and the community in managing water discharge to a greener standard.

Indicators	Unit	2023
Total water consumption	m^3	6,277.00
Intensity	m^3/million revenue	11.87

The total water consumption dropped from 7,296 m^3 to 6,277 m^3, which represented a 14% decline compared with the prior year.

Due to the Group's business nature and geographical region in which our operation is located, the Group did not encounter any problem in sourcing water that is fit for its purpose.

Use of Packaging Materials

Due to the Group's business nature, the use of packaging materials is immaterial.

Paper Management

The Group's paper consumption performance is as follows:

Material consumption	Unit	2023
Paper consumption	tonnes	0.88

A3 The environment and natural resources

The Group recognises the responsibility for minimising the negative environmental impacts of our business operations as an ongoing commitment to good corporate citizenship. The Group has integrated the concept of environmental protection into its daily operations, with the aim of achieving environmental sustainability.

Waste Gas Deodorising & Treatment Solution

The Group offers waste gas deodorising and treatment solutions for our clients. During the papermaking process, waste gas will be produced. Our waste gas treatment solution mainly includes four parts: waste gas collection system — waste gas transportation — waste gas treatment — discharge after reaching the standard in the waste gas treatment field of wastewater treatment plants. The main treatment technologies include bio-filtration deodorisation technique, plasma technique, UV oxidation photolysis technique and activated carbon adsorption technique. According to the different production processes of different waste gas concentrations and airflow, a variety of other scientific technologies are adopted together, to achieve the best waste gas treatment effect and achieve the best effect in economic efficiency and environmental efficiency for clients and our community.

Office Indoor Air Quality

Indoor air quality is regularly monitored and measured, air purifying equipment is placed, and the ventilation system is cleaned periodically.

Noise Control

The Group realises that noise will be created during its operations, with the major source of noise coming from facilities and clients' papermaking project sites. Therefore, we closely follow the latest national and regional laws and regulations of noise management and adopt various measures on noise reduction to comply with related local laws and regulations.

A4 Climate change

Climate change has become the most popular topic today and is deeply concerned by governments around the world. The Group pays close attention to the impact of climate change on our business and operations.

Following the reporting framework developed by the Task Force on Climate-related Financial Disclosures ("TCFD"), there are two major categories of climate-related risks, physical and transition risks. The Group has implemented risk assessment exercises in identifying and mitigating climate-related risks.

Physical Risks

The increased frequency and severity of extreme weather events such as typhoons, storms, heavy rains and extreme cold or heat bring acute and chronic physical risks to the Group's business. The Group's productivity will be reduced under extreme weather events as the safety of our employees is threatened during operation work and the power grid or communication infrastructures might be damaged, which exposes the Group to risks associated with non-performance and delayed performance, leading to a direct negative impact on the Group's revenue.

To minimise the potential risks and hazards, the Group has established mitigation plans, including flexible working arrangements and precautionary measures and extra formwork protection during bad or extreme weather conditions. The Group will explore emergency plans to further reduce the vulnerability of our installations to extreme weather events to enhance business stability.

Transition Risks

To achieve the global vision of carbon neutrality, the Group expects the evolution of the regulatory, technological and market landscape due to climate change, including the tightening of national policies, the emergence of environmentally related taxes, and the shifting of customer preference to an eco-friendlier operation.

In response to the policy and legal risks as well as the reputation risks, the Group constantly monitors any changes in laws or regulations and global trends on climate change to avoid cost increments, noncompliance fines or reputational risks due to delayed response.

B. SOCIAL

B1 Employment

Talent is the cornerstone of the Group's sustainable development. The Group attaches great importance to the contribution of employees to us. Employment policies are documented in the Employee Handbook, covering recruitment, compensations, remuneration, diversity, equal opportunities, etc. The Group periodically reviews existing policies and employment practices to ensure continuous improvement of its employment standards and competitiveness in the industry.

During the Reporting Period, the Group was not aware of any material non-compliance with employment and labour practices-related laws and regulations that would have a significant adverse impact on the Group including but not limited to the Employment Ordinance of Hong Kong, the Labour Law of the PRC, and the Labour Contract Law of the PRC.

Recruitment, Promotion and Dismissal

The Group hires employees through open recruitment. The Group emphasises a fair, open, objective, and non-discriminatory process. Applicants are assessed based on their suitability for the positions and potential to fulfil the Group's current and future needs, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The promotion of employees is determined by appraisals that are conducted regularly by the Group's management to evaluate staff's work performance. Performance reviews are conducted annually, and employees are provided with the opportunity to openly discuss with their supervisors on their performance and career development.

The Group has no tolerance for unfair and illegitimate dismissals and makes sure the dismissal procedure is fair and open. Any termination of the employment contract would be based on reasonable and lawful grounds. Exit interviews will also be conducted with leaving employees to help management better understand the needs of our employees and to improve the overall working environment.

Diversity, Equal Opportunity, and Anti-discrimination

The Group recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture in which all can thrive.

The Group provides equal opportunities in all aspects of employment and maintaining a workplace that is free from discrimination, and physical or verbal harassment against any individual based on race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation.

The Group has established and implemented policies that promote a fair and respectful workplace.

Compensation and Remuneration

The Group offers a comprehensive remuneration package for our employees. Remuneration packages of the Group include basic salary, leaves as stipulated by relevant laws and regulations, as well as discretionary bonuses. The Group also provides a variety of leaves to cater to the needs of its employee, such as marriage leave, study leave, etc. Employees' salaries and year-end bonuses are determined based on qualifications, work performance, performance appraisal results and market trends.

The Group pays "five social insurances and one housing fund" for employees under the Social Insurance Law of the PRC, namely, endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance, and housing provident fund to ensure employees are covered by social insurance. The Group also pays the Mandatory Provident Fund for employees in Hong Kong in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong.

As of 30 June 2023, the Group's employee breakdown was as below:

Indicators	2023	2022
Total number of employees	245	267
By Gender		
Male	181	193
Female	64	74
By Age		
Below 30	50	46
30–50	144	164
Above 50	51	57
By region		
Hong Kong	16	2
PRC	229	265
By Employment Type		
Full-time	242	267
Part-time	3	0

The table below shows the employee turnover rate* breakdown by gender, age group and region:

Indicators	2023	%
Total employee turnover	57	22.27%
By Gender		
Male	41	21.93%
Female	16	23.19%
By Age		
Below 30	9	18.75%
30–50	32	20.78%
Above 50	16	29.63%
By region		
Hong Kong	4	44.44%
PRC	53	21.46%

* Employee turnover rate is calculated by (the number of employees left during the Reporting Period/average number of employees at the beginning and at the end of the Reporting Period) x 100%.

B2 Health and safety

Employee safety is regarded as the top priority of the Group. The Group is committed to providing a healthy and safe working environment for all employees and strives to achieve zero tolerance towards hazards, non-compliance, and accidents.

During the Reporting Period, the Group was not aware of any material non-compliance with health and safety-related laws and regulations that would have a significant adverse impact on the Group. The relevant laws and regulations include but are not limited to the Labour Law of the PRC and the Prevention and Treatment of Occupational Diseases Law of the PRC, the Occupational Safety and Health Ordinance of Hong Kong and the Employees' Compensation Ordinance of Hong Kong.

Occupational Health and Safety Management Systems

To maintain a safe work environment, the Group has established occupational health and safety management systems and relevant procedures for the prevention and remediation of accidents in projects. The occupational health and safety management system has been implemented and certified in compliance with the requirements of ISO14001 international standards and reviewed annually. Besides, the Group has acquired staff medical insurance which reimburses employees for any unexpected medical costs. The insurance plan is closely monitored and adjusted according to the headcounts of the year.

Safety Training and Inspection

Employees should attend the training courses organised by the Group on occupational safety and environmental control. Emergency and evacuation procedures have been established for the employees to respond to major safety accidents timely and orderly. The safety officer conducts regular safety training for the Group's employees and workers arranged by subcontractors to ensure their competency to perform specifically assigned tasks and that a proper training record is kept. Employees are also free to provide feedbacks on improving workplace safety.

No work-related fatalities happened during the past 3 consecutive years:

Indicators	**Unit**	**2023**	2022	2021
Fatalities due to work	Cases	**0**	0	0

Indicators	**Unit**	**2023**
Lost days due to work injury	Days	7

COVID-19 Pandemic Preventive Measures

In response to the outbreak of the COVID-19 pandemic, the Group has taken proactive measures to safeguard the health and safety of its employees and business partners and has complied with public health measures implemented by the local authorities. The Group is highly conscious of the potential health and safety impacts brought to its staff and has taken preventive measures in our working environment. All employees are required to wear face masks at the office and check their body temperature before work every day. Besides, the Group has reminded our employees to maintain personal hygiene and report cases if they or their closely-related persons have been infected.

B3 Development and training

The Group recognises its staff as the most precious asset. Staff development and training contribute to the continuing success of the Group. The Group focuses on technological progress that improves the quality of papermaking equipment, has a leading technology and service team of engineers, with core competitiveness in research and development, design, manufacture, maintenance, and other aspects of integrated services. The Group firmly believes that the provision of training opportunities and continuous career development to its employees will strengthen the professional capabilities and growth of the employees and retains high-calibre talent, thereby providing a solid foundation for the Group's continuing success.

As said, the success and the sustainable growth of the Group heavily rely on our talent's knowledge of technology. During the Reporting Period, the Group won the enterprise listing of the 2022"Specialised and New Technology Small to Medium Size Enterprise in the Zhejiang Province" 浙江省"專精特新"中小企業名單 presented by the Zhejiang Provincial Department of Economy and Information Technology (浙江省經濟和信息化廳).

The Group also won the enterprise listing of the 2022 "National Specialised and New Technology Little Giant Enterprise" 國家級專精特新"小巨人"企業名單 presented by the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部).

These listings refer to an enterprise with the four characteristics of "specialisation, refinement, precision, and novelty". The listed enterprises are at the leading level in the domestic industry in terms of technology, market, quality, and efficiency, and have an advanced nature.

The Group provides a wide range of training to its employees. Induction training is provided to all newly recruited employees, while regular on-the-job training is provided to all employees of the Group. The Group also encourages its employees to attend external training. Training subsidies are provided to employees who attend training courses related to job requirements.

During the Reporting Period, the Group provided 2,630 hours of training to our employees. The table below shows the employee training data* breakdown by gender and employee category:

Indicators	**2023**	
	Training hours	%
Average hours of training per employee and percentage of employees who received training	18.01	63.76%
By Gender		
Male	18.82	60.00%
Female	15.56	65.09%
By employee category		
Senior management	42.00	100.00%
Middle management	42.00	100.00%
General staff	8.00	55.38%

* Employee training data includes employees that received training and left the Group during the Reporting Period.

B4 Labor standards

Prohibiting child labour and forced labour

The Group strictly prohibits the use of child labour and forced labour in our operations. Below measures have been taken to avoid these illegal employment practices.

Prevention of child labour	During the recruitment process, the human resources department will verify the applicant's identity documents and ensure that they have reached the minimum age for employment.
Prohibition of forced labour	The Group specifies overtime compensation provisions in the Employee Handbook. The Group carefully monitors the employee working time and working schedule to ensure they work voluntarily and freely.

During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations, that would have a significant impact on the Group including but not limited to the Labour Law of the PRC, and the Provisions on the Prohibition of Using Child Labour of the PRC, the Employment Ordinance of Hong Kong and the Employment of Children Regulations of Hong Kong.

B5 Supply chain management

As the Group provide turnkey projects for our clients, we have different sourcing needs including sourcing of automation equipment such as electric motor control, distributed control system, and drive control system, sourcing of intelligent equipment, IT system, ERP, and key parts for papermaking production line. The Group recognises supply chain management is vital to our business.

Supplier Management System

To ensure that our suppliers meet our customers' requirements for quality, service levels and environmental and safety standards, we have established a supplier evaluation system when selecting suppliers. The Group has established and maintained a list of qualified suppliers under this system. Approved lists will be assessed to ensure that suppliers' products are fully aware of quality, efficiency, and safety issues, and meet the Group and customer standards.

Green Sourcing

In view of green supply chain management, the Group strives to engage suppliers who incorporate the consideration of environmental and social risks into their supply chain management. The Group is aware of the environmental and social practices of the suppliers and tries to engage suppliers with responsible acts for society.

The Group is committed to selecting environmentally friendly products with competitive prices and good quality, to safeguard customer health and safety, prevent pollution and efficiently use natural resources.

The Group prioritises local suppliers and environmentally friendly products and services, hoping to reduce the carbon footprint caused by procurement via local procurement, while supporting local economic development and creating employment opportunities for local communities. In addition to environmental factors, the Group will also adopt measures to monitor whether its suppliers or contractors comply with relevant social laws and regulations or meet other standards in terms of health, safety, forced labour and child labour.

Supplier Distribution by Region

Location	No. of Suppliers
Hong Kong	0
China	599
Others	0

B6 Commitment to product responsibility

Achieving and maintaining high-quality standards for projects are of utmost importance for the sustainable growth of an enterprise. The Group closely monitors our work to ensure we deliver high-quality services to our customers with good satisfaction levels.

During the Reporting Period, the Group was not aware of any incidents of non-compliance with related laws and regulations concerning health and safety, advertising, labelling, and privacy matters relating to products and services provided that would have a significant impact on the Group. The relevant laws and regulations include but are not limited to the Advertising Law of the PRC, the Trade Descriptions Ordinance of Hong Kong and the Personal Data (Privacy) Ordinance of Hong Kong.

Quality Management

To ensure delivering excellent quality service to our clients, the Group has established a quality management system. The system cultivates and develops a sustainable performance-oriented culture to pursue continuous quality improvement.

The Group has acquired "Security Engineering, Enterprise Design, Construction and Maintenance Ability Certificate 安防工程企業設計施工維護能力證書" issued by the "China Security Products Industry Association 中國安全防範產品行業協會" and "CQC Products Quality Certificate" issued by the "China Quality Certification Centre 中國質量認證中心".

安防工程企业
设计施工维护能力证书

企业名称： 武汉市武控系统工程有限公司
注册地址： 湖北省武汉市汉南区汉南大道 607 号
能力等级： 壹 级
证书编号： ZAX-NP 01201742010030-01
有 效 期： 至 2023 年 03 月 12 日
首次颁证日期： 2017 年 03 月 13 日

2020年 月 日

中国安全防范产品行业协会

PRODUCT CERTIFICATE

CERTIFICATE NO.: CQC2013010301620307

NAME AND ADDRESS OF THE APPLICANT
Zhejiang Huazhang Technology Co. Ltd.
No. 1360 Zhenhua Road, WuTong Street, TongXiang City, Zhejiang Province, P.R.China

NAME AND ADDRESS OF THE MANUFACTURER
Zhejiang Huazhang Technology Co. Ltd.
No. 1360 Zhenhua Road, WuTong Street, TongXiang City, Zhejiang Province, P.R.China

NAME AND ADDRESS OF THE FACTORY
Zhejiang Huazhang Technology Co. Ltd. (V041557)
No. 1360 Zhenhua Road, WuTong Street, TongXiang City, Zhejiang Province, P.R.China

PRODUCT NAME, MODEL AND SPECIFICATION
Low-voltage Switchgear Assemblies
VPAK 主母线:InA=4000A～2500A,Icw=80kA;配电母线:Inc=1250A～400A,Icw=50kA;Ue=400V,Ui=690V;50Hz;IP30

THE STANDARDS AND TECHNICAL REQUIREMENTS FOR THE PRODUCTS
GB/T7251.12-2013

TYPE OF CERTIFICATION SCHEMES

This is to certify that the above mentioned product(s) complies with the requirements of certification rules of CQC11-462176-2018 .

Valid from: Mar.22,2020 Valid until: Jun.04,2023

The validity of the certificate is subject to positive result of the regular follow up inspection by issuing certification body until the expiry date.

President: Lu Mei

CHINA QUALITY CERTIFICATION CENTRE
Section 9,No.188,Nansihuan Xilu, Beijing 100070 P.R.China
http://www.cqc.com.cn

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During the Reporting Period, the Group was not aware of any cases where products sold or shipped were subject to recalls for safety and health reasons, and no major complaints about products and services were received.

Customer Service

Our engineers work closely with customers at all stages during our delivery of service. We maintain on-going communication with our customers through regular meetings as well as phone and email communications. Projects' progress and obstacles are discussed honestly and openly. During the Reporting Period, no products and service-related complaints were received.

Protection of Customer Information and Privacy

All confidential data relating to the Group's business and customer information are securely protected and only use for its specific purposes. Employees who have access to the tender and quotation information are required to sign a confidential agreement to better protect customer privacy. No complaints regarding leakage of data have been reported during the Reporting Period.

Protection of Intellectual Property Rights

Intellectual Property Rights promote innovation and creativity, helping society to increase its competitiveness and to improve the well-being of humans. The Group respects the Intellectual Property Rights and has formulated procedures and guidelines to ensure our operations at all levels will not violate and breach of any intellectual property rights.

Advertising and Labelling

As the Group's operational process does not involve advertising and labelling practices, the disclosure on information relating to advertising and labelling does not apply to the Group.

B7 Anti-corruption

The Group believes in fairness and honesty in conducting business. Fraudulent behaviours such as corruption, bribery and collusion are strictly prohibited. Employees should comply with the rules stated in the Staff Handbook in performing business activities, and they should report to the management if they suspect any professional misconduct. The Group has zero tolerance for any corruption-related cases. The Group has stringent internal control systems governing anti-corruption practices.

During the Reporting Period, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to bribery, extortion, fraud, and money laundering that would have a significant impact on the Group, including but not limited to the Criminal Law of the PRC, and the Company Law of the PRC, the Prevention of Bribery Ordinance of Hong Kong.

During the Reporting Period, there were no concluded legal cases regarding corrupt practices brought against the Group or its employees.

Whistle-blowing Mechanism

A Whistle-blowing Policy is set up to encourage and allow employees to raise concerns about possible improprieties in matters of financial reporting, compliance, and other malpractices at the earliest. Employees can raise concerns, in confidence, about possible improprieties such as misconduct and malpractice in any matter related to the Group. Complaints received will be handled in a prompt and fair manner. The policy aims at protecting the whistle-blowers from unfair dismissal, victimisation, and unwarranted disciplinary actions.

Anti-corruption Training

Anti-corruption-related trainings are conducted annually. During the Reporting Period, all directors have received online anti-corruption training. The awareness of anti-corruption of the Group has been enhanced.

B8 Community investment

Community investment is an essential part of the Group's strategic development. The Group is committed to emboldening and supporting the public by various means of social participation and contribution as part of our strategic development.

Our area of contribution is to focus on inspiring our employees' sense of social responsibility by encouraging them to participate in charitable activities during their work and spare time. The Group also believes participating in activities that repay society can increase our employees' civic awareness while establishing correct values. The Group embraces the human capital in social management strategies to sustain our corporate social responsibility as a part of the strategic development of the Group.

The board (the "Board") of directors (the "Directors") of Huazhang Technology Holding Limited (the "Company") hereby present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2023.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 35 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by segments is set out in Note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 30 June 2023 and the financial position of the Group as at that date are set out in the consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of financial position on pages 93 to 95 of this annual report.

DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2022 (2021: nil).

The Board does not recommend the payment of a final dividend for the year ended 30 June 2023 (2022: nil).

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 30 June 2023 and a discussion on the Group's future development, together with the analysis of the key financial performance indicators of the Group are set out in the section headed "Management Discussion and Analysis" on pages 11 to 23 of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in Note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 34 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

As at 30 June 2023, the Company's reserves available for distribution, calculated in accordance with the Companies Act, Cap.22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB252.1 million, comprising the Company's share premium, share option reserve, accumulated losses and translation reserve, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

BORROWINGS

Particulars of the Group's borrowings as at 30 June 2023 are set out in Notes 24 and 27 to the consolidated financial statements.

KEY RISKS AND UNCERTAINTIES

Details of the main financial risks faced by the Group and the Group's management objectives and policies regarding such risks are disclosed in Notes 3.1 to 3.2 to the consolidated financial statements. In addition to such financial risks, the Directors are of the view that demands on our products and services, fluctuations in costs of raw materials and difficulties in obtaining financing are also major principal risks and uncertainties that may affect the Group's business.

Demand for products and services

The demand for our industrial automation systems depends significantly on the level of installation, replacement and maintenance activities of the paper-making factories in the PRC, which in turn depends on the level of capital spending by such paper-making factories. However, there is no assurance that the fixed asset investment in relation to purchase of equipment in the paper-making industry in the PRC will continue to grow at the rate as we anticipate or that its growth will be steady in the future. Any decrease in the level of capital spending by the paper-making factories in the PRC may have a direct impact on the results of our operations.

Fluctuations in costs of raw materials

The prices at which we purchase our raw materials are based on prevailing market prices which are primarily affected by market supply and demand, the conditions of which may fluctuate from time to time. Fluctuations in the prices of raw materials consumed for the production of our industrial automation systems and sludge treatment products may have a direct impact on the results of our operations. Such price fluctuations may be due to various factors beyond our control, including global economic and market conditions and changes in the PRC government's policies.

Difficulties in obtaining financing

Our Group's ability to obtain bank financing or to access the capital markets for future offerings may be hindered by our Group's financial condition at the time of any such financing or offerings, as well as by adverse market conditions resulting from, among other things, general economic conditions, credit tightening policies, contingencies and uncertainties that are beyond our Group's control. Our Group's failure to obtain the necessary financing could impact our results of operations, financial condition and our ability to pay dividends.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities. If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 30 June 2023, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ENVIRONMENTAL PROTECTION

The environmental protection policy adopted by the Group is set out in the section headed "Environmental, Social and Governance Report" on pages 24 to 44 of this annual report.

RELATIONSHIP WITH OUR STAFF, CUSTOMERS AND SUPPLIERS

The Directors are of the view that our staff are one of the most valuable assets of our Group and have contributed to the success of the Group. Since the establishment of the Group, we have not experienced any disruption to its business operations as a result of labour disputes, nor has it experienced any material difficulty in recruiting or retaining experienced staff. The Directors believe that we have maintained a very good relationship with our staff.

Through the efforts of the sales and marketing team, the Group has established solid relationships with many of our long-term customers for periods ranging from three to seven years. During the year, most of our major customers were located in Mainland China. We continue to maintain such relationships by conducting periodic visits to understand the construction needs of our customers and learn about their new projects.

The Group is in good relationship with its suppliers. The procurement department maintains a list of qualified suppliers. The qualified suppliers are selected based on our internal control system to record and handle customer's complaint on product quality. If we receive any complaint on our product quality, staff in the sales department will record all the details and inform the responsible person of the relevant departments to investigate the reason for the product quality issue and design measures to rectify the issues and prevent the occurrence in the future. The measures will be passed to the management for approval and implementation. The procurement department is responsible to review and update the list of qualified suppliers annually.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") to allow shareholders of the Company (the "Shareholders") to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

Determination Mechanism

Subject to the approval of the Shareholders and requirement of the relevant laws, the Company shall pay annual dividends to the Shareholders if the Group is profitable, the market environment is stable and there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to our discretion, taking into consideration the criteria described below. The remaining net profits will be used for Group's development and operations. The Dividend Policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, financial position, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries and associates, as well as any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties.

Approval and Payment Procedures

Details of the approval and payment of dividends procedures have been set out in Articles 133 to 142 of the Company's articles of association (the "Articles") posted on the website of the Company.

Policy Review and Monitoring

The form, frequency and amount of dividend payment by the Company are subject to any restrictions under the Cayman Islands laws and the Company's Articles. The Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time, and this Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

ANNUAL GENERAL MEETING

The 2023 annual general meeting ("AGM") will be held on Thursday, 30 November 2023. 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 together with this annual report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 November 2023 (Monday) to 30 November 2023 (Thursday), 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 with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 24 November 2023 (Friday) for registration.

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company set out in the section headed "Share Option Scheme" in this report, no equity-linked agreements were entered into during the year ended 30 June 2023 or subsisted at the end of the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2023.

2021 PLACING OF NEW SHARES AND SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

On 2 March 2021, the Company and Dao He Investment Limited (the "Subscriber"), a company incorporated in the British Virgin Islands with limited liability, entered into a subscription agreement pursuant to which the Company has agreed to allot and issue, and the Subscriber has agreed to subscribe for, an aggregate of 153,846,153 ordinary shares as subscription shares (with a nominal value of HK$1,538,461.53) at the subscription price of HK$0.65 per subscription share, which was already approved at an extraordinary general meeting held on 28 April 2021. The subscription price of HK$0.65 per subscription share represented a discount of approximately 22.62% to the closing price of HK$0.84 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the subscription agreement. Taking into account the Company's expenses for the subscription, the net price was approximately HK$0.65 per share. On 29 April 2021, Mr. Fang Hui, the ultimate beneficial owner of the Subscriber, was appointed as executive director of the Company.

The net proceeds from the issue of the subscription shares were approximately HK$100 million. As disclosed in the Company's announcement dated 2 March 2021 and the circular dated 13 April 2021, the Company intended to utilise the proceeds from such subscription towards the costs of purchasing and leasing plants and machineries for the Dubai Recycling Project. Subsequently, as disclosed in the announcement of the Company dated 8 June 2021, such proceeds would temporarily be used as working capital to purchase waste material for processing and/or re-sale.

As at 30 June 2023, the Group has temporarily used the proceeds from the subscription of approximately HK$3.8 million as working capital to purchase waste material for processing and/or re-sale and the unused balance of approximately HK$96.2 million was currently placed into deposits and/or money market instruments, which will remain for potential acquisition of the Group in the future. The expected timeline for use of unutilised proceeds is based on the Group's best estimate of future market conditions, subject to current and future changes of market developments.

Details in relation to the subscription of new shares under specific mandate are disclosed in the announcements of the Company dated 2 March 2021, 28 April 2021, 10 May 2021 and 8 June 2021, and the circular of the Company dated 13 April 2021.

2022 PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 28 February 2022, the Group entered into a placing agreement (the "Placing Agreement") with First Fidelity Capital (International) Limited (the "Placing Agent"), pursuant to which the Group agreed to place, through the Placing Agent, up to an aggregate 177,348,000 new ordinary shares (the "Placing Share(s)") at the placing price of HK$0.53 per Placing Share (the "Placing"). The placing price of HK$0.53 per Placing Share represented a discount of approximately 17.19% over the closing price of HK$0.64 per share as quoted on the Stock Exchange on the date of the Placing Agreement. The net placing price was approximately HK$0.52 per Placing Share. The Board is of the view that the Placing represents an opportunity to improve the liquidity position of the Company and to reduce the financing costs of the Company.

On 11 March 2022, all 177,348,000 Placing Shares (with an aggregate nominal value of HK$1,773,480) have been successfully placed by the Placing Agent to not less than six placees who are third parties independent of the Company at the placing price of HK$0.53 per Placing Share. The net proceeds (after deduction of the placing commission, other related expenses and professional fees) from the Placing amounted to approximately HK$92.3 million which have been used for settlement of partial redemption of the Company's convertible bonds in July 2022.

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 30 June 2023 represented approximately 18.6% (30 June 2022: 18.4%) and approximately 47.3% (30 June 2022: 40.3%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 30 June 2023 represented approximately 14.4% (30 June 2022: 11.3%) and approximately 29.9% (30 June 2022: 30.5%), respectively, of the Group's total purchases.

Save as disclosed elsewhere in this annual report, none of the Directors or their respective associates or, so far as the Directors are aware, any shareholder who owns more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers and suppliers during the year.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Chen Hongwei
Mr. Fang Hui
Mr. Wang Ai Yan (Chief Executive Officer) (resigned on 1 December 2022)

Non-Executive Director

Mr. Shi Chenghu

Independent Non-Executive Directors

Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 7 to 10 of this annual report.

In accordance with the Articles, Mr. Fang Hui and Mr. Yao Yang Yang will retire and, being eligible, offer themselves for re-election at the 2023 AGM.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 30 June 2023.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Mr. Fang Hui has entered into a letter of appointment and a service contract with the Company for an initial term of three years commencing from 29 April 2021 and the appointment has been extended for a further term of three years commencing on 29 April 2024 and ending on 28 April 2027. Mr. Chen Hongwei has entered into a service contract with the Company for an initial term of three years commencing from 1 April 2022 and can be extended in accordance with the terms of the service contract.

Non-executive Director

Mr. Shi Chenghu has entered into a letter of appointment with the Company for an initial term of three years commencing from 27 April 2021 and can be extended in accordance with the terms of the letter of appointment.

Independent non-executive Directors

Mr. Heng, Keith Kai Neng has entered into a service contract with the Company for an initial term of three years commencing from 2 January 2019 to 1 January 2022 and he has entered into a new letter of appointment with the Company for a term of three years commencing from 2 January 2022. Mr. Yao Yang Yang has entered into a letter of appointment with the Company for an initial term of three years commencing from 31 March 2021, and can be extended in accordance with the terms of the letter of appointment. Ms. Zhang Dong Fang has entered into a letter of appointment with the Company commencing from 7 December 2021 to 30 June 2024 and can be extended in accordance with the terms of the letter of appointment.

Other than as disclosed above, no Director proposed for re-election at the 2023 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, or its parent company was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

On 8 June 2021, Huazhang Environmental Resources Investment Limited ("Environmental Resources"), an indirect wholly-owned subsidiary of the Company entered into a master sales agreement with Taizhou Hengshengtianyue Metal Co., Ltd.*（台州恒晟天悦金屬有限公司）(the "Customer") in relation to the provision of metal scraps by Environmental Resources from time to time (the "Master Sales Agreement") for a term of approximately 12 months, which expired on 30 June 2022. On 13 May 2022, the Master Sales Agreement has been renewed for a term of one year commencing on 1 July 2022 and ended on 30 June 2023. The Customer is owned as to 51% by Ms. Fang Aiping and 49% by Mr. Fang Anlin. As Ms. Fang Aiping and Mr. Fang Anlin are respectively an aunt and an uncle of Mr. Fang Hui, an executive Director and a substantial shareholder of the Company, the Customer is a connected person of the Company under the Listing Rules and the transactions contemplated under the Master Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

* *For identification purpose only.*

The Customer is an established trader of metal scraps in the PRC which holds a AQSIQ permit which the Group currently lacks. AQSIQ permit is needed by the Group to export metal scraps into the PRC. The agreement would allow the Group to sell metal scraps to the Customer in the same way the Group is able to sell to non-connected persons of the Company.

During the year, the Group entered into certain transactions with the Customer, as follows:

Nature of transactions	Amount RMB
Sales of metal scraps	6,248,259

For the year ended 30 June 2023, the total amount of fees payable by the Customer and/or its subsidiaries to Environmental Resources for the metal scraps under the Master Sales Agreement amounted to approximately HK$7.0 million, which was within the annual cap of HK$24 million for the same period.

Save as disclosed herein, there were no transactions required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The continuing connected transactions have been subject to annual review by the independent non-executive Directors of the Company pursuant to Rule 14A.55 of the Listing Rules and confirmation of the auditor of the Company pursuant to Rule 14A.56 of the Listing Rules.

In respect of the financial year ended 30 June 2023, the independent non-executive Directors of the Company have concluded that the continuing connected transactions have been entered into:

- in the ordinary and usual course of business of the Company;

- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board has engaged the auditor of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditor has issued a confirmation letter to the Board in accordance with Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions for year ended 30 June 2023 disclosed above:

1. nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's Board.

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group.

3. nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions.

4. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

MANAGEMENT CONTRACTS

Save as disclosed elsewhere in this annual report, no contracts, other than service and/or employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

No contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries were made during the year.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, there were no transactions, arrangements or contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at 30 June 2023 or at any time during the year ended 30 June 2023.

CHANGES IN DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

After having made all reasonable enquiry, the Company is not aware of any information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the six months ended 31 December 2022 and up to the date of this report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are provided under Note 33 to the consolidated financial statements, and save as disclosed in the section headed "Continuing Connected Transactions" in this report which have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules, none of which constitutes a discloseable connected transaction or continuing connected transaction as defined under the Listing Rules.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Directors of the Company and five highest paid employees are set out in Notes 36 and 11(a), respectively, to the consolidated financial statements.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure of the remuneration for the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The Group remunerates its employees based on their performance, experience and prevailing market rate. The remunerations of the Directors are determined with reference to the economic situations, market conditions, responsibilities and duties assumed by each Director as well as their individual performance.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of which are set out in the paragraph headed "Share Option Scheme" below.

A Mandatory Provident Fund Scheme (the "MPF Scheme") has been set up for employees in Hong Kong, in accordance with the Mandatory Provident Fund Ordinance. All employees in Hong Kong are required to join the MPF Scheme and the employees and their employer are each required to contribute 5% of their gross earnings with a current ceiling of HK$1,500 per person per month to the MPF Scheme. The only obligation of the Group with respect to the MPF Scheme is to make required contribution under the scheme. No forfeited contribution is available to reduce the contribution payable in the future. The contribution charged to the statement of profit or loss represents the contribution payable by the Group.

Employees of the Company's subsidiaries in the PRC are required to participate in defined contribution retirement schemes operated by local municipal governments. Contributions are made to the schemes according to a certain percentage to the applicable employee payroll.

Details of the retirement benefit schemes of the Group are set out in Note 2.22 to the consolidated financial statements.

COMPETING INTERESTS

For the year ended 30 June 2023, the Directors are not aware of any business or interest of the Directors, the substantial shareholders of the Company or any of their respective associates had engaged in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests which any such person has or may have with the Company.

SHARE OPTION SCHEME

A new share option scheme of the Company (the "New Share Option Scheme") was approved and adopted by the shareholders of the Company at its extraordinary general meeting held on 10 February 2022 (the "Adoption Date") in replacement of the share option scheme adopted on 6 May 2013 and effective on 16 May 2013 (the "2013 Share Option Scheme") and that no further options of the Company shall be offered or granted under the 2013 Share Option Scheme. As at 30 June 2023, no share options remained outstanding under the 2013 Share Option Scheme.

New Share Option Scheme

The principal terms of the New Share Option Scheme are summarised as below:

1. **Purpose**

   The purpose of the New Share Option Scheme is to enable the Company to grant options to eligible persons as incentives or rewards for their contributions to the Group.

2. **Participants**

   The Board may, at its discretion, invite any full-time or part-time employee of the Company or any member of the Group, including any executive Director, non-executive Director, or independent non-executive Director to take up option(s).

3. **Total number of shares available for issue under the New Share Option Scheme**

   The maximum number of shares which may be issued upon the exercise of all options to be granted under the New Share Option Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Adoption Date which was 88,674,137 shares. The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the New Share Option Scheme is 85,814,137 shares, representing 8.06% of the issued shares of the Company (i.e. 1,064,089,378 shares) as at the date of this annual report.

4. **Maximum entitlement of each participant**

   The total number of shares issued and to be issued upon exercise of options granted to a participant under the New Share Option Scheme (including both exercise and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time.

5. **Period within which the shares must be taken up under an option**

   An option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period to be determined and notified by the Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option subject to the achievement of performance target and/or any other conditions to be notified by the Board to each participant, which the Board may in its absolute discretion determine. Despite the terms of the New Share Option Scheme, any grant of share options by the Company will comply with the Listing Rules from time to time.

6. **Time of acceptance and the amount payable on acceptance of the option**

The option will be offered for acceptance for a period of 28 days from the date on which the option is offered. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

7. **Basis of determining the subscription price**

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a day on which trading of the Company's shares takes place on the Stock Exchange (the "Trading Date"); (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the date of grant of the options.

8. **Life of the New Share Option Scheme**

The New Share Option Scheme became valid and effective for a period of ten years commencing on the Adoption Date subject to the early termination by passing an ordinary resolution in general meeting. After such period no further options may be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in all other respects and options granted during the life of the New Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

Under the New Share Option Scheme, 85,940,000 share options (the "Share Options") at an exercise price of HK$0.51 per Share were granted on 31 May 2022 (the "Date of Grant"). Out of these 85,940,000 Share Options, 50,000,000 Share Options were proposed to be granted to Mr. Fang Hui (the "Proposed Grant") which was conditional and subject to the approval of the independent shareholders at an extraordinary general meeting of the Company. On 23 August 2022, the Board had resolved not to proceed with the conditional grant of Share Options to Mr. Fang Hui to subscribe for up to an aggregate of 50,000,000 Shares which decision was consented by Mr. Fang Hui. As a result, the Proposed Grant had not become unconditional and the conditional offer of 50,000,000 Share Options (at the exercise price of HK$0.51 per Share) were cancelled. No Share Options were granted to Mr. Fang Hui under the New Share Option Scheme.

During the year ended 30 June 2023, no Share Options were granted and exercised. As at 30 June 2023, the total number of ordinary shares in respect of which Share Options had been granted and remained outstanding under the New Share Option Scheme was 34,410,000 (representing approximately 3.23% of the Company's Shares in issue as at 30 June 2023). The exercise price of the Share Options granted under the New Share Option Scheme is HK$0.51 per share. The number of Share Options available for grant under the New Share Option Scheme as at 1 July 2022 and 30 June 2023 was 2,734,137 and 52,734,137, respectively.

The principal terms of the New Share Option Scheme and details of the grant of Share Options are set out in the circular of the Company dated 21 January 2022 and the announcement of the Company dated 31 May 2022.

Particulars of the movement of the share options held by the Directors and employees of the Group during the year ended 30 June 2023 were as follows:

				Number of share options					
Name or category of participants	**Date of Grant** (Notes c)	**Exercise price**	**Vesting & exercise period**	**At 1 July 2022**	**Granted during the year**	**Exercised during the year**	**Lapsed/ expired during the year**	**Cancelled/ forfeited during the year**	**At 30 June 2023**
Directors									
Mr. Chen Hongwei	31 May 2022	HK$0.51	Note c	500,000	–	–	–	–	500,000
Mr. Fang Hui (Note a)	31 May 2022	HK$0.51	Note c	50,000,000	–	–	–	(50,000,000)	–
Mr. Shi Chenghu	31 May 2022	HK$0.51	Note c	1,000,000	–	–	–	–	1,000,000
Mr. Heng, Keith Kai Neng	31 May 2022	HK$0.51	Note c	300,000	–	–	–	–	300,000
Mr. Yao Yang Yang	31 May 2022	HK$0.51	Note c	300,000	–	–	–	–	300,000
Ms. Zhang Dong Fang	31 May 2022	HK$0.51	Note c	300,000	–	–	–	–	300,000
Other Employees	31 May 2022	HK$0.51	Note c	32,540,000	–	–	(1,530,000)	–	31,010,000
Mr. Wang Ai Yan (Note b)	31 May 2022	HK$0.51	Note c	1,000,000	–	–	–	–	1,000,000
In aggregate				85,940,000	–	–	(1,530,000)	(50,000,000)	34,410,000

Notes:

(a) On 23 August 2022, the Board had resolved not to proceed with the conditional grant of Share Options to Mr. Fang Hui to subscribe for up to an aggregate of 50,000,000 Shares which decision was consented by Mr. Fang Hui. As a result, the Proposed Grant of 50,000,000 Share Options to Mr. Fang Hui did not become unconditional and no Share Options were granted to Mr. Fang Hui under the New Share Option Scheme.

(b) Being an ex-executive Director (resigned on 1 December 2022) of the Company.

(c) The validity period of the Share Options granted on 31 May 2022 is from 31 May 2022 to 30 May 2032.

The Share Options granted on 31 May 2022 shall be vested and are exercisable in the following manners:

(i) 30% of the Share Options may be exercisable at any time commencing from the Date of Grant up to 30 May 2032;

(ii) 30% of the Share Options and the first 30% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2023 up to 30 May 2032; and

(iii) the remaining 40% of the Share Options and the first 60% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2024 up to 30 May 2032.

The closing price of the Company's shares immediately before the date on which the Share Options were granted was HK$0.49 per share.

(d) The aggregate number of options already granted to the five highest paid individuals (including no director and five employees) during the financial year is 1,220,000 Share Options.

If all such Share Options were exercised, there would be a dilution effect on the shareholdings of Shareholders of approximately 3.13% as at 30 June 2023.

The estimated value of the Share Options granted under the New Share Option Scheme, calculated using the binomial lattice model, as at the Date of Grant of the Share Options was approximately HK$9,034,000.

The binomial lattice model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the Share Options were risk-free rate of interest, dividend yield, volatility and early exercise multiple. The measurement date used in the valuation calculations was the date on which the options were granted.

Share price (HK$)	0.51
Exercise price (HK$)	0.51
Expected volatility (%)	70.1
Expected dividend yield (%)	0.0
Risk-free interest rate (%)	2.8

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

The fair value calculated for the Share Options is inherently subjective due to the assumptions made and the limitations of the model utilised.

The Group recognised the share-based compensation benefits of approximately RMB3,718,575 (2022: RMB2,264,882) for the year ended 30 June 2023 in relation to share options granted by the Company under the New Share Option Scheme.

LEGAL PROCEEDINGS

Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly owned subsidiary of the Company, received a first instance judgment (the "Judgement") dated 24 December 2021 handed down by the Intermediate People's Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the "Court") in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. Zhejiang Huazhang had lodged an appeal application (the "Appeal Application") with the Higher People's Court of Yunnan Province (雲南省高級人民法院) (the "Appeal Court") against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the Judgement and the legal proceedings in question be retried at the Court. The Judgment has been set aside and will not be enforced, but the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts will remain in full force as ordered thereunder. The management expects the amount would become unrestricted within 12 months. Details of the legal proceedings were set out in the Company's announcements dated 21 January 2022 and 9 September 2022.

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

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 June 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 9 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") required to be notified to the Company and the Stock Exchange, are as follows:

Long positions in the Shares and/or underlying Shares

Name of directors	Capacity/Nature of interest	Number of Shares and/or underlying Shares held	Approximate percentage of shareholdings*
Mr. Chen Hongwei	Beneficial owner	182,000	0.02%
	Beneficial owner	500,000 (Note 1)	0.05%
Mr. Fang Hui	Interest of a controlled corporation	153,846,153 (Note 2)	14.46%
	Beneficial owner	7,440,000	0.70%
Mr. Shi Chenghu	Beneficial owner	89,452,000	8.41%
	Beneficial owner	1,000,000 (Note 1)	0.09%
Mr. Heng, Keith Kai Neng	Beneficial owner	300,000 (Note 1)	0.03%
Mr. Yao Yang Yang	Beneficial owner	300,000 (Note 1)	0.03%
Ms. Zhang Dong Fang	Beneficial owner	300,000 (Note 1)	0.03%

Notes:

1. These are interests in underlying Shares which represent the interests in share options granted to the respective Director by the Company under the New Share Option Scheme. Details of which are shown in the section headed "Share Option Scheme" of this report.

2. The 153,846,153 Shares are registered in the name of Dao He Investment Limited ("Dao He"), a company beneficially owned by Mr. Fang Hui ("Mr. Fang"). Under the SFO, Mr. Fang is deemed to be interested in all the Shares held by Dao He.

* The percentage has been calculated based on the total number of shares of the Company in issue as at 30 June 2023 (i.e. 1,064,089,378 Shares) and rounded to two decimal places.

Save as disclosed above, as at 30 June 2023, none of the Directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 June 2023, so far as the Directors are aware, persons/corporations (other than the Directors and the chief executive of the Company) which had interests and short positions in the shares and underlying shares of the Company or its associated corporations which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group are as follows:

Long positions in the Shares and/or underlying Shares

Name of substantial shareholders	Capacity/Nature of interest	Number of Shares and/or underlying Shares held	Approximate percentage of shareholdings*
Dao He Investment Limited	Beneficial owner	153,846,153 (Note 1)	14.46%
Mr. Li Chao Wang	Interest of a controlled corporation	59,817,294 (Note 2)	5.62%
Rosy Ease Limited	Interest of a controlled corporation	59,817,294 (Note 2)	5.62%
Swift Fortune Holdings Limited	Beneficial owner	59,817,294 (Note 2)	5.62%
Gain Channel Limited	Interest of a controlled corporation	59,817,294 (Note 2)	5.62%
Ms. Song Min	Interest of spouse	59,817,294 (Note 3)	5.62%
Wealthy Land Investments Group Limited	Having a security interest in shares	123,964,000	11.65%
	Beneficial owner	230,326,400	21.65%
Mr. Yeung Wai	Interest of a controlled corporation	354,290,400 (Note 4)	33.30%
Mr. Yeung Yun Chuen	Interest of a controlled corporation	354,290,400 (Note 4)	33.30%
Kaiser Financing Company Limited	Beneficial owner	57,581,600 (Note 5)	5.41%
Mr. Yan Kam Cheong	Interest of a controlled corporation	57,581,600 (Note 5)	5.41%

Notes:

1. The shares are registered in the name of Dao He, a company beneficially owned by Mr. Fang.

2. Swift Fortune Holdings Limited is wholly owned by Rosy Ease Limited, a wholly-owned subsidiary of Gain Channel Limited, which is, in turn, owned as to 74.21% by Mr. Li Chao Wang ("Mr. Li"). Under the SFO, Mr. Li is deemed to be interested in the 59,817,294 Shares held by Swift Fortune Holdings Limited.

3. Ms. Song Min is the spouse of Mr. Li and is deemed to be interested in the Shares which are interested in by Mr. Li under the SFO.

4. Wealthy Land Investments Group Limited ("Wealthy Land") is owned as to 42.00% by Mr. Yeung Wai and as to 36.00% by Mr. Yeung Yun Chuen. Under the SFO, Mr. Yeung Wai and Mr. Yeung Yun Chuen are deemed to be interested in all the Shares held by Wealthy Land.

5. The 57,581,600 Shares are registered in the name of Kaiser Financing Company Limited ("Kaiser"), a company wholly-owned by Mr. Yan Kam Cheong. Under the SFO, Mr. Yan Kam Cheong is deemed to be interested in the Shares held by Kaiser.

* The percentage has been calculated based on the total number of shares of the Company in issue as at 30 June 2023 (i.e. 1,064,089,378 Shares) and rounded to two decimal places.

Save as disclosed above, as at 30 June 2023, the Directors are not aware of any interests or short positions owned by any persons/corporations (other than the Directors and the chief executive of the Company) in the shares or underlying shares of the Company or its associated corporations which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the year ended 30 June 2023 was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

AUDIT COMMITTEE

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

The Audit Committee 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 2023.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing Rules.

PERMITTED INDEMNITY PROVISION

During the financial year and up to the date of this report, a permitted indemnity provision being in force for the benefit of the directors of the Company is in the Articles. The Articles is available on the website of the Stock Exchange.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, the Group had no material events after the reporting period.

KEY FINDINGS OF INDEPENDENT FORENSIC ACCOUNTING REVIEW

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, namely (i) Tongxiang Jiafu Paper Equipment Co., Ltd. ("Jiafu Paper"), (ii) Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric") and (iii) Zhejiang Huazhang Fibertech Co., Ltd. ("Fibertech") (collectively, the "Subject Companies"), 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 RSM Corporate Advisory (Hong Kong) Limited as the independent forensic accountant ("Independent Forensic Accountant") to conduct independent forensic accounting review on the Subject Transactions which took place during the period from 1 July 2019 to 30 June 2022 (the "First Forensic Review").

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 Xintaisheng Paper Industry Co., Ltd. ("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 transactions (the "Baoshan Paper Transactions") entered into between the Group and Baoshan Paper up to 30 June 2022, the Independent Forensic Accountant was engaged to conduct a forensic accounting review on such transactions (the "Extended Forensic Review").

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 Zhonghui Anda Risk Services Limited (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 Gen Rong ("Mr. Zhu") as the chairman of the board of Zhejiang Huazhang in December 2021, all transactions or funding arrangements between Zhejiang Huazhang and the Subject Companies 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 "Risk Management and Internal Control Systems" in the Corporate Governance Report set out in this annual report.

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 Lingyun (being the legal representative of Baoshan Paper and the financial controller of Zhejiang Huazhang during the period when the Baoshan Paper Transactions were entered into by the Group) and file claims against the Subject Companies. 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.

AUDITORS

PricewaterhouseCoopers resigned as the auditor of the Company on 18 July 2022 and Zhonghui Anda CPA Limited ("Zhonghui Anda") was appointed as the auditor of the Company with effect from 18 July 2022. Zhonghui Anda resigned as the auditor of the Company on 19 October 2022 and KTC Partners CPA Limited has been appointed as the new auditor of the Company with effect from 19 October 2022 to fill the casual vacancy following the resignation of Zhonghui Anda. Details of the change of auditor of the Company are set out in the announcements of the Company dated 18 July 2022 and 19 October 2022.

The auditor of the Company, KTC Partners CPA Limited, will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming AGM. The consolidated financial statements for the year ended 30 June 2023 have been audited by KTC Partners CPA Limited.

QUALIFIED OPINION SET OUT IN THE INDEPENDENT AUDITOR'S REPORT FOR YEAR ENDED 30 JUNE 2023

KTC Partners CPA Limited (the "Auditor"), the independent auditor of the Company, stated in the independent auditor's report (the "Independent Auditor's Report") set out in this annual report that as described in the auditor's report on the consolidated financial statements of the Group for the year ended 30 June 2022 ("2022 Financial Statements") and as disclosed in Note 7(i) to the consolidated financial statements, during the first half of 2022, when reviewing the balances of the long outstanding receivables of Zhejiang Huazhang, a wholly-owned subsidiary of the Company, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang and the three companies which are not subsidiaries of the Company during the period from 1 July 2019 to 30 June 2022 (the "Subject Transactions"). The three companies were Tongxiang Jiafu Paper Equipment Co., Ltd. ("Jiafu Paper"), Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric") and Zhejiang Huazhang Fibertech Co., Ltd. ("Fibertech") (collectively, the "Subject Companies"). In response to the discovery of the Subject Transactions, on 5 August 2022, the Company established the IIC, comprising all the independent non-executive directors of the Company. The IIC engaged an Independent Forensic Accountant to conduct an independent forensic accounting review of the Subject Transactions.

The Independent Forensic Accountant issued its forensic accounting review report on 26 October 2022 (the "Forensic Report"). After review of the Forensic Report, the total amount due from the Subject Companies amounted to RMB95,772,971.

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

As disclosed in Note 21(i) and 33(c)(ii) to the consolidated financial statements, as of 30 June 2022, the gross carrying amount of the amounts due from Jiafu Paper was RMB39,541,029 and the total gross carrying amount of the trade and other receivables due from Yuxin Electric and Fibertech as of 30 June 2022 was RMB56,231,942.

As disclosed in Note 7(i) to the consolidated financial statements, the directors of the Company were of the view that the amounts due from the Subject Companies cannot be recovered, and the Group recognised provisions for impairment losses of the amount due from the Subject Companies amounted to RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022 (the "Provisions").

As stated in the Forensic Report, the findings of the forensic accounting review were subject to certain limitations. As a result, the Independent Forensic Accountant was unable to ascertain or clarify the rationale of the Subject Transactions.

Under the circumstances described above, the Auditor has not been able to obtain sufficient appropriate audit evidence to carry out audit procedures to satisfy themselves as to the validity of the Subject Transactions, whether the amounts due from the Subject Companies as of 30 June 2022 and the Provisions and their related disclosures have been accurately recorded and properly accounted for in the consolidated financial statements. There were no alternative audit procedures that the Auditor could perform to obtain sufficient and appropriate evidence to satisfy themselves about the validity of the Subject Transactions and the amounts due from the Subject Companies as of 30 June 2022 are fairly stated. Any adjustment that might have been found necessary would have a consequential effect on the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows and the disclosures in the notes to the consolidated financial statements. Their audit opinion on the 2022 Financial Statements was modified accordingly. Their opinion on the current year's consolidated financial statements is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

Except for the possible effects on the corresponding figures of the matters described above, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Please refer to the section headed "Basis for qualified opinion" in the Independent Auditor's Report set out in this annual report for details.

The Board and the Audit Committee agreed with the views of the management and the Auditor regarding the Qualifications on the 2022 Financial Statements and the possible effect on comparability of the current year's figures and the corresponding figures for the preceding financial year. There is no disagreement by the Board, the management nor the Audit Committee with the position taken by the Auditor regarding the qualified opinion.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in its shares on the Stock Exchange had been suspended with effect from 9:00 a.m. on 3 October 2022 and would remain suspended until the Company fulfilled the resumption guidance as disclosed in its announcement dated 28 November 2022. The Group fulfilled all the conditions of the resumption guidance of the Stock Exchange as scheduled and officially resumed trading on 10 August 2023. For further details of the fulfilment of the resumption guidance, please refer to the announcement of the Company dated 9 August 2023.

On behalf of the Board
Fang Hui
Executive Director

Hong Kong
27 September 2023

Corporate Governance Report

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.

CORPORATE CULTURE

A positive corporate culture set up by the Company, including integrity and accountability, is vital for the Company to achieve its vision and mission towards sustainable growth. The Company's corporate culture instils all levels of the Group. The Group delivers responsible products and services to our customers in a fair and good manner. We also foster an inclusive and supportive working environment and implement a framework to maintain good governance and effective risk management systems.

The Board reported that the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Part 2 of Appendix 14 to the Listing Rules for the year ended 30 June 2023, except the following deviations:

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Following the removal of Mr. Zhu Gen Rong as an executive Director and the chairman of the Company on 10 February 2022 and the resignation of Mr. Wang Ai Yan as an executive Director and the Chief Executive Officer (the "CEO") of the Company on 1 December 2022, the Company has not appointed an individual to take up the vacancy of the Chairman and the CEO, respectively, and the role and function of the Chairman and the CEO have been performed by all the executive Directors collectively.

Under code provision C.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors. Such meeting was not held due to the current vacancy of the chairman of the Company.

Under code provision C.2 of the CG Code, there are certain roles and responsibilities to be carried out by the chairman of the Company. Due to the vacancy of the chairman of the Company, such roles are delegated to the executive Directors except the roles and responsibilities as stated in code provision C.2.7 of the CG Code.

Under code provision F.2.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company and invite the chairman of the Board committees to attend. However, due to the current vacancy of the chairman of the Company, no person as chairman of the Company had attended the annual general meeting held on 30 December 2022.

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 2023 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. The Board should ensure that changes to its composition can be managed without undue disruption. The Board should include a balanced composition of executive directors and independent non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment. As of the date of this annual report, the composition of the Board is as follows:

Executive Directors

Mr. Chen Hongwei
Mr. Fang Hui
Mr. Wang Ai Yan (Chief Executive Officer) (resigned with effect from 1 December 2022)

Non-Executive Director

Mr. Shi Chenghu

Independent Non-Executive Directors

Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

An updated list of Directors and their role and functions is maintained at the websites of the Company and the Stock Exchange and the independent non-executive Directors are identified by name in all corporate communications.

Each independent non-executive Director has given an annual confirmation of his/her independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the independent non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the Listing Rules and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

Corporate Governance Report

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the risk management and internal control systems; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

Apart from the Audit Committee, Remuneration Committee and Nomination Committee (as defined below), the Company did not set up any other board committees for dealing with any matters during the year.

An Independent Investigation Committee comprising the three independent non-executive directors has been established in August 2022, among others, to conduct internal review and inquiry into accounts, documents, records and affairs of the Group in relation to the Subject Transactions. Details of which are disclosed in the Directors' Report contained in this annual report.

The Company has in force appropriate insurance coverage on Director's and Officer's liabilities arising from the Group's business. The Company reviews the extent of insurance coverage on an annual basis.

ATTENDANCE OF BOARD MEETINGS AND PROFESSIONAL DEVELOPMENT

During the year, the Board convened 10 meetings having considered the business development, the financial and operating performance of the Group. At least 14 days' notice of regular Board meetings would be given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers would be sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents. The chairman of the Board meetings would also ensure that all directors are properly briefed on matters arising at board meetings. During the year ended 30 June 2023, apart from holding Board meetings, the Board also passed resolutions in writing to approve certain matters.

Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes. The duly signed minutes are open for inspection by any director. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. The Board members are enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to discharge their duties. They are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. Directors also participate in continuous professional development programmes such as external seminars organized by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. Records of the training provided by the respective Directors are kept and updated by the company secretary of the Company.

All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

The annual general meeting and the adjourned annual general meeting of the Company were held on 30 December 2022 and 7 March 2023, respectively. All Directors attended the annual general meeting and the adjourned annual general meeting. No extraordinary general meeting was held during the year ended 30 June 2023. Directors' attendance at meetings of the Board and general meetings and their participation in continuous professional development during the year ended 30 June 2023 are set out in the table below:

Name of Directors	Meeting of the Board of Directors Attended/Entitled to attend	Annual general meeting Attended/Held	Participation in continuous professional development
Mr. Chen Hongwei	10/10	2/2	✓
Mr. Fang Hui	10/10	2/2	✓
Mr. Wang Ai Yan (Chief Executive Officer) (Note 1)	6/6	N/A (Note 2)	N/A
Mr. Shi Chenghu	10/10	2/2	✓
Mr. Heng, Keith Kai Neng	10/10	2/2	✓
Mr. Yao Yang Yang	10/10	2/2	✓
Ms. Zhang Dong Fang	10/10	2/2	✓

Notes:

1. Resigned with effect from 1 December 2022.

2. The general meeting was held during which the respective Director had been resigned or not yet been appointed.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. This corporate governance report has been reviewed by the Board in discharge of its corporate governance functions in compliance with the Code Provision A.2 of the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhu Gen Rong is the former chairman of the Company who was removed from the Board on 10 February 2022. The chairman's responsibility is to oversee the functioning of the Board and the strategies and policies of the Group. Following the removal of Mr. Zhu Gen Rong as an executive Director and the chairman of the Company on 10 February 2022, the Company has not appointed an individual to take up the vacancy of the Chairman.

Mr. Wang Ai Yan was the former CEO of the Company who resigned from the Board on 1 December 2022. The CEO's responsibility is to monitor the daily operation and management of the Company. Following the resignation of Mr. Wang Ai Yan as an executive Director and the CEO of the Company on 1 December 2022, the Company has not appointed an individual to take up the vacancy of the CEO.

The Company is in the process of identifying a suitable candidate to assume the role as Chairman and the CEO and further announcement in this regard will be made as and when appropriate. In the meantime, the former roles and responsibilities of the Chairman and the CEO of the Company have been performed by all the executive Directors collectively.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "Articles") provide that at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and that every director shall be subject to retirement by rotation at least once every 3 years.

The non-executive Director and independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his/her independence and must provide an annual confirmation of his/her independence to the Company.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors namely, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang. Mr. Heng, Keith Kai Neng is currently the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee are available at the websites of the Company and of the Stock Exchange.

The major roles and functions of the Audit Committee are to review and supervise the financial reporting process, financial controls, internal control and risk management system of the Company and to provide recommendations and advices to the Board on the appointment, re-appointment and removal of the external auditor as well as their terms of appointment.

In performing its duties in accordance with its terms of reference, the work to be performed by the Audit Committee includes:

(a) review and supervise the financial reporting process, risk management, financial controls and internal control systems of the Company and its subsidiaries;

(b) recommendation to the Board, for the approval by shareholders, of the re-appointment of external auditor and approval of their remuneration;

(c) determination of the nature and scope of the audit; and

(d) review the financial statements for the relevant financial period and discuss corporate governance practice.

Draft and final versions of the minutes of the Audit Committee meetings will be sent to all committee members for their comment and records within a reasonable time after the meetings and the full minutes will be kept by the company secretary who is also the secretary of the Audit Committee.

The Audit Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

During the year, the Audit Committee reviewed the final and interim results of the Group as well as discussed with the management and the external auditor and independent consultant about the accounting principles and policies adopted by the Group and discussed risk management internal controls and financial reporting matters at the relevant meeting and recorded unanimous decisions for the year ended 30 June 2023. In addition, the Audit Committee has reviewed external auditor's remuneration.

Eight Audit Committee meetings were held during the year ended 30 June 2023. Members of the Audit Committee and the attendance of each member are set out below:

Audit Committee members	**Attended/Entitled to attend**
Mr. Heng, Keith Kai Neng (Chairman)	8/8
Mr. Yao Yang Yang	8/8
Ms. Zhang Dong Fang	8/8

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors. Mr. Heng, Keith Kai Neng is currently the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the websites of the Company and of the Stock Exchange.

The roles and functions of the Remuneration Committee include consulting the Chairman of the Board (currently all the executive Directors collectively due to vacancy of the Chairman) about their remuneration proposals for other executive directors, having the delegated responsibility to determine the specific remuneration packages of all executive directors of the Group and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of the non-executive Directors. No director or any of his/her associates was involved in deciding his/her own remuneration.

The Remuneration Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

During the year, the Remuneration Committee held one meeting. The Remuneration committee has reviewed and approved the remuneration package of the executive Directors. Details of the directors' emoluments are set out in Note 36 to the audited consolidated financial statements contained in this annual report.

Members of the Remuneration Committee and the attendance of each member are set out below:

Remuneration Committee members	**Attended/Entitled to attend**
Mr. Heng, Keith Kai Neng (Chairman)	1/1
Mr. Yao Yang Yang	1/1
Ms. Zhang Dong Fang	1/1

The remuneration of the members of the senior management (other than Directors) by band for the year ended 30 June 2023 is set out below:

HK$	**Number of members of senior management**
500,000 to 1,000,000	1

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors and an executive Director, Mr. Fang Hui. Mr. Yao Yang Yang is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the websites of the Company and of the Stock Exchange.

The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman. In considering the nomination of new directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in paper-making industry, industrial automation systems and sludge treatment products and/or other professional areas.

The Nomination Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

During the year, the Nomination Committee held one meeting for reviewing and evaluating the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company's corporate strategy, assessing independence of the independent non-executive Directors and reviewing and recommending the re-appointment of the retiring Directors at the general meeting of the Company.

Members of the Nomination Committee and the attendance of each member are set out below:

Nomination Committee members	**Attended/Entitled to attend**
Mr. Yao Yang Yang (Chairman)	1/1
Mr. Fang Hui	1/1
Mr. Heng, Keith Kai Neng	1/1
Ms. Zhang Dong Fang	1/1

NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

1. Selection Criteria

(a) The Nomination Committee is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.

(b) In assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria such as the Company's need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in industrial automation systems, sludge treatment products and paper-making industrial, and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Listing Rules (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

(c) Where necessary, the Nomination Committee should seek independent professional advice to access a wider range of potential candidates.

(d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.

(e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

2. Nomination Procedures

The secretary of the Nomination Committee shall invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members.

Any director appointed by the Board to fill a casual vacancy or appointed by the Board as an addition to the existing Board shall hold office until the first annual general meeting after his/her appointment and be subject to re-election at such meeting.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 87 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedures has been set out in the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

3. Policy Review and Monitoring

(a) The Nomination Committee shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.

(b) The Nomination Committee shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.

(c) The Nomination Committee shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company.

The Company and the Nomination Committee seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee reviews the implementation and effectiveness of the board diversity policy at least annually to ensure it remains effective and appropriate for the Company and in compliance with regulatory requirements and good corporate governance practices.

Selection of candidates will be based on a range of diversity perspectives as stated in the above. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises six directors. Three of the directors are independent non-executive directors and independent of management, thereby promoting critical review and control of the management process. The Board believes that gender diversity is a representing manifestation of board diversity, among all other measurable objectives. While the Board has a domination of male composition, the Company has appointed one female director achieving a female representation in the Board. The Company targets to avoid a single gender Board and will timely review the gender diversity of the Board in accordance with the business development of the Group. The Board is also characterised by significant diversity, whether considered in terms of professional background and skills. The biographical details with the professional experience, skills and knowledge of the Directors are available in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

As at 30 June 2023, approximately 73.9% of the Company's workforce (including the Directors and senior management) is male and approximately 26.1% is female. Same as the gender diversity of the Board, the Company targets to avoid a single gender workforce and will timely review the gender diversity of the workforce in accordance with the business development of the Group.

To achieve diversity at workforce level, the Group has put in place appropriate recruitment and selection practices such that a diverse range of candidates are considered and ensure that gender diversity is taken into account when recruiting staff members.

Details of the Group's gender diversity at workforce level are set out in the Environmental, Social and Governance report of this annual report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibilities (as set out in the Independent Auditor's Report) for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditor about their reporting responsibility is set out in the Independent Auditor's Report.

Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness. The Board oversees the overall risk management of the Group and endeavours to identify and control the impact of the identified risks and facilitate implementation of coordinated mitigating measures. The risks have been disclosed in the Directors' Report of this annual report. The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failures to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive structure, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and a sound cash management system; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. The Board reviews the risk management and internal controls annually.

Regarding the Subject Transactions which have bypassed the Group's internal payment approval procedures, the independent forensic accountant had identified certain deficiencies in the Group's internal control systems. In this respect, the Company has engaged an internal control advisor (the "IC Adviser") to review the risk management and internal control systems of the Group (the "Internal Control Review") and to assist the Group 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 Subject Transactions. 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. Having considered the report of the Internal Control Review and the remedial actions taken by the Group, both the Audit Committee and the Board are of the 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 will continue to monitor the effectiveness of the Group's internal control systems and procedures so as to meet its obligations under the 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.

Also, the Board engaged an external independent consultant to assess the effectiveness of the Group's risk management and internal control systems and perform an internal audit function which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 30 June 2023. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness and adequacy of the risk management and internal control systems and the internal audit function for the year ended 30 June 2023.

AUDITOR'S REMUNERATION

During the year ended 30 June 2023, the fees paid/payable to the Company's auditor, KTC Partners CPA Limited, are set out as follows:

Nature of services	**Fees paid/ payable** HK$
Audit services	1,900,000
Non-audit services	–
	1,900,000

COMPANY SECRETARY

The company secretary of the Company is Ms. Yeung Wing Yan ("Ms. Yeung") who was appointed on 26 November 2021. The company secretary assists the Board by ensuring good information flow within the Board and that Board policies and procedures are followed. Ms. Yeung has taken not less than 15 hours of relevant professional training during the year ended 30 June 2023.

The biographical details of Ms. Yeung are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

Any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal office as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business at Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within twenty-one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

(a) At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

(b) At least 21 clear days' notice in writing if calling for an annual general meeting.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email at ir@hzeg.com or by phone at (852) 3153 4985.

Right to put forward proposals at general meetings

There are no provisions allowing shareholders to purpose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 58 of the Company's Articles for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 85 of the Articles, no person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election as a director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

INVESTOR RELATIONS

Communication with Shareholders

The Company has established a shareholders' communication policy and the Board shall review it on a regular basis to ensure its effectiveness. The Company communicates with the shareholders and/or potential investors mainly by: (i) holding of annual general meeting ("AGM") and extraordinary general meetings which shall be convened for specific purposes (if any) which provide opportunities for the shareholders to communicate with the Board; (ii) the publication of announcements, annual reports, interim reports and/or circulars as required under the Listing Rules; (iii) the availability of information of the Group on the Company's website at www.hzeg.com.

Shareholders and investors are welcome to visit the Company's website where contact details are available on the Company's website for enquiries.

All members of the Board and the external auditor were available at the 2022 AGM to answer questions from the shareholders. The procedures for conducting a poll have been explained during the meeting.

Shareholder communication is effective during the year because shareholders can raise questions to the management of the Company at the 2022 AGM and contact details are available for shareholders and stakeholders to contact the Company directly.

AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum and articles of association of the Company by special resolution passed on 30 December 2022 and effective on the same date. Save as disclosed, there was no change in the memorandum and articles of association of the Company during the year ended 30 June 2023.

A new memorandum and articles of association is available on the websites of the Company and of the Stock Exchange.

KTC Partners CPA Limited
Certified Public Accountants (Practising)
和信會計師事務所有限公司

To the shareholders of
Huazhang Technology Holding Limited
(Incorporated in the Cayman Islands with limited liabilities)

QUALIFIED OPINION

We have audited the consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 92 to 196, which comprise the consolidated statement of financial position as at 30 June 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding figures of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

Corresponding figures

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

The Forensic Investigator issued its forensic accounting review report on 26 October 2022 (the "Forensic Report"). After review of the Forensic Report, the total amount due from the Subject Companies amounted to RMB95,772,971.

BASIS FOR QUALIFIED OPINION *(Continued)*

Corresponding figures *(Continued)*

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

As disclosed in note 21(i) and 33(c)(ii) to the consolidated financial statements, as of 30 June 2022, the gross carrying amount of the amounts due from Jiafu Paper was RMB39,541,029 and the total gross carrying amount of the trade and other receivables due from Yuxin Electric and Fibertech as of 30 June 2022 was RMB56,231,942.

As disclosed in note 7(i) to the consolidated financial statements, the directors of the Company were of the view that the amounts due from the Subject Companies could not be recovered, and the Group recognised provisions for impairment losses of the amount due from the Subject Companies amounted to RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022 (the "Provisions").

As stated in the Forensic Report, the findings of the forensic accounting review were subject to certain limitations. As a result, the Forensic Investigator was unable to ascertain or clarify the rationale of the Subject Transactions.

Under the circumstances described above, we have not been able to obtain sufficient appropriate audit evidence to carry out audit procedures to satisfy ourselves as to the validity of the Subject Transactions, whether the amounts due from the Subject Companies as of 30 June 2022 and the Provisions and their related disclosures have been accurately recorded and properly accounted for in the consolidated financial statements. There were no alternative audit procedures that we could perform to obtain sufficient and appropriate evidence to satisfy ourselves about the validity of the Subject Transactions and the amounts due from the Subject Companies as of 30 June 2022 are fairly stated. Any adjustment that might have been found necessary would have a consequential effect on the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows and the disclosures in the notes to the consolidated financial statements. Our audit opinion on the 2022 Financial Statements was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of revenue from sales of goods and project contracting services	
Refer to Note 2.26 "Summary of significant accounting policies — Revenue recognition", Note 4.2(a) "Critical accounting judgments — Revenue recognition" and Note 5 "Segment information" to the consolidated financial statements. Revenue from sales of certain goods and project contracting services is recognised on over time basis as the Group's performance under the contracts creates or enhances an asset that the customer controls as the asset is created or enhanced. For the year ended 30 June 2023, revenue of the Group from sales of goods of RMB220,765 and project contracting service of RMB178,454,466 was recognised on the over time basis. For the revenue from sales of certain goods and project contracting services, the Group recognised revenue by applying an input method to measure the progress towards complete satisfaction of the performance obligation. The input method recognised revenue based on the proportion of the actual costs incurred to the estimated total costs for satisfaction of the performance obligation. Significant judgments and estimations were required in determining the estimated total costs and the estimation of progress towards complete satisfaction of the performance obligation at the end of the reporting period. Given the involvement of significant management's judgments and estimations, recognition of revenue from sales of goods and project contracting services over time is considered a key audit matter.	We understood and evaluated the key controls on revenue recognition over time, including the controls related to recording of the actual cost incurred and the estimation of total costs. In respect of actual costs incurred, we checked actual costs incurred to supporting documents on a sample basis, including suppliers' invoices, customers' acceptance of production progress and contracts with suppliers. In respect of estimated total costs, we checked the components of estimated total costs to the supporting documents including the purchase contracts and approved budgets, on a sample basis. We checked the mathematical accuracy of management's calculation of the revenues recognised over time using the input method. Based on our work performed, we found that management's judgments and estimations used in the Group's revenue recognised from sales of goods and project contracting services on over time basis were supported by the available evidence.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for impairment of trade and other receivables and contract assets	
Refer to Note 2.12 "Summary of significant accounting policies — Financial assets", Note 2.14 "Summary of significant accounting policies — Trade and other receivables", Note 4.1(a) "Critical accounting estimates — Impairment of trade and other receivables and contract assets", Note 3.1(b) "Financial Risk Management — Credit Risk", and Note 21 "Trade and other receivables, contract assets and prepayments" to the consolidated financial statements. As at 30 June 2023, the net carrying amounts of the Group's trade receivables, other receivables and contract assets were RMB113,204,157, RMB22,179,403 and RMB102,243,112, respectively, after netting off accumulated allowance for impairment provision of RMB179,566,793, RMB182,315,965 and RMB14,152,420, respectively. The Group provided impairment of trade and other receivables and contract assets based on the expected credit loss ("ECL") model. The Group grouped these trade and other receivables and contract assets in accordance with credit risk characteristics and calculated the ECL based on groups, by considering the experience of historical credit losses, together with current market situation and forward looking factors. The trade and other receivables and contract assets with objective evidence of impairment were further assessed individually, and an impairment assessment is conducted to calculate the ECL and to provide an individual impairment allowance.	We understood and evaluated key controls, on the estimations adopted in the ECL assessment. We assessed the appropriateness of the Group's grouping by considering the credit risk characteristics. We evaluated the historical default rates of different groups by comparing with the actual losses recorded during the prior and current financial years. We evaluated the adjustment to the historical default rates by considering the forward looking factors and other relevant information, such as the Group's future business relationship with these customers, evidence from external sources including the publicly available information relating to the financial circumstances of the customers and their expected behaviour including method of payments or payments period. For those subject to further individual assessment for impairment provision, we understood and evaluated management's assessment of the collectability by considering both current situation and economic situation in the future and corroborated management's explanations with available evidences, including checking subsequent settlements, credit history and financial capability of these customers on a sample basis. We checked, on a sample basis, the accuracy of ageing profile on trade and other receivables and contract assets to supporting documents, including sales invoices, delivery notes, customer's receipts and payment demand notes.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for impairment of trade and other receivables and contract assets (Continued)	
We considered assessment of impairment provision of trade and other receivables and contract assets a key audit matter because significant management's judgments and estimations are involved.	We checked the mathematical accuracy of management's ECL calculation. Based on our work performed, we found that management's judgments and estimations adopted in the assessment of provision for impairment of trade and other receivables and contract assets were supported by the available evidence.
Impairment of goodwill	
Refer to note 18 to the consolidated financial statements. As at 30 June 2023, the Group had a balance of goodwill of RMB29,902,783. Management tests whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash generating units ("CGUs") have been determined based on value-in-use calculations. The value-in use calculations use cash flow projections based on financial budgets approved by management which involve judgement by management such as determining the revenue growth rates, budgeted gross margin, long-term growth rates and pre-tax discount rate. Changes in these assumptions may impact the recoverable amount of goodwill. Management concluded that the goodwill was not impaired for the year ended 30 June 2023. We focused on this area as the assessment involved significant judgements, including the revenue growth rates, budgeted gross margin, long-term growth rates and pre-tax discount rate applied to the estimates of the recoverable amount. All these factors are with estimation uncertainties and may impact the results of the impairment assessments.	We obtained an understanding of the management's internal control and assessment process of impairment of goodwill and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, such as complexity, subjectivity, changes and susceptibility to management bias or fraud; We evaluated the appropriateness of the value-in-use model adopted for the impairment assessments; We compared the current year's actual results with prior year's budgets, where applicable, to consider whether any past forecast including any assumptions, with hindsight, had been aggressive; We challenged the reasonableness of key assumptions such as revenue growth rates, budgeted gross margin, long-term growth rates and pre-tax discount rate applied by management by comparing to commercial contracts, available market reports and historical trend analyses, where applicable; We involved our valuation experts to evaluate the valuation methodologies and assess the reasonableness of the discount rates in the impairment assessment applied by management and benchmarked the discount rates applied to other comparable companies in the same industry, where applicable;

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill (Continued)	
	We agreed input data to supporting evidence, such as approved budgets, inflation rates, strategic plans and market data, where applicable; We assessed the adequacy of the disclosures related to impairment of goodwill in the context of the applicable financial reporting framework; and We evaluated management's sensitivity analysis around the key assumptions, to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired, where applicable. Based on our work performed, we found the management's judgements and assumptions used in the impairment assessment of goodwill to be supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the corresponding figures in respect of the Subject Transactions. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible or our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KTC Partners CPA Limited
Certified Public Accountants (Practising)

Chow Yiu Wah, Joseph
Practising Certificate Number: P04686

Hong Kong, 27 September 2023

Consolidated Statement of Profit or Loss

For the year ended 30 June 2023

	Notes	2023 RMB	2022 RMB
Revenue	5	**528,921,014**	323,868,801
Cost of sales		**(445,757,404)**	(290,714,162)
Gross profit		**83,163,610**	33,154,639
Other income and gains, net	6	**13,161,604**	18,313,703
Selling and distribution expenses		**(9,666,951)**	(12,768,134)
Administrative expenses		**(79,964,429)**	(77,019,358)
Research and development expenses		**(28,571,835)**	(45,880,831)
Net impairment losses on financial and contract assets	7	**(16,366,419)**	(234,740,801)
Operating loss		**(38,244,420)**	(318,940,782)
Finance income	8	**6,613,505**	4,299,262
Finance costs	8	**(8,485,664)**	(19,733,888)
Finance costs, net		**(1,872,159)**	(15,434,626)
Impairment loss on goodwill	18	**–**	(10,032,101)
Impairment loss on property, plant and equipment	14	**(2,859,484)**	(1,890,000)
Impairment loss on investment properties	16	**(8,576,102)**	–
Impairment loss on investment in an associate		**–**	(4,897,538)
Loss before income tax	9	**(51,552,165)**	(351,195,047)
Income tax expense	10	**(1,278,895)**	(15,543,792)
Loss for the year		**(52,831,060)**	(366,738,839)
Loss attributable to:			
The shareholders of the Company		**(51,248,791)**	(363,753,165)
Non-controlling interests		**(1,582,269)**	(2,985,674)
		(52,831,060)	(366,738,839)
Loss per share attributable to the shareholders of the Company for the year (expressed in RMB cents per share)			
Basic loss per share	12	**(4.82)**	(38.65)
Diluted loss per share	12	**(4.82)**	(38.65)

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2023

	2023 RMB	2022 RMB
Loss for the year	**(52,831,060)**	(366,738,839)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**4,649,465**	2,999,038
Other comprehensive income for the year, net of tax	**4,649,465**	2,999,038
Total comprehensive loss for the year	**(48,181,595)**	(363,739,801)
Total comprehensive loss for the year is attributable to:		
The shareholders of the Company	**(46,599,326)**	(360,754,127)
Non-controlling interests	**(1,582,269)**	(2,985,674)
	(48,181,595)	(363,739,801)

The notes on pages 99 to 196 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	2023 RMB	2022 RMB
ASSETS			
Non-current assets			
Investments in an associate	13	–	50,000
Property, plant and equipment	14	**62,548,161**	70,773,929
Other right-of-use assets	15	**6,193,168**	4,622,858
Investment properties	16	**83,536,088**	98,066,629
Prepaid land lease payments	15,17(i)	**72,040,922**	73,752,172
Other intangible assets	17(ii)	**5,610,299**	8,213,256
Goodwill	18	**29,902,783**	29,902,783
Financial assets at fair value through profit or loss	19	**6,196,647**	4,807,255
Trade and other receivables	21(i)	–	38,542,965
Prepayments	21(iii)	**143,662**	156,722
Deferred tax assets	25	**842,536**	870,371
		267,014,266	329,758,940
Current assets			
Inventories	20	**153,647,680**	138,104,557
Trade and other receivables	21(i)	**175,290,217**	183,968,387
Contract assets	21(ii)	**102,243,112**	29,536,441
Prepayments	21(iii)	**95,212,255**	95,145,050
Financial assets at fair value through other comprehensive income	21(iv)	**33,342,049**	43,086,801
Pledged deposits	22	**63,050,840**	28,844,290
Restricted deposits	22	**38,523,211**	52,312,844
Cash and cash equivalents	22	**43,983,025**	141,048,866
		705,292,389	712,047,236
Total assets		**972,306,655**	1,041,806,176
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	25	**4,779,177**	5,153,893
Deferred income	26	**20,137,500**	21,487,500
Lease liabilities	15	**3,236,971**	3,389,334
		28,153,648	30,030,727

Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	2023 RMB	2022 RMB
Current liabilities			
Trade and other payables	23	**390,255,878**	406,325,565
Contract liabilities	5	**123,064,299**	163,933,039
Interest-bearing loans	24	**68,990,000**	38,500,000
Income tax payable		**7,334,046**	5,866,781
Lease liabilities	15	**2,908,538**	1,086,798
		592,552,761	615,712,183
Total liabilities		**620,706,409**	645,742,910
Net assets		**351,600,246**	396,063,266
EQUITY			
Share capital	28	**8,907,761**	8,907,761
Share premium	28	**663,145,447**	663,145,447
Other reserves	29	**130,456,325**	122,088,285
Accumulated losses		**(444,404,248)**	(393,155,457)
Capital and reserves attributable to the shareholders of the Company		**358,105,285**	400,986,036
Non-controlling interests		**(6,505,039)**	(4,922,770)
Total equity		**351,600,246**	396,063,266

The notes on pages 99 to 196 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 92 to 196 were approved by the Board of Directors on 27 September 2023 and were signed on its behalf by:

Fang Hui
Director

Chen Hongwei
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

		Attributable to the shareholders of the Company							
	Notes	Share capital RMB	Share premium RMB	Equity component of convertible bonds RMB	Other reserves RMB (Note 29)	Accumulated losses RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
Balance at 1 July 2022		**8,907,761**	**663,145,447**	**–**	**122,088,285**	**(393,155,457)**	**400,986,036**	**(4,922,770)**	**396,063,266**
Loss for the year		**–**	**–**	**–**	**–**	**(51,248,791)**	**(51,248,791)**	**(1,582,269)**	**(52,831,060)**
Other comprehensive income		**–**	**–**	**–**	**4,649,465**	**–**	**4,649,465**	**–**	**4,649,465**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**4,649,465**	**(51,248,791)**	**(46,599,326)**	**(1,582,269)**	**(48,181,595)**
Employee share options	29	**–**	**–**	**–**	**3,718,575**	**–**	**3,718,575**	**–**	**3,718,575**
Balance at 30 June 2023		**8,907,761**	**663,145,447**	**–**	**130,456,325**	**(444,404,248)**	**358,105,285**	**(6,505,039)**	**351,600,246**
Balance at 1 July 2021		7,471,631	589,857,286	6,199,604	105,804,845	(24,582,376)	684,750,990	(1,937,096)	682,813,894
Loss for the year		–	–	–	–	(363,753,165)	(363,753,165)	(2,985,674)	(366,738,839)
Other comprehensive income		–	–	–	2,999,038	–	2,999,038	–	2,999,038
Total comprehensive income/(loss) for the year		–	–	–	2,999,038	(363,753,165)	(360,754,127)	(2,985,674)	(363,739,801)
Maturity of convertible bonds	27,29	–	–	(6,199,604)	6,199,604	–	–	–	–
Issue of shares	28	1,436,130	73,288,161	–	–	–	74,724,291	–	74,724,291
Employee share options	29	–	–	–	2,264,882	–	2,264,882	–	2,264,882
Profit appropriation to statutory reserves	29	–	–	–	4,819,916	(4,819,916)	–	–	–
Balance at 30 June 2022		8,907,761	663,145,447	–	122,088,285	(393,155,457)	400,986,036	(4,922,770)	396,063,266

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Notes	2023 RMB	2022 RMB
Operating activities			
Loss before income tax		**(51,552,165)**	(351,195,047)
Adjustments for:			
Interest income	8	**(3,903,230)**	(3,119,318)
Interest expense	8	**8,485,664**	19,733,888
Depreciation of property, plant and equipment	14	**6,668,131**	6,259,842
Depreciation of other right-of-use assets	15	**2,689,433**	1,293,648
Depreciation of investment properties	16	**5,954,439**	5,954,439
Amortisation of prepaid land lease payments	17(i)	**1,711,250**	1,623,770
Amortisation of other intangible assets	17(ii)	**2,629,212**	2,565,280
Amortisation of deferred income	26	**(1,350,000)**	(1,350,000)
Net impairment losses on financial and contract assets	7	**16,366,419**	234,740,801
Write-down of inventories	20	**952,728**	4,648,712
Fair value (gains)/losses on financial assets at fair value through profit or loss	19	**(1,389,392)**	640,178
Amortisation of employee share option scheme	29	**3,718,575**	2,264,882
Loss on disposals of property, plant and equipment		**607**	151,177
Impairment of investment in an associate	13	**–**	4,897,538
Impairment of goodwill	18	**–**	10,032,101
Impairment of investment properties	16	**8,576,102**	–
Impairment of property, plant and equipment	14	**2,859,484**	1,890,000
Operating cash flows before movements in working capital		**2,417,257**	(58,968,109)
(Increase)/decrease in inventories	20	**(16,495,851)**	13,390,825
Decrease in trade and bills receivables		**21,796,682**	208,951,367
Decrease/(increase) in prepayments and other receivables		**20,145,776**	(105,425,055)
Increase in contract assets		**(82,553,267)**	(5,759,902)
Decrease in financial assets at fair value through other comprehensive income		**9,744,752**	406,769
Increase in pledged and restricted deposits relating to operating activities	22	**(20,416,917)**	(57,234,142)
Decrease in trade and other payables		**(18,565,529)**	(28,574,618)
Decrease in contract liabilities		**(40,868,740)**	(17,886,465)
Cash used in operations		**(124,795,837)**	(51,099,330)
Income tax paid		**(158,511)**	(897,817)
Net cash outflow from operating activities		**(124,954,348)**	(51,997,147)

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Notes	2023 RMB	2022 RMB
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,104,051)**	(5,027,032)
Proceeds from disposal of property, plant and equipment		**–**	23,958
Proceeds from disposal of the associate		**50,000**	–
Purchase of other intangible assets		**(26,255)**	(109,735)
Interest received		**3,903,230**	3,119,318
Net cash inflow/(outflow) from investing activities		**2,822,924**	(1,993,491)
Cash flows from financing activities			
Proceeds from issue of shares	28	**–**	74,724,291
Proceeds from interest-bearing loans from banks	24	**28,990,000**	24,500,000
Proceeds from interest-bearing loans from third parties	24	**40,000,000**	–
Repayment of interest-bearing loans from banks		**(38,500,000)**	(39,046,324)
Repayments of interest-free loans from third parties		**–**	(500,000)
Interest paid		**(3,267,704)**	(10,110,006)
Principal element of lease payments		**(2,545,878)**	(1,420,425)
Net cash inflow from financing activities		**24,676,418**	48,147,536
Net decrease in cash and cash equivalents		**(97,455,006)**	(5,843,102)
Cash and cash equivalents at beginning of the year	22	**141,048,866**	145,299,486
Effect of exchange rate changes on cash and cash equivalents		**389,165**	1,592,482
Cash and cash equivalents at end of the year	22	**43,983,025**	141,048,866

1 GENERAL INFORMATION

Huazhang Technology Holding Limited (the "Company") was incorporated on 26 June 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which was suspended from trading on 3 October 2022 and resumed trading on 10 August 2023. 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 Company and its subsidiaries (together, 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").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and disclosure requirements of 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 at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 July 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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

Impacts on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 July 2022. The amendments update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "Conceptual Framework") instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

Impacts on application of Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use

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

In accordance with the transitional provisions, the Group has applied the new accounting policy retrospectively to property, plant and equipment made available for use on or after the beginning of 1 July 2022. The application of the amendments in the current year has had no impact on the Group's financial positions and performance.

Impacts on application of Amendments to HKAS 37 Onerous Contracts — Cost of Fulfilling a Contract

The Group has applied the amendments for the first time in the current year. The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37, the unavoidable costs under a contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The application of the amendments in the current year has had no impact on the Group's financial positions and performance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

Impacts on application of Amendments to HKFRSs Annual Improvements to HKFRSs 2018–2020

The Group has applied the amendments for the first time in the current year. The annual improvements make amendments to the following standards:

HKFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged as at the date of initial application, 1 July 2022.

HKFRS 16 Leases

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2024.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

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

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

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

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

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

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

Based on the Group's outstanding liabilities as at 30 June 2023, the application of the amendments will not result in reclassification of the Group's liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

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

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

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

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

Amendments to HKAS 8 *Definition of Accounting Estimates*

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

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

As disclosed in note 2.21 to the consolidated financial statement, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

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

The amendments are effective for the Group's annual reporting periods beginning on or after 1 July 2023, with early application permitted. As at 30 June 2023, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB6,193,168 and RMB6,145,509 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(i) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Impairment testing of the investments in subsidiaries is also required according to Note 2.11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(ii) Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred. The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.4 below), after initially being recognised at cost.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. The difference between the carrying amount of the associate and the fair value of any retained interest is included in the determination of the gain or loss on the disposal of the associate.

2.4 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating sources and assessing the financial performance of the operating segments, has been identified as the Board that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is Hong Kong Dollar ("HK$"). The consolidated financial statements are presented in RMB, which is also the functional currency of the Company's major operating subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within finance costs, net.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the date of that financial position;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs that are incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation of investment properties is calculated using the straight-line method to allocate their costs over their estimated useful lives of 20 years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

2.8 Property, plant and equipment

Property, plant and equipment include buildings, machinery and vehicles and furniture, fittings and equipment. All property, plant and equipment is stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

• Buildings	20 years
• Machinery and vehicles	5–10 years
• Furniture, fittings and equipment	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within other income and gains, net in the consolidated statement of profit or loss.

2.9 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, being the operating segments.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development

Research expenditure and development expenditure that do not meet the criteria in below are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

• Patents	8 years
• Software	10 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

(i) those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

(ii) those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at financial assets at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

2.12.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income and gains, net using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in other income and gains, net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

(ii) Financial assets at FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income and gains, net. Interest income from these financial assets is included in other income and gains, net using the effective interest rate method. Foreign exchange gains and losses are presented in other income and gains, net and impairment expenses are presented as separate line item in the consolidated statement of profit or loss.

(iii) Financial assets at FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income and gains, net in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

2.12.3 Measurement *(Continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments.

Changes in the fair value of financial assets carried at FVPL are recognised in "other income and gains, net" in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.4 Impairment

The Group assesses on a forward looking basis the expected credit loss ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 21 for further details.

Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

2.14 Trade and other receivables

Trade receivables and bills receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Other receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. See Note 21 for further information about the Group's accounting for trade and other receivables, and Note 2.12.4 for the description of the Group's impairment policies.

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the shareholders of the Company until the shares are cancelled or reissued.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Convertible bonds *(Continued)*

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss.

2.22 Employee benefits — pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap per person per month and any excess contributions are voluntary (if any).

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join the defined contribution retirement benefit plans organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 11. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are charged to the consolidated statement of profit or loss as incurred. The Group has no further payment obligations once the contributions have been paid.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Share-based payments

The Group operates an equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments ("options") of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

(i) including any market performance conditions (for example, the entity's share price);

(ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

(iii) including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The options granted by the Company over its equity instruments to the employees of subsidiary undertakings in the Group are treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the management's best estimate of the expenditures expected to be required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Government grants

Government grants are recognised at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised as other income in the consolidated statement of profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are recognised as other income in the consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants that are not related to future costs nor purchase of property, plant and equipment are recognised directly as other income in the consolidated statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition

(a) Sale of goods — industrial products (automation systems and headboxes)

Sales are recognised when control of the goods has transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

The Group provides installation services for the sale of industrial products. The goods or services are highly related that the Group would not be able to fulfil its promises by transferring each of the goods or services independently. Thus installation services bundled together with the sale of automation systems and headboxes are not considered distinct. Revenue from sales of goods is recognised when the control of the asset has been transferred to the customer, which is usually upon the installation services are completed.

(b) Sale of project contracting services

The Group provides project contracting services for the customers. The main sales contract can be divided into design, procurement and installation while the performance obligations of the three parts of the contract are closely related and cannot be separated. Revenue from the sale of project contracting services will be recognised as one performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. The management of the Group considers that input method would faithfully depict the Group's performance towards satisfaction of performance obligation under HKFRS 15.

(c) Sale of goods — wastewater treatment products

The Group provides total wastewater treatment solution to customers, the goods or services provided during the contractual period are highly related that the Group would not be able to fulfil its promises by transferring each of the goods or services independently. Thus the services bundled together with the sale of machinery are not considered distinct. Revenue from the construction contracts will be recognised as one performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the construction costs incurred up to the end of reporting period as a percentage of total estimated construction costs for each contract. The management of the Group considers that input method would faithfully depict the Group's performance towards satisfaction of performance obligation under HKFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition *(Continued)*

(d) Supporting services — system upgrades

Revenue from supporting services is recognised in the accounting period in which the services are rendered.

(e) Rental income

Revenue from rental income will be recognised on a time proportion basis over the lease terms.

(f) Warranty

For warranty embedded to the contracts, the Group accounts for the warranty in accordance with HKAS 37, "Provision, Contingent Liabilities and Contingent Assets" as the warranty provides the customer with assurance that the contracting work complies with the agreed-upon specifications.

(g) Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customers or the Group with a significant benefit of financing. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed by the parties of the contracts.

Notwithstanding the above, a contract does not have a significant financing component in circumstances where payments are in accordance with the typical payment terms of the relevant industry, which has a primary purpose other than financing.

(h) Contract assets and contract liabilities

A contract asset represents the Group's right to consideration from customers in exchange for goods or services that the Group has transferred to the customers that is not yet unconditional. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point when the Group's right to payment becomes unconditional other than passage of time.

A contract liability represents the Group's obligation to transfer the goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.28 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.29 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit- impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.30 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Leases *(Continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Leases *(Continued)*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform, the Group applies the practical expedient to remeasure the lease liabilities by discounting the revised lease payments using the unchanged discount rate and makes a corresponding adjustment to the related right-of-use assets. A lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

- the modification is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Leases *(Continued)*

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

Payments associated with short-term leases of equipment and vehicles and all leases of low- value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 16). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

2.31 Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the Group's and the Company's statement of financial position in the period in which the dividends are approved by the shareholders of the Company.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

Foreign exchange risk arises when transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in the PRC with most of the Group 's transactions denominated and settled in RMB, except that certain trade receivables, trade payables and bank deposits are denominated in United States Dollar ("USD") and Hong Kong Dollar ("HKD") which are exposed to foreign currency translation risk. If the USD had strengthened/weakened by 5% against the RMB while all other variables had been held constant, the Group's net result for the year ended 30 June 2023 would have been RMB1,155,611 better/worse (2022: RMB1,344,669), for various financial assets and liabilities denominated in USD. If the HKD had strengthened/weakened by 5% against the RMB while all other variables had been held constant, the Group's net result for the year ended 30 June 2023 would have been approximately RMB238,728 better/worse (2022: RMB978,492), for various financial assets and liabilities denominated in HKD.

(ii) Cash flow and fair value interest rate risk

The Group's operating income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in Note 22 and Note 24 respectively.

As at 30 June 2023 and 2022, the Group has no interest-bearing loans with floating rate.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk arises from cash and cash equivalents, pledged deposits, restricted deposits, financial assets at FVOCI, trade and other receivables and contract assets. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of assets.

To manage the risk with respect to cash and cash equivalents, pledged deposits, restricted deposits and financial assets at FVOCI, they are either placed with or issued by highly reputable financial institutions.

The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- Internal credit rating;
- External credit rating;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- Actual or expected significant changes in the operating results of the debtors.

Management performs ongoing credit evaluations of the counterparties. The credit quality of these customers are assessed, which takes into account their financial position, past experience and available forward-looking information.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and available forward-looking information.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work done and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the expected loss rates for the contract assets.

Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL. For other receivables, the impairment provision were determined as the 12-months ECL, as there was no significant increase of credit risk since the initial recognition. The Group has performed the assessment for other receivables and concluded that no material financial impact exists.

The expected loss rates on trade receivables are based on the payment profiles of sales over a period of 36 months before 30 June 2023 or 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the consumer price index and industrial added value in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

On that basis, the loss allowance as at 30 June 2023 and 2022 was determined as follows for trade receivables and contract assets:

	Not due	Up to 3 months past due	3 months to 6 months past due	6 months to 1 year past due	1 year to 2 years past due	Over 2 years past due	Total
Trade receivables							
As at 30 June 2023							
Gross amount (RMB)	71,164,945	14,684,581	9,820,666	6,428,233	17,267,073	173,405,452	292,770,950
Expected loss rate	6%	23%	22%	25%	44%	93%	
Loss allowance (RMB)	4,084,329	3,432,314	2,191,264	1,636,320	7,620,794	160,601,772	179,566,793
Net carrying amount (RMB)	67,080,616	11,252,267	7,629,402	4,791,913	9,646,279	12,803,680	113,204,157
Contract asset							
As at 30 June 2023							
Gross amount (RMB)	79,519,061	12,449,089	746,765	3,190,374	4,570,573	15,919,670	116,395,532
Expected loss rate	2%	24%	17%	17%	44%	43%	
Loss allowance (RMB)	1,628,107	2,931,875	130,608	552,481	2,015,216	6,894,133	14,152,420
Net carrying amount (RMB)	77,890,954	9,517,214	616,157	2,637,893	2,555,357	9,025,537	102,243,112

	Not due	Up to 3 months past due	3 months to 6 months past due	6 months to 1 year past due	1 year to 2 years past due	Over 2 years past due	Total
Trade receivables							
As at 30 June 2022							
Gross amount (RMB)	10,717,636	17,518,452	7,988,156	18,408,571	90,611,626	170,639,627	315,884,068
Expected loss rate	13%	40%	36%	36%	33%	74%	
Loss allowance (RMB)	1,348,512	6,928,068	2,905,942	6,592,294	30,261,320	126,631,165	174,667,301
Net carrying amount (RMB)	9,369,124	10,590,384	5,082,214	11,816,277	60,350,306	44,008,462	141,216,767
Contract asset							
As at 30 June 2022							
Gross amount (RMB)	5,779,071	3,295,902	4,618,891	7,103,470	1,887,484	10,600,755	33,285,573
Expected loss rate	6%	7%	4%	14%	10%	17%	
Loss allowance (RMB)	327,047	246,105	201,175	1,006,822	196,810	1,771,173	3,749,132
Net carrying amount (RMB)	5,452,024	3,049,797	4,417,716	6,096,648	1,690,674	8,829,582	29,536,441

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

As at 30 June 2023	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised costs				
Cash and cash equivalent	22	N/A	12-month ECL	43,983,025
Pledged deposits	22	N/A	12-month ECL	63,050,840
Restricted deposits	22	N/A	12-month ECL	38,523,211
Trade receivables	21(i)	(note i)	Lifetime ECL	158,248,433
		(note iii)	Lifetime ECL	134,522,517
Financial asset at fair value through other comprehensive income	21(iv)	N/A	12-month ECL	33,342,049
Other receivables	21(i)	(note ii)	12-month ECL	26,782,865
		(note iii)	Lifetime ECL	177,712,503
Contract assets	21(ii)	(note ii)	Lifetime ECL	116,395,532

As at 30 June 2022	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised costs				
Cash and cash equivalent	22	N/A	12-month ECL	141,048,866
Pledged deposits	22	N/A	12-month ECL	28,844,290
Restricted deposits	22	N/A	12-month ECL	52,312,844
Trade receivables	21(i)	(note i)	Lifetime ECL	185,937,937
		(note iii)	Lifetime ECL	129,946,131
Financial asset at fair value through other comprehensive income	21(iv)	N/A	12-month ECL	43,086,801
Other receivables	21(i)	(note ii)	12-month ECL	44,257,042
		(note iii)	Lifetime ECL	179,805,896
Contract assets	21(ii)	(note ii)	Lifetime ECL	33,285,573

Notes:

(i) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group assessed these balances are not credit impaired.

(ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 30 June 2023 and 2022, these balances are either not past due or do not have fixed repayment. The Group assessed these balances are not credit impaired.

(iii) The Group assessed that there is evidence indicating these balances are credit impaired.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 30 June 2023	**Less than 1 year RMB**	**Between 1 and 2 years RMB**	**Between 2 and 5 years RMB**	**Over 5 years RMB**	**Total RMB**
Trade and other payables	**390,255,878**	**–**	**–**	**–**	**390,255,878**
Interest-bearing loans	**71,019,227**	**–**	**–**	**–**	**71,019,227**
Lease liabilities	**3,231,946**	**1,800,777**	**1,710,708**	**–**	**6,743,431**
	464,507,051	**1,800,777**	**1,710,708**	**–**	**468,018,536**

As at 30 June 2022	Less than 1 year RMB	Between 1 and 2 years RMB	Between 2 and 5 years RMB	Over 5 years RMB	Total RMB
Trade and other payables	406,325,565	–	–	–	406,325,565
Interest-bearing loans	39,747,680	–	–	–	39,747,680
Lease liabilities	1,323,303	1,311,434	2,386,485	–	5,021,222
	447,396,548	1,311,434	2,386,485	–	451,094,467

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with the others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt includes interest-bearing loans, lease liabilities and interest-free loan from independent third parties as shown in the consolidated statement of financial position. Total capital is calculated as total equity as shown in the consolidated statement of financial position plus total debt.

The gearing ratios at 30 June 2023 and 2022 were as follows:

	2023 **RMB**	2022 RMB
Total debt	**88,216,309**	56,056,932
Total equity	**351,600,246**	396,063,266
Total capital	**439,816,555**	452,120,198
Gearing ratio	**20%**	12.4%

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

Financial instruments carried at fair value are measured by different valuation methods. The inputs to valuation methods are categorised into three levels within a fair value hierarchy, as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2023 and 2022.

At 30 June 2023	**Level 1 RMB**	**Level 2 RMB**	**Level 3 RMB**	**Total RMB**
Assets				
Financial assets at FVOCI:				
— Bills receivables	**–**	**33,342,049**	**–**	**33,342,049**
Financial assets at FVPL:				
— Unlisted equity investments	**–**	**–**	**6,196,647**	**6,196,647**

At 30 June 2022	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Assets				
Financial assets at FVOCI:				
— Bills receivables	–	43,086,801	–	43,086,801
Financial assets at FVPL:				
— Unlisted equity investments	–	–	4,807,255	4,807,255

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The Group's financial assets at FVOCI are bills receivable, which the fair value is approximate to their carrying amount due to short term maturities of the instruments.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Company uses valuation techniques to determine the fair values of financial instruments except as detailed above, including the latest quote price, Monte Carlo Simulation and etc. The fair values of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore have been classified by the Group as level 3.

(d) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 30 June 2023 and 2022:

	Financial assets at FVPL Unlisted equity investments RMB
Balance at 1 July 2021	5,447,433
Loss recognised in profit or loss	(640,178)
Balance at 30 June 2022	4,807,255
Gain recognised in profit or loss	1,389,392
Balance at 30 June 2023	6,196,647

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(e) Valuation inputs and relationships to fair value

Financial instruments	Fair value hierarchy	Valuation Techniques and key inputs	Significant Unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at FVPL:				
— Unlisted equity investments	Level 3	Monte Carlo Simulation, discount rate (2022: Monte Carlo Simulation, discount rate	Expected exit date, performance threshold and probability	The earlier the exit date, the lower the fair value; the higher the probability, the higher the fair value and the higher the performance threshold, the higher the fair value

An increase in the expected performance threshold which is based on the profit after interest and tax of the investee company used in isolation would result in an increase in the fair value measurement of the redemption of the unlisted equity investment and vice versa. As a result of the volatile financial market in 2023, the management adjusted the sensitivity rate from 10% to 15% for the purpose of performing the sensitivity analysis. A 5% increase in performance threshold holding all other variables constant would increase the carrying amount of the investment by RMB714,998 (2022: RMB554,683).

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. There were no transfers between level 1, level 2 and level 3 fair value hierarchy during the year ended 30 June 2023 and 2022.

The carrying amounts of the Group's other financial assets (including trade and other receivables, pledged deposits, restricted deposits and cash and cash equivalents) and financial liabilities (including trade and other payables and interest-bearing loans) approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates

(a) Impairment of trade and other receivables and contract assets

For trade and other receivables and contract assets, the Group applies ECL model to provide for ECL as prescribed by HKFRS 9, which requires the use of the 12-month or lifetime expected loss allowance. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgments in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at the end of each reporting period.

(b) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. As at 30 June 2023 and 2022, the recoverable amount of the CGU containing the goodwill was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 18. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 18.

(c) Impairment of property, plant and equipment, prepaid land lease payments and investment properties

In considering the impairment losses that may be required for the property, plant and equipment, prepaid land lease payments and investment properties of the Group, their recoverable amounts need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.2 Critical accounting judgments

(a) Revenue recognition

For the revenue from sales of goods and project contracting services recognised on over time basis, the Group recognises revenue by applying an input method to measure the progress towards complete satisfaction of the performance obligation. The input method recognises revenue based on the proportion of the actual costs incurred to the estimated total costs for satisfaction of the performance obligation. Significant judgments and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the year end.

5 SEGMENT INFORMATION

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

Industrial products — sales and manufacturing of industrial automation systems and headboxes;

Project contracting services — provision of design, procurement, installation and project management services of production line in paper production factories;

Environmental products — sales and manufacturing of sludge treatment products, wastewater treatment products and refuse derived fuel products; and

Supporting services — including after-sales services, machine running services, warehouse and logistic services, supply chain services and renovation 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 and restricted 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, income tax payable, lease liabilities and certain other payables, as these liabilities are managed on a group basis.

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2023:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers within the scope of HKFRS 15	289,550,869	178,454,466	10,110,117	43,995,278	522,110,730
Timing of revenue recognition					
At a point in time	289,550,869	–	9,889,352	43,995,278	343,435,499
Over time	–	178,454,466	220,765	–	178,675,231
Rental income	–	–	–	6,810,284	6,810,284
Segment cost of sales	(230,742,366)	(169,494,292)	(7,339,609)	(38,181,137)	(445,757,404)
Segment gross profit	58,808,503	8,960,174	2,770,508	12,624,425	83,163,610
Segment results	14,542,797	(15,788,184)	(5,096,411)	(15,372,504)	(21,714,302)
Common administrative expenses					(41,127,308)
Other income and gains, net (Note 6)					13,161,604
Finance costs, net (Note 8)					(1,872,159)
Loss before income tax					(51,552,165)
Income tax expense (Note 10)					(1,278,895)
Loss for the year					(52,831,060)

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	86,011	–	–	1,044,295	–	1,130,306
Depreciation of property, plant and equipment	1,367,636	22,901	954,620	4,322,974	–	6,668,131
Depreciation of investment properties	–	–	–	5,643,697	310,742	5,954,439
Loss on disposals of property, plant and equipment	607	–	–	–	–	607
Net impairment loss on financial and contract assets	9,850,448	926,855	2,355,059	3,234,057	–	16,366,419
Impairment loss on property, plant and equipment	–	–	–	2,589,484	–	2,589,484
Impairment loss on investment property	–	–	–	8,576,102	–	8,576,102
Amortisation of prepaid land lease payments	106,387	–	141,153	1,336,419	127,291	1,711,250
Amortisation of other intangible assets	2,618,484	–	–	10,728	–	2,629,212
Allowance for inventories	381,788	441,846	20,163	108,931	–	952,728

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2022:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers within the scope of HKFRS 15	164,916,303	83,849,990	12,758,801	55,625,158	317,150,252
Timing of revenue recognition					
At a point in time	164,916,303	–	6,004,043	55,625,158	226,545,504
Over time	–	83,849,990	6,754,758	–	90,604,748
Rental income	–	–	–	6,718,549	6,718,549
Segment cost of sales	(129,824,830)	(100,686,846)	(12,058,065)	(48,144,421)	(290,714,162)
Segment gross profit/(loss)	35,091,473	(16,836,856)	700,736	14,199,286	33,154,639
Segment results	(76,652,296)	(142,576,661)	(16,324,672)	(78,951,115)	(314,504,744)
Common administrative expenses					(34,671,842)
Other income and gains, net (Note 6)					18,313,703
Impairment loss on investment in an associate					(4,897,538)
Finance costs, net (Note 8)					(15,434,626)
Loss before income tax					(351,195,047)
Income tax expense (Note 10)					(15,543,792)
Loss for the year					(366,738,839)

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	640,348	–	2,973,615	2,153,398	–	5,767,361
Depreciation of property, plant and equipment	1,187,895	20,633	682,028	4,369,286	–	6,259,842
Depreciation of investment properties	–	–	–	5,643,697	310,742	5,954,439
Loss on disposals of property, plant and equipment	69,956	1,087	14,794	65,340	–	151,177
Net impairment loss on financial and contract assets	57,075,316	113,354,496	6,677,872	57,633,117	–	234,740,801
Impairment loss on goodwill (Note 8)	9,311,699	–	–	720,402	–	10,032,101
Impairment loss on property, plant and equipment	–	–	–	1,890,000	–	1,890,000
Amortisation of prepaid land lease payments	81,557	–	108,209	1,336,421	97,583	1,623,770
Amortisation of other intangible assets	2,555,212	–	–	10,068	–	2,565,280
Allowance for inventories	1,770,909	1,669,568	100,662	1,107,573	–	4,648,712

Notes:

There were no inter-segment sales during the years.

5 SEGMENT INFORMATION *(Continued)*

Revenue from two (2022: one) customers, accounted for more than 10% of the Group's total revenue for the year, which are shown as follows:

	2023 RMB	2022 RMB
Customer A from project contracting services segment	N/A[1]	59,672,556
Customer B from project contracting services segment	99,344,402	N/A[1]
Customer C from industrial products segment	53,539,823	N/A[1]

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

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

	2023 RMB	2022 RMB
PRC	527,801,471	316,962,165
Vietnam	–	6,906,636
Others	1,119,543	–
	528,921,014	323,868,801

5 SEGMENT INFORMATION *(Continued)*

As at 30 June 2023 and 2022, all of the non-current assets of the Group were located in the People's Republic of China.

Segment assets	**2023**	2022
	RMB	RMB
Project contracting services	**210,461,872**	181,538,627
Supporting services	**240,119,390**	306,357,498
Industrial products	**330,511,003**	283,782,893
Environmental products	**34,041,858**	37,524,376
Total segment assets	**815,134,123**	809,203,394
Unallocated:		
Cash and cash equivalents	**43,983,025**	141,048,866
Restricted deposits	**38,523,211**	52,312,844
Pledged deposits	**63,050,840**	28,844,290
Deferred tax assets	**842,536**	870,371
Other right-of-use assets	**6,193,168**	4,622,858
Investment properties	**4,436,090**	4,746,831
Prepayments — non-current portion (Note 21(iii))	**143,662**	156,722
Total assets	**972,306,655**	1,041,806,176

Segment liabilities	**2023**	2022
	RMB	RMB
Industrial products	**255,257,412**	269,995,355
Project contracting services	**151,668,186**	122,996,889
Supporting services	**103,260,486**	88,398,364
Environmental products	**19,566,425**	16,859,944
Total segment liabilities	**529,752,509**	498,250,552
Unallocated:		
Deferred tax liabilities	**4,779,177**	5,153,893
Interest-bearing loans	**68,990,000**	38,500,000
Other payables	**3,705,168**	93,495,552
Income tax payable	**7,334,046**	5,866,781
Lease liabilities	**6,145,509**	4,476,132
Total liabilities	**620,706,409**	645,742,910

5 SEGMENT INFORMATION *(Continued)*

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

	2023 RMB	2022 RMB
Contract assets (Note 21(ii)) (i):		
Retention receivables (note)	**31,137,525**	10,692,396
Contract assets relating to sales of goods	**6,003,281**	15,976,667
Contract assets relating to project contracting services	**79,254,726**	6,616,510
Less: provision for impairment	**(14,152,420)**	(3,749,132)
	102,243,112	29,536,441
Contract liabilities (i) (ii):		
Contract liabilities relating to sales of goods	**93,511,162**	108,971,758
Contract liabilities relating to project contracting services	**29,553,137**	54,961,281
	123,064,299	163,933,039

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers.

Note: Certain receivables at 30 June 2022 have been reclassified as contract assets to conform with the current year presentation.

(i) Significant changes in contract assets and liabilities

The increase in contract assets was mainly due to some projects related to project contracting services which were still works in progress before the year ended but have not yet reached the milestone for billing under the contracts. The decrease in contract liabilities was mainly due to recognition of revenue from sales of goods.

5 SEGMENT INFORMATION *(Continued)*

(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:

	2023 RMB	2022 RMB
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	**81,213,540**	80,075,783

The transaction price allocated to the remaining performance obligations of sales of certain goods and project contracting services contracts (unsatisfied or partially unsatisfied) and the expected timing of recognised revenue are as follows:

	2023 RMB	2022 RMB
Within one year	**360,723,024**	386,632,933
More than one year	**89,155,433**	212,687,546
	449,878,457	599,320,479

6 OTHER INCOME AND GAINS, NET

	2023 RMB	2022 RMB
Interest income recognised from project contracting services	**1,698,856**	12,311,414
Government grants (note)	**8,480,808**	4,557,886
Tax refund	**1,389,210**	7,545
Rental income	**830,947**	638,005
Net fair value gains/(losses) on financial assets at FVPL	**1,389,392**	(640,178)
Lawsuit	**(3,151,894)**	–
Write back of trade and other payables	**2,168,183**	–
Others	**356,102**	1,439,031
	13,161,604	18,313,703

Note:

During the current year, the Group recognised government grants amounted RMB135,746 (2022: RMB26,501) in respect of COVID-19-related subsidies which were granted to the Group under the Employment Support Scheme provided by the Hong Kong government. The remaining grants mainly related to subsidies granted to certain subsidiaries in respect of their operations in the PRC from governments bodies which are either unconditional grants or grants with conditions having been satisfied.

7 NET IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	2023	2022
	RMB	RMB
Provision for impairment losses of trade and other receivables that arose from Subject Transactions (Note i)	**–**	(95,772,971)
Provision for impairment loss of a major trade debtor (Note ii)	**–**	(129,767,173)
Expected credit losses on other financial and contract assets	**(16,366,419)**	(9,200,657)
	(16,366,419)	(234,740,801)

Notes:

(i) During the first half of 2022, when reviewing the balances of the long outstanding receivables of Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly owned subsidiary of the Company, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang, and three companies which are not subsidiaries of the Company (the "Subject Transactions"), namely (i) Tongxiang Jiafu Paper Equipment Co., Ltd. ("Jiafu Paper"); (ii) Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric"); and (iii) Zhejiang Huazhang Fibertech Co., Ltd. ("Fibertech"). Jiafu Paper was an associate of the Group during the financial year ended 30 June 2022 and was disposed of during the year ended 30 June 2023.

The Subject Transactions related to funding arrangement transactions of significant amounts between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech, which were without any procurement business nature and lacking supporting agreements with Zhejiang Huazhang. Further, most of the Subject Transactions were not properly approved by the Group's internal payment approval procedures, resulting in the existence of outstanding receivables between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech exceeding a reasonable limit. Since the directors of the Company were of the view that the trade and other receivables arose from the Subject Transactions could not be recovered, the Group made provision for impairment losses of trade and other receivables of RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022 (2023: Nil). Please also refer to the Company's announcements dated 11 August 2022 and 26 October 2022 for details.

(ii) The amount represented provision for impairment loss of a major trade debtor, which had been past due more than 2 years and was in significant financial difficulty and had defaulted in payment. Although there were pledged assets for the trade debtor, based on the legal advice, the directors of the Company were of the view that there were difficulties in enforcing to recover the pledged assets from the debtor for realisation in the mainland China. As there were significant uncertainties of recovering this receivable, the Group recognised full provision for impairment loss of RMB129,767,173 in the consolidated profit or loss for the year ended 30 June 2022 (2023: Nil).

8 FINANCE COSTS, NET

	2023 RMB	2022 RMB
Finance income		
— Interest income	**3,903,230**	3,119,318
— Net foreign exchange gain	**2,710,275**	1,179,944
	6,613,505	4,299,262
Finance costs		
— Interest on convertible bonds	**–**	(6,891,977)
— Interest on other payables	**(4,257,710)**	(7,400,170)
— Interest on loans	**(3,859,370)**	(5,148,702)
— Interest paid/payable for lease liabilities	**(368,584)**	(293,039)
	(8,485,664)	(19,733,888)
Finance costs, net	**(1,872,159)**	(15,434,626)

9 LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived after charging the following:

	2023 RMB	2022 RMB
Allowance for inventories	**952,728**	4,648,712
Amortisation of prepaid land lease payments	**1,711,250**	1,623,770
Amortisation of other intangible asset	**2,629,212**	2,565,280
Auditor's remuneration	**2,427,483**	2,831,348
Cost of inventories	**433,093,777**	272,642,053
Depreciation of property, plant and equipment included in:		
— Cost of sales	**155,798**	996,118
— Administrative expenses	**6,344,401**	4,992,491
— Selling and distribution expenses	**24,663**	119,582
— Research and development expenses	**143,269**	151,651
	6,668,131	6,259,842
Depreciation of other right-of-use assets included in:		
— Administrative expenses	**2,689,433**	1,293,648
Depreciation of investment properties included in:		
— Cost of sales	**5,643,698**	5,643,698
— Administrative expenses	**310,741**	310,741
	5,954,439	5,954,439
Employment benefit expenses included in:		
— Cost of sales	**3,618,277**	1,474,771
— Administrative expenses	**38,224,988**	37,140,927
— Selling and distribution expenses	**6,972,095**	7,380,078
— Research and development expenses	**23,820,979**	34,804,512
	72,636,339	80,800,288
Expense relating to short-term leases	**734,583**	808,185
Loss on disposals of property, plant and equipment	**607**	151,177
Legal and professional fees	**16,464,404**	4,718,262

10 INCOME TAX EXPENSE

	2023 RMB	2022 RMB
Current income tax		
PRC enterprise income tax (ii)	1,625,776	477,595
Deferred income tax (Note 25)	(346,881)	15,066,197
	1,278,895	15,543,792

(i) Cayman Islands profits tax

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

(ii) 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 "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 EIT Law. Under the relevant regulations of the 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 1 December 2020 till 30 November 2023. Thus the applicable income tax rate for Zhejiang Huazhang was 15% (2022: 15%) for the year ended 30 June 2023.

10 INCOME TAX EXPENSE *(Continued)*

(iii) Hong Kong profits tax

Under the two-tiered profits tax regime, Hong Kong profits tax is chargeable at the rate of 8.25% on assessable profits up to HK$2,000,000 and at the rate of 16.5% on any part of assessable profits over HK$2,000,000 for a corporation. No Hong Kong profits tax was provided as there was no estimated assessable profits for the year (2022: Nil).

(iv) Tax reconciliation

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 loss before income tax can be reconciled as follows:

	2023 **RMB**	2022 RMB
Loss before income tax	**(51,552,165)**	(351,195,047)
Tax calculated at the statutory tax rate of 25%	**(12,888,041)**	(87,798,762)
Tax effects of:		
Different tax rate effects	**1,712,295**	23,874,557
Income not subject to tax	**(380,683)**	(1,998,778)
Expenses not deductible for income tax purpose	**4,741,704**	39,706,982
Research and development tax credit	**(7,142,958)**	(11,470,208)
Tax losses and temporary differences for which no deferred tax asset was recognised	**15,161,403**	38,966,831
Reversal of previously recognised deferred tax assets	**45,024**	15,181,677
Adjustments for current tax of prior years	**30,151**	(918,507)
Income tax expense for the year	**1,278,895**	15,543,792

11 EMPLOYEE BENEFIT EXPENSES

	2023 RMB	2022 RMB
Employee benefit expenses (including directors' emoluments)		
Wages and salaries	**45,739,556**	48,064,023
Bonuses	**12,512,249**	17,524,147
Social security costs	**4,830,906**	7,119,426
Pension costs — defined contribution plans (Notes i and ii)	**3,484,338**	3,271,537
Share options (Note 29)	**3,718,575**	2,264,882
Other benefits	**2,350,715**	2,556,273
	72,636,339	80,800,288

(i) Hong Kong

Subsidiaries in Hong Kong operate the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Group contributes 5% (2022: 5%) of relevant payroll costs, capped at HK$1,500 (2022: HK$1,500) per month, to the MPF Scheme, in which the contribution is matched by employees. The assets of the MPF Scheme are held separately from those of the subsidiaries in an independent administered fund. The subsidiaries' employer contributions vest fully with the employees when contributed into the MPF Scheme. During the year ended 30 June 2023, a total contribution of RMB129,137 (2022: RMB126,212) was made by the Group in respect of this scheme.

There was no forfeited contribution during the years ended 30 June 2023 and 2022.

(ii) The PRC, other than Hong Kong

The employees of the Group who work in the PRC are required to participate in pension schemes operated by the local governments. The Group is required to contribute certain percentage of their payroll costs to the schemes. The contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the pension schemes. During the year ended 30 June 2023, a total contribution of RMB3,355,201 (2022: RMB3,145,325) was made by the Group in respect of this scheme.

There was no forfeited contribution during the years ended 30 June 2023 and 2022.

11 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2023 include no (2022: one) director whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining five (2022: four) individuals for the year ended 30 June 2023 are as follows:

	2023 **RMB**	2022 RMB
Salaries, allowances and benefits in kind	**1,162,157**	1,649,585
Bonuses	**6,407,288**	7,061,632
Share options	**133,946**	117,782
Other benefits	**335,419**	288,276
	8,038,810	9,117,275

The emoluments fell within the following bands:

	2023	2022
Emolument bands		
HK$1,500,001 to HK$2,000,000 (equivalent to approximately RMB1,339,601 to RMB1,786,133)	**3**	1
HK$2,000,001 to HK$2,500,000 (equivalent to approximately RMB1,786,134 to RMB2,232,667)	**2**	1
HK$2,500,001 to HK$3,000,000 (equivalent to approximately RMB2,232,668 to RMB2,679,200)	**–**	1
HK$4,000,001 to HK$4,500,000 (equivalent to approximately RMB3,572,268 to RMB4,018,800)	**–**	1

12 LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year attributable to the shareholders of the Company and the weighted average number of ordinary shares of 1,064,089,378 (2022: 941,160,490) which represents the shares in issue during the year.

The Company has one (2022: one) category of potentially dilutive potential ordinary shares: share options (2022: share options). The diluted loss per share is same as the basic loss per share as these potential ordinary shares would have anti-dilutive effect for the years ended 30 June 2023 and 2022.

	2023	2022
	RMB	RMB
Basic		
Loss		
Loss attributable to the shareholders of the Company	**(51,248,791)**	(363,753,165)
Number of shares		
Weighted average number of ordinary shares in issue during the year	**1,064,089,378**	941,160,490
Basic loss per share (RMB cents)	**(4.82)**	(38.65)
Diluted		
Loss		
Loss attributable to the shareholders of the Company	**(51,248,791)**	(363,753,165)
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	**1,064,089,378**	941,160,490
Diluted loss per share (RMB cents)	**(4.82)**	(38.65)

During the years ended 30 June 2023 and 2022, the computation of diluted loss per share does not include the Company's outstanding share options because the effect was anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

13 INTERESTS IN AN ASSOCIATE

The Group had interests in an associate that was accounted for using the equity method during the years ended 30 June 2023 and 2022 as follows:

	2023 RMB	2022 RMB
At the beginning of the year	50,000	4,947,538
Disposals	(50,000)	–
Impairment loss recognised	–	(4,897,538)
At the end of the year	–	50,000

Details of the associate of the Group at the end of the reporting period are as follows:

Company name	Place of incorporation and kind of legal entity	Measurement method	Ownership\interest held by the Group 30 June		Carrying amount	
			2023 %	2022 %	2023 RMB	2022 RMB
Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu Paper")	PRC/Limited Company	Equity method	–	33.33	–	50,000

The country of incorporation or registration is also the principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

The Group was unable to have access to the management personnel and books and records of the associate to determine the amount of the Group's share of results of the associate for the years ended 30 June 2023 and 2022. For the same reason, no financial information for the associate is disclosed in this note in the consolidated financial statements. The Group recognised impairment loss on the associate amounted to RMB4,897,538 in the consolidated profit or loss for the year ended 30 June 2022, which was determined by the Group based on the disposal price of RMB50,000 to a third party subsequent to 30 June 2022, and share of profit or loss from the associate of nil in the consolidated profit or loss for the years ended 30 June 2023 and 2022.

On 29 December 2022, the Group disposed of the associate to an independent third party for a consideration of RMB50,000.

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB	Machinery and vehicles RMB	Furniture, fittings and equipment RMB	Total RMB
Cost				
As at 1 July 2021	87,931,705	23,877,760	6,421,480	118,230,945
Additions	3,465,875	1,348,401	843,352	5,657,628
Disposals	–	(663,582)	(1,104,864)	(1,768,446)
As at 30 June 2022	91,397,580	24,562,579	6,159,968	122,120,127
Additions	–	682,142	421,909	1,104,051
Disposals	–	–	(12,125)	(12,125)
Exchange difference	145,166	41,781	63,751	250,698
As at 30 June 2023	91,542,746	25,286,502	6,633,503	123,462,751
Accumulated depreciation				
As at 1 July 2021	(27,324,298)	(12,619,665)	(4,845,704)	(44,789,667)
Charge for the year	(3,966,427)	(1,881,782)	(411,633)	(6,259,842)
Disposals	–	610,810	982,501	1,593,311
As at 30 June 2022	(31,290,725)	(13,890,637)	(4,274,836)	(49,456,198)
Charge for the year	(4,415,229)	(1,621,381)	(631,521)	(6,668,131)
Disposals	–	–	11,518	11,518
Exchange difference	(33,236)	(11,783)	(7,276)	(52,295)
As at 30 June 2023	(35,739,190)	(15,523,801)	(4,902,115)	(56,165,106)
Impairment				
As at 1 July 2021	–	–	–	–
Recognised for the year	–	(1,888,404)	(1,596)	(1,890,000)
As at 30 June 2022	–	(1,888,404)	(1,596)	(1,890,000)
Recognised for the year	(2,859,484)	–	–	(2,859,484)
As at 30 June 2023	(2,859,484)	(1,888,404)	(1,596)	(4,749,484)
Net carrying amount				
As at 30 June 2023	52,944,072	7,874,297	1,729,792	62,548,161
As at 30 June 2022	60,106,855	8,783,538	1,883,536	70,773,929

As at 30 June 2023, buildings with an aggregate carrying amount of RMB39,176,777 (2022: RMB58,615,710) were pledged as collateral for the Group's banking facilities (Note 24).

The Group carried out a review of the recoverable amounts of the property, plant and equipment belonging to the cash-generating unit of logistic and warehousing services in the supporting services segment.

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The pandemic of Covid-19 and the downturn of the economy in mainland China drive down the valuation of the property markets. Based on the impairment review, an impairment loss of RMB2,859,484 (2022: nil) was recognised to write down the carrying amount of the building belonging to the cash-generating unit to its recoverable amount. The recoverable amount of the building as at 30 June 2023 was determined based on its fair value less cost of disposal with reference to a professional valuation performed by an independent and qualified professional valuer, Vincorn Consulting and Appraisal Limited ("Vincorn"), using market approach, considering different multiples such as location, size and handover condition of similar properties. The fair value measurement was a level 3 measurement in the fair value hierarchy. There has been no change from the valuation technique used in the prior year.

As at 30 June 2022, impairment losses of RMB1,888,404 and RMB1,596 were recognised to write down the carrying amount of the machinery and vehicles and furniture, fitting and equipment belonging to the cash-generating unit to its recoverable amount. The recoverable amount of the machinery and vehicles and furniture, fitting and equipment were determined based on its fair value less cost of disposal with reference to a professional valuation performed by an independent and qualified professional valuer, Valplus Consulting Limited ("Valplus") using the cost approach, considering different multiples such as current cost of comparable machinery and equipment having the nearest equivalent utility. The fair value measurement was a level 3 measurement in the fair value hierarchy.

15 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2023 RMB	2022 RMB
Right-of-use assets		
Properties	**6,193,168**	4,622,858
Prepaid land lease payments (Note 17(i))	**72,040,922**	73,752,172
	78,234,090	78,375,030
Lease liabilities		
Within one year	**2,908,538**	1,086,798
Within a period of more than one year but not more than two years	**1,611,571**	1,140,482
Within a period of more than two years but not more than five years	**1,625,400**	2,248,852
	6,145,509	4,476,132
Less: Amount due for settlement within 12 months shown under current liabilities	**(2,908,538)**	(1,086,798)
Amount due for settlement after 12 months shown under non-current liabilities	**3,236,971**	3,389,334

The Group has entered into lease contracts for various items of property used in its operations. Lump sum payments were made upfront to acquire land in the PRC with land use rights periods between 33 and 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 2 and 4 years (2022: between 2 and 5 years).

Additions to the right-of-use assets during the year ended 30 June 2023 were RMB4,091,992 (2022: RMB86,505).

15 LEASES *(Continued)*

(ii) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	2023 RMB	2022 RMB
Depreciation charge of right-of-use assets		
Properties	(2,689,433)	(1,293,648)
Prepaid land lease payments (Note 17(i))	(1,711,250)	(1,623,770)
	(4,400,683)	(2,917,418)
Interest expense (Note 8)	(368,584)	(293,039)
Expense relating to short-term leases (Note 9)	(734,583)	(808,185)

The total cash outflow (including short-term lease) for leases during the year ended 30 June 2023 was RMB3,649,045 (2022: RMB2,228,610).

16 INVESTMENT PROPERTIES

	Properties RMB	Prepaid land lease payments RMB	Total RMB
Cost			
As at 30 June 2022 and 2023	121,166,480	3,700,043	124,866,523
Accumulated depreciation			
As at 1 July 2021	(19,796,189)	(1,049,266)	(20,845,455)
Charge for the year	(5,859,768)	(94,671)	(5,954,439)
As at 30 June 2022	(25,655,957)	(1,143,937)	(26,799,894)
Charge for the year	(5,859,768)	(94,671)	(5,954,439)
As at 30 June 2023	(31,515,725)	(1,238,608)	(32,754,333)
Impairment			
As at 1 July 2021 and 30 June 2022	–	–	–
Charge for the year	(8,576,102)	–	(8,576,102)
As at 30 June 2023	(8,576,102)	–	(8,576,102)
Net carrying amount			
As at 30 June 2023	81,074,653	2,461,435	83,536,088
As at 30 June 2022	95,510,523	2,556,106	98,066,629

16 INVESTMENT PROPERTIES *(Continued)*

Amount recognised in profit or loss for investment properties included:

	2023 RMB	2022 RMB
Rental income	**6,810,284**	6,718,549
Depreciation of investment properties	**(5,954,439)**	(5,954,439)
Impairment loss recognised	**(8,576,102)**	–
	(7,720,257)	764,110

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's investment properties at the end of each reporting period. As at 30 June 2023, the fair value of the investment properties, together with their related prepaid land lease payments whose fair value amounted to RMB9,600,000 (2022: RMB9,930,000), was approximately RMB91,700,000 (2022: RMB116,000,000), determined based on the valuations performed by an independent and qualified valuer, Vincorn, who has recent experience in the valuation of the industrial complex and commercial units in China, using market approach. The significant unobservable input is the gross unit rate, the valuer considered the recent transaction prices for similar properties adjusted for nature, location, and conditions of the properties. A significant increase in the gross unit rate used would result in a significant increase in fair value, and vice versa. There has been no change from the valuation technique used in the prior year.

The pandemic of Covid-19 and the downturn of the economy in mainland China drive down the valuation of the property markets. Based on the impairment review, an impairment loss of RMB8,576,102 (2022: nil) was recognised to write down the carrying amount of the industrial complex to its recoverable amount.

As at 30 June 2023, investment properties with an aggregate carrying amount of RMB81,074,653 (2022: RMB98,066,629) were pledged as collateral for the Group's banking facilities (Note 24).

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Carrying amount 2023 RMB	**Fair value at Level 3 hierarchy 2023 RMB**	Carrying amount 2022 RMB	Fair value at Level 3 hierarchy 2022 RMB
Industrial complex in the Mainland China	**79,100,000**	**79,100,000**	93,319,799	103,000,000
Commercial unit in the Mainland China	**4,436,088**	**12,600,000**	4,746,830	13,000,000
	83,536,088	**91,700,000**	98,066,629	116,000,000

17 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

(i) Prepaid land lease payments

	RMB
Cost	
As at 1 July 2021 and 30 June 2022 and 2023	84,572,940
Accumulated amortisation	
As at 1 July 2021	(9,196,998)
Charge for the year	(1,623,770)
As at 30 June 2022	(10,820,768)
Charge for the year	(1,711,250)
As at 30 June 2023	(12,532,018)
Net carrying amount	
As at 30 June 2023	72,040,922
As at 30 June 2022	73,752,172

As at 30 June 2023, prepaid land lease payments with an aggregate carrying amount of RMB70,717,130 (2022: RMB73,752,172) were pledged as collateral for the Group's banking facilities (Note 24).

17 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

(Continued)

(ii) Other intangible assets

	Patents RMB (Note)	Software RMB	Total RMB
Cost			
As at 1 July 2021	16,382,800	2,990,716	19,373,516
Additions	–	109,735	109,735
As at 30 June 2022	16,382,800	3,100,451	19,483,251
Additions	–	26,255	26,255
As at 30 June 2023	16,382,800	3,126,706	19,509,506
Accumulated amortisation			
As at 1 July 2021	(7,679,438)	(1,025,277)	(8,704,715)
Charge for the year	(2,047,850)	(517,430)	(2,565,280)
As at 30 June 2022	(9,727,288)	(1,542,707)	(11,269,995)
Charge for the year	(2,047,850)	(581,362)	(2,629,212)
As at 30 June 2023	(11,775,138)	(2,124,069)	(13,899,207)
Net carrying amount			
As at 30 June 2023	4,607,662	1,002,637	5,610,299
As at 30 June 2022	6,655,512	1,557,744	8,213,256

Note: The Group's patents relate to electric linear reciprocate device and rotary linear control valve and have a useful life of 20 years.

18 GOODWILL

	Headbox business RMB	Logistics and warehousing services RMB	Others RMB	Total RMB
Opening net carrying amount as at 1 July 2021	36,155,379	3,183,135	596,370	39,934,884
Impairment loss recognised for the year	(6,848,966)	(3,183,135)	–	(10,032,101)
Closing net carrying amount as at 30 June 2022 and 2023	29,306,413	–	596,370	29,902,783

Goodwill of the Group mainly arose from the acquisition of Haorong and MCN (together, the "MCN Group") in 2017 which represent the CGU of headbox business and Fu An 777 Logistics Limited ("777 Logistics", together with its subsidiaries, collectively known as the "777 Logistics Group") in 2017 which represent the CGU of logistics and warehousing services.

MCN

MCN is a company established under the laws of the PRC and principally engaged in the research, development and distribution of headbox. Since its establishment in 2001, MCN has developed various kinds of stainless headboxes including rectifier roll headbox, hydraulic headbox, turbulence channel headbox, inclined wire and cylinder former headbox and turbulent flow away headbox etc which were customised for its customers. It also provides equipment installation, operation instruction and consultation services for its customers. Customers of MCN are located across the PRC and are primarily engaged in paper manufacturing.

Haorong

Haorong is a company established under the laws of the PRC. Since its establishment in 2006, it has principally engaged in the business of research, development and distribution of headboxes. It has developed various kinds of high frequency shake, headbox control system, etc. and provided equipment installation, operation instruction and consultation services in accordance with the specifications and requirements provided by its customers, which are primarily engaged in paper manufacturing in the PRC. Haorong was regarded as a "High-tech Enterprise in Hangzhou City" (杭州市高新技術企業) and a "Medium and Small Technology Enterprise in Zhejiang Province" (浙江省科技型中小企業).

Goodwill is allocated to the 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 testing purposes.

18 GOODWILL *(Continued)*

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

	Headbox business	
	2023	2022
Sales (% annual growth rate)	**2.2%**	2.5%–3.0%
Budgeted gross margin (%)	**19.6%**	23.5%
Long term growth rate (%)	**2.2%**	2.5%
Pre-tax discount rate (%)	**20.1%**	19.2%

These assumptions have been used for the analysis of the CGUs in 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.

For the year ended 30 June 2023, based on the valuation report prepared by independent professional valuer, Vincorn Consulting and Appraisal Limited ("Vincorn"), the recoverable amount of the headbox business CGU exceeded its carrying amount, no impairment charge arose in the aforesaid CGUs. The management of the Group believes that any reasonably possible change in any of the aforementioned key assumptions would not cause the carrying amount of headbox business CGU to exceed its recoverable amount.

For the year ended 30 June 2022, under the impact of COVID-19 Outbreak in the Mainland China, the Group's headbox business and logistics and warehousing services business in the PRC were faced with downward pressure. The business was also affected by macroeconomic performance that was affecting the domestic economy. As a result, the directors of the Company expected the projected sales, budgeted gross profit margin and budgeted net profit margin of headbox business CGU and logistics and warehousing services CGU would be decreased and significant impairment loss recognised for the year ended 30 June 2022. An impairment loss of RMB6,848,966 and RMB3,183,135 in respect of the goodwill related to the headbox business CGU and logistics and warehousing services CGU respectively was recognised for the year ended 30 June 2022.

Based on the valuation report prepared by independent professional valuer, Valplus Consulting Limited ("Valplus") for the year ended 30 June 2022, the recoverable amounts of the headbox business CGU and logistics and warehousing services CGU were RMB36,663,000 and RMB23,259,790 respectively based on value-in-use calculations.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

The Group classifies equity investments for which the entity has not elected to recognise fair value gains and losses through OCI as financial assets carried at FVPL:

	2023	2022
	RMB	RMB
Non-current assets		
— Unlisted equity investments	**6,196,647**	4,807,255

(ii) Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss:

	2023	2022
	RMB	RMB
Fair value gains/(losses) on equity investments at FVPL recognised in other income and gains, net (note 6)	**1,389,392**	(640,178)

(iii) Risk exposure and fair value measurements

Information about the fair value measurement is set out in note 3.3.

20 INVENTORIES

	2023	2022
	RMB	RMB
Raw materials	**63,560,219**	58,074,676
Work in progress	**18,964,813**	24,988,754
Finished goods	**96,402,431**	79,368,182
	178,927,463	162,431,612
Less: provision	**(25,279,783)**	(24,327,055)
	153,647,680	138,104,557

As at 30 June 2023, raw materials and finished goods with aggregate cost of RMB18,236,661 and RMB12,144,460 respectively were considered as obsolete (2022: RMB17,683,149 and RMB12,144,460 respectively) and a provision of RMB13,135,323 and RMB12,144,460 respectively (2022: RMB12,182,595 and RMB12,144,460 respectively) to write down their carrying amount to their net realisable value was made against those inventories.

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

(i) Trade and other receivables

	2023 RMB	2022 RMB
Trade receivables	**292,770,950**	315,884,068
Less: provision for impairment of trade receivables (c)	**(179,566,793)**	(174,667,301)
Trade receivables — net (a) & (b)	**113,204,157**	141,216,767
Bills receivables	**39,906,657**	38,333,671
	153,110,814	179,550,438
Payment on behalf of an independent third party	**–**	3,153,801
Deductible input value added tax	**28,983**	100,298
Loan to a customer	**3,601,624**	2,555,227
Other receivables — guarantee	**188,300**	6,145,397
Others (note)	**18,360,496**	31,006,191
Other receivables	**22,179,403**	42,960,914
Total trade and other receivables	**175,290,217**	222,511,352
Less: trade and other receivables non-current portion	**–**	(38,542,965)
	175,290,217	183,968,387

Note:

As at 30 June 2023, included in others are the gross carrying amounts of RMB49,103,484 (2022: RMB49,103,484), RMB39,541,029 (2022: RMB39,541,029) and RMB6,999,500 (2022: RMB7,128,458) due from Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric"), Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu Paper") and Zhejiang Hua Zhang Fibertech Co., Ltd. ("Fibertech") respectively, and provision for impairment of RMB49,103,484 (2022: RMB49,103,484), RMB39,541,029 (2022: RMB39,541,029), and RMB6,999,500 (2022: RMB7,128,458) respectively.

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

(a) The ageing analysis of the net amount of trade receivables based on the date of the invoice is as follows:

	2023	2022
	RMB	RMB
Up to 3 months	**78,399,641**	20,016,657
3 months to 6 months	**7,664,258**	5,082,214
6 months to 1 year	**4,675,122**	11,623,777
1 year to 2 years	**9,632,173**	60,296,306
Over 2 years	**12,832,963**	44,197,813
	113,204,157	141,216,767

(b) The ageing analysis of the net amount of trade receivables based on the due date is as follows:

	2023	2022
	RMB	RMB
Not due	**67,080,616**	9,369,124
Up to 3 months past due	**11,252,267**	10,590,384
3 months to 6 months past due	**7,629,402**	5,082,214
6 months to 1 year past due	**4,791,913**	11,816,277
1 year to 2 years past due	**9,646,279**	60,350,306
Over 2 years past due	**12,803,680**	44,008,462
	113,204,157	141,216,767

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

	2023 RMB	2022 RMB
At beginning of the year	174,667,301	96,219,937
Impairment loss recognised	4,881,155	78,447,364
Exchange difference	18,337	–
At the end of the year	179,566,793	174,667,301

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

	2023 RMB	2022 RMB
At beginning of the year	181,102,024	28,051,042
Impairment loss recognised	1,210,537	153,050,982
Exchange difference	3,404	–
At the end of the year	182,315,965	181,102,024

As at 30 June 2023, balances of RMB177,712,503 (2022: RMB179,805,896) were assessed as credit-impaired and full provision was recognised.

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

(d) (Continued)

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

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

	2023 RMB	2022 RMB
RMB	**153,438,736**	196,095,556
HK$	**7,208,330**	12,794,566
USD	**14,643,151**	13,621,230
	175,290,217	222,511,352

(ii) Contract assets

	2023 RMB	2022 RMB
Retention receivables (a)	**31,137,525**	10,692,396
Contract assets relating to sales of goods	**72,227,038**	15,976,667
Contract assets relating to project contracting services	**13,030,969**	6,616,510
	116,395,532	33,285,573
Less: provision for impairment of contract assets (b)	**(14,152,420)**	(3,749,132)
	102,243,112	29,536,441

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(ii) Contract assets *(Continued)*

(a) Certain retention receivables at 30 June 2022 have been reclassified as contract assets to conform with the current year presentation. The retention receivables represent approximately 5% to 10% of the contract value of the project contracting services 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).

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

	2023 RMB	2022 RMB
At beginning of the year	**3,749,132**	508,140
Impairment losses recognised	**10,274,727**	3,242,455
Exchange difference	**128,561**	(1,463)
At the end of the year	**14,152,420**	3,749,132

As at 30 June 2023 and 2022, the net amounts of contract assets are denominated in the following currencies:

	2023 RMB	2022 RMB
RMB	**98,675,437**	24,696,544
USD	**3,567,675**	4,839,897
	102,243,112	29,536,441

(c) Contract assets relating to sales of goods and project contracting services are expected to be recovered within 12 months.

(iii) Prepayments

	2023 RMB	2022 RMB
Prepayments for procurements	**94,789,330**	94,893,020
Others	**566,587**	408,752
Total prepayments	**95,355,917**	95,301,772
Less: prepayments — non-current portion	**(143,662)**	(156,722)
	95,212,255	95,145,050

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(iv) Financial assets at fair value through other comprehensive income

The Group manages its bills receivable using the business model whose objective is achieved by both collecting contractual cash flow and selling such financial assets and hence, they are categorised as financial assets measured at fair value through other comprehensive income accordance to HKFRS 9.

22 CASH AND CASH EQUIVALENTS/PLEDGED DEPOSITS/RESTRICTED DEPOSITS

	2023 RMB	2022 RMB
Cash at bank and on hand	**145,557,076**	222,206,000
Less: pledged deposits (note i)	**(63,050,840)**	(28,844,290)
Less: restricted deposits (note ii)	**(38,523,211)**	(52,312,844)
Cash and cash equivalents	**43,983,025**	141,048,866

(i) The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable.

(ii) At 30 June 2023, as disclosed in note 37 to the consolidated financial statements, certain of the Group's bank accounts amounting to RMB38,523,211 (2022: RMB52,312,844) in aggregate were frozen by courts in the PRC in relation to certain claims against the Group. Management expects the cases to be concluded and the amounts becoming unrestricted within 12 months.

(iii) The carrying amount of cash and cash equivalents, pledged and restricted deposits are denominated in the following currencies:

	2023 RMB	2022 RMB
RMB (Note)	**138,974,978**	147,509,121
HK$	**1,659,899**	66,644,977
USD	**4,901,400**	8,002,458
Euro	**20,799**	20,972
AED	**–**	28,472
	145,557,076	222,206,000

Note:

Remittance of RMB outside of the Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the Mainland Chinese Government.

23 TRADE AND OTHER PAYABLES

	2023 RMB	2022 RMB
Trade payables	**204,050,587**	176,293,302
Bills payable	**59,541,901**	19,077,191
Sub-total	**263,592,488**	195,370,493
Other taxes payables — value added tax	**40,123,900**	46,528,370
Deposits for project contracting services	**6,553,958**	6,553,958
Interest-free loan from independent third parties	**13,080,800**	13,080,800
Amount due to suppliers on a customer's behalf	**13,177,942**	13,419,622
Provision for legal claims (note)	**14,799,444**	12,659,277
Accruals	**5,263,774**	4,229,571
Employee benefit payables	**5,451,620**	642,087
Other deposits	**600,568**	627,803
Provision for warranty expenses	**523,838**	523,838
Payables for property, plant and equipment	**325,418**	708,312
Amounts due to related parties (note 33 (c) (i))	**–**	85,786,822
Interest payable for loans (note 24)	**591,666**	45,833
Interest payable for convertible bonds	**–**	2,550,040
Others	**26,170,462**	23,598,739
Sub-total	**126,663,390**	210,955,072
Total trade and other payables	**390,255,878**	406,325,565

Note:

As at 30 June 2023, provision for legal claims amounted to RMB12,659,277 (2022: RMB12,659,277) was related to a legal claim made by a supplier in July 2020 against the Group in respect of a construction contract.

During the year ended 30 June 2023, the Group recognised a provision for legal claim of RMB2,140,167 made by the supplier (2022: Nil).

No payment has been made to the above claimant pending outcome of the decision. The recognised provision reflects the directors' best estimate of the most likely outcome.

23 TRADE AND OTHER PAYABLES *(Continued)*

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

	2023 RMB	2022 RMB
Up to 3 months	**90,752,703**	100,962,553
3 months to 6 months	**38,541,414**	7,148,031
6 months to 1 year	**9,427,424**	18,561,739
1 year to 2 years	**30,921,474**	19,953,725
Over 2 years	**34,407,572**	29,667,254
	204,050,587	176,293,302

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

	2023 RMB	2022 RMB
RMB	**386,162,211**	307,049,366
HK$	**4,093,667**	99,009,377
USD	**–**	266,822
	390,255,878	406,325,565

24 INTEREST-BEARING LOANS

	Notes	2023 RMB	2022 RMB
Bank borrowings	(i), (ii)	**28,990,000**	38,500,000
Loan from independent third parties	(i), (iii)	**40,000,000**	–
		68,990,000	38,500,000

24 INTEREST-BEARING LOANS *(Continued)*

Movement of interest-bearing loans is analysed as follows:

	Loan from a non-controlling shareholder	Loan from banks	Loan from independent third parties	Loan from a related party	Total
	RMB	RMB	RMB	RMB	RMB
For the year ended 30 June 2023					
Opening net carrying amount as at 1 July 2022	**–**	**38,500,000**	**–**	**–**	**38,500,000**
Additions	**–**	**28,990,000**	**40,000,000**	**–**	**68,990,000**
Interest expenses (Note 8)	**–**	**2,822,704**	**1,036,666**	**–**	**3,859,370**
Repayments	**–**	**(41,322,704)**	**(445,000)**	**–**	**(41,767,704)**
Accrued interest (Note 23)	**–**	**–**	**(591,666)**	**–**	**(591,666)**
Closing net carrying amount as at 30 June 2023	**–**	**28,990,000**	**40,000,000**	**–**	**68,990,000**
For the year ended 30 June 2022					
Opening net carrying amount as at 1 July 2021	202,400	50,000,000	1,408,904	1,435,020	53,046,324
Additions	–	24,500,000	–	–	24,500,000
Interest expenses (Note 8)	–	5,148,702	–	–	5,148,702
Repayments	(202,400)	(41,102,869)	(1,408,904)	(1,435,020)	(44,149,193)
Accrued interest (Note 23)	–	(45,833)	–	–	(45,833)
Closing net carrying amount as at 30 June 2022	–	38,500,000	–	–	38,500,000

Notes:

(i) As at 30 June 2023 and 2022, the Group's interest-bearing loans were all denominated in RMB.

(ii) As at 30 June 2023, the Group's loans of RMB28,990,000 (30 June 2022: RMB38,500,000) from banks bore interest at an average rate of 4.15% per annum (2022: 4.87%) and all of them were borrowed by using banking facilities.

(iii) As at 30 June 2023, the loans from independent third parties are unsecured, bore interest at an average rate of 6% per annum and repayable on 31 December 2023 (2022: Nil).

24 INTEREST-BEARING LOANS *(Continued)*

As at 30 June 2023 and 2022, the Group's loans were payable as follows:

	2023 RMB	2022 RMB
Within one year	**68,990,000**	38,500,000

As at 30 June 2023 and 2022, the Group had the following unutilised banking facilities:

	2023 RMB	2022 RMB
Authorised banking facilities — expiring within one year	**80,290,000**	245,994,888
Less: utilised banking facilities	**(19,000,000)**	(28,500,000)
	61,290,000	217,494,888

As at 30 June 2023, the banking facilities for short term loans granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB39,176,777, RMB81,074,653 and RMB70,717,130, respectively (2022: RMB58,615,710, RMB98,066,629 and RMB73,752,172, respectively).

25 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax balances are related to the same tax authority. At 30 June 2023, the Group does not have deferred tax assets and liabilities that are offset against each other and accordingly they are all stated at gross amounts. As at 30 June 2023 and 2022, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	2023 **RMB**	2022 RMB
Deferred tax assets		
— to be recovered within 12 months	**842,536**	870,371
Deferred tax liabilities		
— to be recovered after more than 12 months	**4,199,609**	4,837,916
— to be recovered within 12 months	**579,568**	315,977
	4,779,177	5,153,893

The movement on the deferred tax liabilities, prior to offsetting, are as follows:

	Gains on fair value changes of financial assets RMB	**Fair value adjustments arising from acquisition of subsidiaries** RMB	**Others** RMB	**Total** RMB
At 1 July 2022	**–**	**5,150,336**	**3,557**	**5,153,893**
Charged/(credited) to the consolidated statement of profit or loss	**208,409**	**(579,568)**	**(3,557)**	**(374,716)**
At 30 June 2023	**208,409**	**4,570,768**	**–**	**4,779,177**
At 1 July 2021	67,115	5,462,756	14,725	5,544,596
Credited to the consolidated statement of profit or loss	(67,115)	(312,420)	(11,168)	(390,703)
At 30 June 2022	–	5,150,336	3,557	5,153,893

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

The movement on the deferred tax assets, prior to offsetting, are as follows:

	Provision for warranty expense RMB	Provision for impairment of financial assets RMB	Unutilised tax losses RMB	Provision for accruals RMB	Others RMB	Total RMB
At 1 July 2022	–	841,711	–	–	28,660	870,371
Credited/(charged) to the consolidated statement of profit or loss	–	825	–	–	(28,660)	(27,835)
At 30 June 2023	–	842,536	–	–	–	842,536
At 1 July 2021	78,577	12,559,383	1,570,747	1,968,746	149,818	16,327,271
Charged to the consolidated statement of profit or loss	(78,577)	(11,717,672)	(1,570,747)	(1,968,746)	(121,158)	(15,456,900)
At 30 June 2022	–	841,711	–	–	28,660	870,371

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at 30 June 2023, the Group did not recognise deferred tax assets of RMB82,640,015 (2022: RMB72,783,382) in respect of tax losses amounting to RMB340,884,407 (2022: RMB295,473,678) that can be carried forward to offset against future taxable income due to uncertainty of realisation.

As at 30 June 2023, accumulated tax losses amounting to RMB25,423,508, RMB46,508,048, RMB8,943,275, RMB201,833,696 and RMB27,810,156 in the PRC will expire in 2024, 2025, 2026, 2027 and 2028 respectively and accumulated tax losses amounting to RMB30,365,724 in Hong Kong have no expiration date (2022: accumulated tax losses amounting to RMB25,423,508, RMB46,508,048, RMB8,943,275 and RMB201,833,696 in the PRC will expire in 2024, 2025, 2026 and 2027 respectively and accumulated tax losses amounting to RMB12,765,151 in Hong Kong have no expiration date).

26 DEFERRED INCOME

	2023 RMB	2022 RMB
Government grant (related to assets):		
At beginning of the year	**21,487,500**	22,837,500
Amortised as income	**(1,350,000)**	(1,350,000)
At end of the year	**20,137,500**	21,487,500

In 2017, Guangdong Huazhang Logistics Warehouse Limited, a subsidiary of the Group, received government grants totaling RMB27,000,000 from Yangjang Gaoxin district Small and Medium sized Enterprise Service Centre as a special funding for building and upgrading logistics warehouse facilities. The deferred income is being amortised over the estimated useful life of the related assets of 20 years and recorded in the profit or loss.

27 CONVERTIBLE BONDS

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

Pursuant to the subscription agreement, the Convertible Bonds were:

(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 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.

27 CONVERTIBLE BONDS *(Continued)*

The proceeds from the issuance of the 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 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 Convertible Bonds and is included in equity.

	Liability component of Convertible Bonds	**Equity component of Convertible Bonds**	**Total**
	RMB	RMB	RMB
At 1 July 2021	81,314,234	6,199,604	87,513,838
Interest expense (Note 8)	6,891,977	–	6,891,977
Interest paid and payable	(5,007,137)	–	(5,007,137)
Maturity of Convertible Bonds	(81,792,000)	(6,199,604)	(87,991,604)
Currency translation differences	(1,407,074)	–	(1,407,074)
At 30 June 2022 and 2023	–	–	–

28 SHARE CAPITAL AND SHARE PREMIUM

	2023 RMB	2022 RMB
Issued and fully paid:		
1,064,089,378 (2022: 1,064,089,378) ordinary shares	**8,907,761**	8,907,761

	Number of issued shares	Share capital RMB	Share premium RMB	Total RMB
At 1 July 2021	886,741,378	7,471,631	589,857,286	597,328,917
Issue of shares	177,348,000	1,436,130	73,288,161	74,724,291
At 30 June 2022 and 2023	1,064,089,378	8,907,761	663,145,447	672,053,208

On 11 March 2022, the Company issued 177,348,000 ordinary shares at HK$0.53 each, and the net proceeds was used for the partial redemption of the Convertible Bonds.

Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, the share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.

29 OTHER RESERVES

	Reorganisation reserve (iv)	Merger reserve (v)	Statutory reserves (i)	Translation reserves	Employee Share Option Scheme (ii)	Fair value reserve (iii)	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 July 2022	**2,335,540**	**33,028,254**	**36,451,103**	**17,818,495**	**2,264,882**	**30,190,011**	**122,088,285**
Translation differences	**–**	**–**	**–**	**4,649,465**	**–**	**–**	**4,649,465**
Share options (ii)	**–**	**–**	**–**	**–**	**3,718,575**	**–**	**3,718,575**
At 30 June 2023	**2,335,540**	**33,028,254**	**36,451,103**	**22,467,960**	**5,983,457**	**30,190,011**	**130,456,325**
At 1 July 2021	2,335,540	33,028,254	31,631,187	14,819,457	–	23,990,407	105,804,845
Translation differences	–	–	–	2,999,038	–	–	2,999,038
Appropriation to statutory reserves (i)	–	–	4,819,916	–	–	–	4,819,916
Share options (ii)	–	–	–	–	2,264,882	–	2,264,882
Maturity of convertible bonds	–	–	–	–	–	6,199,604	6,199,604
At 30 June 2022	2,335,540	33,028,254	36,451,103	17,818,495	2,264,882	30,190,011	122,088,285

(i) Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holder. All statutory reserves are created for specific purposes. PRC companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the Board.

29 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme

A new share option scheme of the Company (the "New Share Option Scheme") was approved and adopted by the shareholders of the Company at its extraordinary general meeting held on 10 February 2022 (the "Adoption Date") in replacement of the share option scheme adopted on 6 May 2013 and effective on 16 May 2013 (the "2013 Share Option Scheme") and that no further options of the Company shall be offered or granted under the 2013 Share Option Scheme.

The classes of eligible persons under the New Share Option Scheme are materially the same as those of the 2013 Share Option Scheme, namely, any full-time or part-time employee of the Company or any member of the Group, including any executive Directors, non-executive Directors and independent non-executive Directors. The basis of eligibility of any class of eligible persons to the grant of any Option will be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

The Board may, at its absolute discretion, invite any eligible person to take up Options. Upon acceptance of the Option, the eligible person shall pay HK$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted.

Subject to obtaining approval from the Shareholders with respect to the adoption of the New Share Option Scheme, the total number of Shares which may be issued upon exercise of all Options to be granted under the New Share Option Scheme and any other scheme must not in aggregate exceed 10% of the Shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the New Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating such 10% scheme mandate limit. The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme of the Company must not exceed 30% of the total number of Shares in issue from time to time.

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the New Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time. Where any further grant of Options to a Participant (the "Further Grant") would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the New Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time, the Further Grant must be separately approved by the Shareholders in general meeting with such Participant and his close associates (as defined in the Listing Rules) (or his associates (as defined in the Listing Rules) if the Participant is a connected person) abstaining from voting.

29 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme *(Continued)*

Details of the share options granted and outstanding during the year were:

Name or category of participants	Date of Grant (Notes c)	Exercise price	Number of share options: At 1 July 2022	Granted during the year	Exercised during the year	Lapsed/ expired during the year	Cancelled/ forfeited during the year	At 30 June 2023	Vesting & exercise period	Closing price per share immediately before the date of grant
Directors										
Mr. Wang Ai Yan (Note a)	31 May 2022	HK$0.51	1,000,000	–	–	–	–	1,000,000	Note c	HK$0.49
Mr. Chen Hongwei	31 May 2022	HK$0.51	500,000	–	–	–	–	500,000	Note c	HK$0.49
Mr. Fang Hui (Note b)	31 May 2022	HK$0.51	50,000,000	–	–	–	(50,000,000)	–	Note c	HK$0.49
Mr. Shi Chenghu	31 May 2022	HK$0.51	1,000,000	–	–	–	–	1,000,000	Note c	HK$0.49
Mr. Heng, Keith Kai Neng	31 May 2022	HK$0.51	300,000	–	–	–	–	300,000	Note c	HK$0.49
Mr. Yao Yang Yang	31 May 2022	HK$0.51	300,000	–	–	–	–	300,000	Note c	HK$0.49
Ms. Zhang Dong Fang	31 May 2022	HK$0.51	300,000	–	–	–	–	300,000	Note c	HK$0.49
Other Employees	31 May 2022	HK$0.51	32,540,000	–	–	(1,530,000)	–	31,010,000	Note c	HK$0.49
In aggregate			85,940,000	–	–	(1,530,000)	(50,000,000)	34,410,000		

Details of the share options granted and outstanding during the prior year were:

Name or category of participants	Date of Grant (Notes c and d)	Exercise price	Number of share options: At 1 July 2021	Granted during the year (Notes c)	Exercised during the year	Lapsed/ expired during the year	Cancelled/ forfeited during the year	At 30 June 2022	Vesting & exercise period	Closing price per share immediately before the date of grant
Directors										
Mr. Wang Ai Yan (Note a)	31 May 2022	HK$0.51	–	1,000,000	–	–	–	1,000,000	Note c	HK$0.49
Mr. Chen Hongwei	31 May 2022	HK$0.51	–	500,000	–	–	–	500,000	Note c	HK$0.49
Mr. Fang Hui (Note b)	31 May 2022	HK$0.51	–	50,000,000	–	–	–	50,000,000	Note c	HK$0.49
Mr. Shi Chenghu	31 May 2022	HK$0.51	–	1,000,000	–	–	–	1,000,000	Note c	HK$0.49
Mr. Heng, Keith Kai Neng	31 May 2022	HK$0.51	–	300,000	–	–	–	300,000	Note c	HK$0.49
Mr. Yao Yang Yang	31 May 2022	HK$0.51	–	300,000	–	–	–	300,000	Note c	HK$0.49
Ms. Zhang Dong Fang	31 May 2022	HK$0.51	–	300,000	–	–	–	300,000	Note c	HK$0.49
Other Employees	31 May 2022	HK$0.51	–	32,540,000	–	–	–	32,540,000	Note c	HK$0.49
Employees in aggregate	15 January 2019	HK$4.04	19,000,000	–	–	(19,000,000)	–	–	Note d	HK$3.76
In aggregate			19,000,000	85,940,000	–	(19,000,000)	–	85,940,000		

29 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme *(Continued)*

Notes:

(a) Being also a substantial Shareholder of the Company.

(b) The grant of 50,000,000 share options (the "Proposed Grant") was conditional and subject to the approval of the independent Shareholders at the extraordinary general meeting (the "EGM") of the Company. Subsequent to the reporting year, on 23 August 2022, the Board had resolved not to proceed with the conditional grant of share options to Mr. Fang Hui to subscribe for up to an aggregate of 50,000,000 Shares which decision was consented by Mr. Fang Hui. As a result, the Proposed Grant did not become unconditional and no Share Options were granted to Mr. Fang Hui under the New Share Option Scheme.

(c) The validity period of the Share Options granted on 31 May 2022 is from 31 May 2022 to 30 May 2032.

The Share Options granted on 31 May 2022 shall be vested and are exercisable in the following manners:

(i) 30% of the Share Options may be exercisable at any time commencing from the Date of Grant up to 30 May 2032;

(ii) 30% of the Share Options and the first 30% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2023 up to 30 May 2032; and

(iii) the remaining 40% of the Share Options and the first 60% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2024 up to 30 May 2032.

The closing price of the shares immediately before the date on which the Share Options were granted was HK$0.49 per share.

(d) The Share Options granted on 15 January 2019 should be vested and were exercisable in the following manners:

(i) 9,000,000 Share Options (1) 3,000,000 Share Options to be vested from 15 January 2020 to 14 January 2021 (both dates inclusive) and are exercisable from 15 January 2021 to 14 January 2031 (both dates inclusive); (2) 3,000,000 Share Options to be vested from 15 January 2021 to 14 January 2022 (both dates inclusive) and are exercisable from 15 January 2022 to 14 January 2032 (both dates inclusive); (3) 3,000,000 Share Options to be vested from 15 January 2022 to 14 January 2023 (both dates inclusive) and are exercisable from 15 January 2023 to 14 January 2033 (both dates inclusive); and

(ii) 10,000,000 Share Options 10,000,000 Share Options to be vested from 15 January 2020 to 14 January 2023 (both dates inclusive) and are exercisable within 10 years commencing from the date of vesting; provided always that the grantee shall remain as a Director, or an employee of the Group at the time of the exercise of the Share Options and satisfy certain performance criteria.

(e) On 31 May 2022, 85,940,000 share options were granted to the directors and employees of the Group under the New Share Option Scheme. The fair value of the share options granted was prepared by Valplus Consulting Limited, an independent qualified professional valuer not connected to the Group who holds a recognised and relevant professional qualification. The estimated fair value of the share options was approximately HK$9,034,000 (equivalent to approximately RMB7,481,960).

29 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme *(Continued)*

Notes: (Continued)

(e) (Continued)

The Group recognised the expense of RMB3,718,575 for the year ended 30 June 2023 (2022: RMB2,264,882) to share options granted by the Company. During the year ended 30 June 2023, no share options granted were exercised (2022: Nil).

Other than as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) or their associates to acquire benefits by means of the acquisition of Shares and/or debt securities, including debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")).

(f) The relevant model has been used to estimate the fair value of the share options granted to directors and employees. The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the directors of the Company.

The following assumptions were used to calculate the fair values of share options granted to directors and employees:

	31 May 2022	**15 January 2019**
Methodology	Binomial Model	Binomial Model
Grant date share price	HK$0.51	HK$4.04
Exercise price	HK$0.51	HK$4.04
Expected life	10 years	12–14 years
Expected volatility	70.10%	39.81%
Dividend yield	0%	0.74%
Risk-free interest rate	2.80%	2.03–2.04%

Expected volatility was determined by using quoted prices of comparable companies in active markets as of 31 May 2022.

Expected volatility was determined with reference to the annualised historical weekly volatility of the Company as of 15 January 2019.

Expected dividend yield is determined with reference to historical dividend payment of the Company.

The expected life used in the model is time to maturity of the financial instrument.

(g) At the end of the reporting period, the Company revises its estimates of number of share options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

(iii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income and convertible bonds under HKFRS 9 that are held at the end of the reporting period.

(iv) Reorganisation reserve

The reorganisation reserve represented the share capital of Huazhang Electric Holding Limited ("Huazhang Electric"), a subsidiary of the Group, prior to the capital reorganisation on 3 May 2013. Details are set out on the prospectus dated 9 May 2013.

29 OTHER RESERVES *(Continued)*

(v) Merger reserve

Merger reserve represented the difference between the share capital of Huazhang Electric issued for settlement of the payables to Huazhang Overseas Holding, Inc., the former parent company of Huazhang Electric which were capitalised pursuant to the board resolutions dated 30 June 2012 and 31 December 2012 respectively. Details are set out on the prospectus dated 9 May 2013.

30 RECONCILIATION OF FINANCING ACTIVITIES

Net debt reconciliations

	2023 RMB	2022 RMB
Cash and cash equivalents (Note 22)	**43,983,025**	141,048,866
Interest-bearing loans (Note 24)	**(68,990,000)**	(38,500,000)
Lease liabilities (Note 15)	**(6,145,509)**	(4,476,132)
Interest-free loan from third parties (Note 23)	**(13,080,800)**	(13,080,800)
Net debt	**(44,233,284)**	84,991,934
Cash and cash equivalents (Note 22)	**43,983,025**	141,048,866
Gross debt (Note 15, 23, 24)	**(88,216,309)**	(56,056,932)
Net debt	**(44,233,284)**	84,991,934

	Liabilities from financing activities			
	Interest-bearing loans RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	Total RMB
Net debt as at 1 July 2022	(38,500,000)	(4,476,132)	(13,080,800)	(56,056,932)
Cash flows				
Cash outflow	41,767,704	2,545,878	–	44,313,582
Cash inflow	(68,990,000)	–	–	(68,990,000)
Other non-cash changes				
— Recognition of other right-of-use assets	–	(4,091,992)	–	(4,091,992)
— Interest charged	(3,859,370)	–	–	(3,859,370)
— Increase in future finance charges on leases	–	(368,584)	–	(368,584)
— Reclassify to trade and other payables	591,666	–	–	591,666
— Exchange difference	–	245,321	–	245,321
Net debt as at 30 June 2023	(68,990,000)	(6,145,509)	(13,080,800)	(88,216,309)

30 RECONCILIATION OF FINANCING ACTIVITIES *(Continued)*

Net debt reconciliations *(Continued)*

	Liabilities from financing activities			
	Interest-bearing loans RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	Total RMB
Net debt as at 1 July 2021	(53,046,324)	(5,517,013)	(13,580,800)	(72,144,137)
Cash flows				
Cash outflow	44,149,193	1,420,425	500,000	46,069,618
Cash inflow	(24,500,000)	–	–	(24,500,000)
Other non-cash changes				
— Recognition of other right-of-use assets	–	(86,505)	–	(86,505)
— Accrual of interest	(5,148,702)	–	–	(5,148,702)
— Increase in future finance charges on leases	–	(293,039)	–	(293,039)
— Reclassify to trade and other payables	45,833	–	–	45,833
Net debt as at 30 June 2022	(38,500,000)	(4,476,132)	(13,080,800)	(56,056,932)

Non-cash financing activities disclosed in other notes are:

— maturity of convertible bonds transferred to other payables (Note 27).

31 DIVIDENDS

No dividends were paid during the year ended 30 June 2023 and 2022.

The Board does not recommend to declare any dividend for the year ended 30 June 2023 (2022: nil).

32 COMMITMENTS

As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2023 and 2022 are summarised as follows:

	2023 RMB	2022 RMB
No later than 1 year	**5,263,089**	7,278,526
Later than 1 year and no later than 5 years	**1,397,720**	3,447,156
	6,660,809	10,725,682

33 RELATED-PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 30 June 2023 and 30 June 2022 and balances arising from related party transactions as at 30 June 2023 and 30 June 2022.

(a) Name and relationship with related parties

Name of related parties	Relationships
Mr. Zhu Gen Rong ("Mr. Zhu") (i) (Removed on 10 February 2022)	Former chairman and executive director
Mr. Wang Ai Yan ("Mr. Wang") (i) (Resigned on 1 December 2022)	Former chief executive officer and executive director
Mr. Liu Chuan Jiang ("Mr. Liu") (i) (Resigned on 7 May 2021)	Former executive director
Mr. Fang Hui	Executive director of the Company
Mr. Shi Chenghu	Non-executive director of the Company
Mr. Jin Hao	Director of Zhejiang Huazhang
Dao He Investment Limited ("Dao He")	A wholly owned company by Mr. Fang Hui
Taizhou Hengshengtianyue Metal Co., Ltd. ("Taizhou Metal")	Controlled by close family members of Mr. Fang Hui
Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu Paper")	Former associate of the Group

(i) Mr. Zhu, Mr. Wang, and Mr. Liu are bound to act in concert by contracts and are collectively regarded as the 'Controlling Shareholders' of the Group.

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the years ended 30 June 2023 and 2022.

33 RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

	2023 RMB	2022 RMB
Sales of metal scraps to Taizhou Metal	**6,248,259**	6,485,972

	2023 RMB	2022 RMB
Key management compensation		
— Salaries	**3,732,434**	4,864,159
— Bonuses	**166,700**	640,800
— Other benefits	**167,408**	185,737
— Share options	**538,682**	241,377
	4,605,224	5,932,073

(c) Balances with related parties

(i) Due to related parties

	2023 RMB	2022 RMB
Other payable (Note 23)		
— Dao He	**–**	85,786,822

(ii) Due from related parties

	2023 RMB	2022 RMB
Other receivable (Note)		
— Jiafu Paper (Note 21)	**–**	–
Trade receivable		
— Taizhou Metal (Note 21)	**6,248,259**	–

Note:

As at 30 June 2023, the gross carrying amount due from Jiafu Paper was RMB39,541,029 (2022: RMB39,541,029) and full provision for impairment was recognised in the year ended 30 June 2022.

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	2023 RMB	2022 RMB
ASSETS		
Non-current assets		
Investments in subsidiaries	315,757,628	283,942,413
Current assets		
Other receivables	529	36,873
Prepayments	166,195	153,273
Amounts due from subsidiaries	–	31,763,711
Cash and cash equivalents	251,572	59,371,293
	418,296	91,325,150
Total assets	316,175,924	375,267,563
LIABILITIES		
Current liabilities		
Other payables	1,840,691	90,963,543
Total liabilities	1,840,691	90,963,543
EQUITY		
Share capital	8,907,761	8,907,761
Reserves (a)	305,427,472	275,396,259
Total equity	314,335,233	284,304,020
Total equity and liabilities	316,175,924	375,267,563

The statement of financial position of the Company was approved by the Board on 27 September 2023 and was signed on its behalf by:

Fang Hui Director	**Chen Hongwei** Director

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Statement of financial position of the Company *(Continued)*

(a) Reserve movement of the Company

	Share premium RMB	Equity component of convertible bond RMB	Share option reserve RMB	Translation reserve RMB	Other reserve RMB	Accumulated losses RMB	Total RMB
Balance as at 1 July 2021	589,607,761	6,199,604	–	28,190,010	23,990,407	(76,975,705)	571,012,077
Issue of shares	73,288,161	–	–	–	–	–	73,288,161
Maturity of convertible bond	–	(6,199,604)	–	–	6,199,604	–	–
Employee share options	–	–	2,264,882	–	–	–	2,264,882
Loss for the year	–	–	–	–	–	(352,895,138)	(352,895,138)
Translation differences	–	–	–	(18,273,723)	–	–	(18,273,723)
Balance as at 30 June 2022	662,895,922	–	2,264,882	9,916,287	30,190,011	(429,870,843)	275,396,259
Employee share options	**–**	**–**	**3,718,575**	**–**	**–**	**–**	**3,718,575**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**2,119,804**	**2,119,804**
Translation differences	**–**	**–**	**–**	**24,192,834**	**–**	**–**	**24,192,834**
Balance as at 30 June 2023	**662,895,922**	**–**	**5,983,457**	**34,109,121**	**30,190,011**	**(427,751,039)**	**305,427,472**

35 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 30 June 2023 and 2022 are as follows:

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group 2023 %	Ownership interest held by the Group 2022 %	Ownership interest held by non-controlling interests 2023 %	Ownership interest held by non-controlling interests 2022 %
Zhejiang Huazhang*	PRC/Limited Company	Research and development, supply and sale of industrial automation systems and sludge treatment products and the provision of after-sales and other service in the PRC	USD41,300,000	100	100	–	–
Huazhang Electric Holding Limited	Hong Kong/Limited Company	Investment holding and trading of electronic parts in Hong Kong	HK$3,000,002	100	100	–	–
Likwin Limited	The British Virgin Islands ("BVI")/Limited Company	Investment holding in the BVI	USD1	100	100	–	–
Huazhang Technology (Hangzhou) Limited	PRC/Limited Company	Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales and other services in the PRC	RMB30,000,000	100	100	–	–
Wuhan Wukong Control System Engineering Co., Ltd. ("Wukong")	PRC/Limited Company	Wastewater treatment business in the PRC	RMB8,553,000	70	70	30	30
Hangzhou Haorong Technology Co., Ltd. ("Haorong")	PRC/Limited Company	Computer software and hardware, and technical service in the PRC	RMB500,000	100	100	–	–
Hangzhou MCN Paper Tech Co., Ltd. ("MCN")	PRC/Limited Company	Research, development and distribution of headboxes used in papermaking production line in the PRC	RMB1,200,000	100	100	–	–

35 SUBSIDIARIES *(Continued)*

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the Group 2023 %	Ownership interest held by the Group 2022 %	Ownership interest held by non-controlling interests 2023 %	Ownership interest held by non-controlling interests 2022 %
Guangdong Huazhang Logistics Warehouse Limited	PRC/Limited Company	Logistics and warehousing services in the PRC	USD25,000,000	100	100	–	–
Huazhang Technology Logistics Warehouse Limited	Hong Kong/Limited Company	Investment holding in Hong Kong	HK$1	100	100	–	–
Huazhang Technology Logistics Limited	BVI/Limited Company	Investment holding in the BVI	USD100	100	100	–	–
Baoshan Jintaisheng Logistics Limited	PRC/Limited Company	Logistics and warehousing services in the PRC	RMB5,000,000	100	100	–	–
Jiaxing Woxun Technology Limited	PRC/Limited Company	Investment holding in the PRC	RMB500,000	100	–	–	–
Fine Global Enterprises Limited	BVI/Limited Company	Investment holding in the BVI	USD1	100	100	–	–
Huazhang Environmental Resources Investment Limited	Hong Kong/Limited Company	Investment holding in Hong Kong	HK$10,000	100	100	–	–
Hehe resource FZE	Dubai/Limited Company	Waste recycling business in Dubai	United Arab Emirates Dirham ("AED") 10,000	–	100	–	–

Note:

Zhejiang Huazhang is registered as a wholly-foreign-owned enterprise under PRC law.

During the financial year ended 30 June 2023, the Group deregistered Hehe resource FZE, a wholly-own subsidiary in the United Arab Emirates which was inactive. The subsidiary deregistered during the year ended 30 June 2023 had no significant impact on the turnover and results of the Group.

36 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director and the chief executive of the Company for the year ended 30 June 2023 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	Discretionary bonuses RMB	Other benefits RMB	Share options RMB	Total remuneration RMB
Executive directors					
Mr. Wang Ai Yan (Chief Executive Officer) (ii)	482,907	50,000	119,224	119,686	771,817
Mr. Fang Hui	1,071,680	–	–	–	1,071,680
Mr. Chen Hongwei (iv)	473,533	116,700	40,146	59,843	690,222
Non-executive director					
Mr. Shi Chenghu	178,613	–	–	119,686	298,299
Independent non-executive directors					
Mr. Yao Yang Yang	107,168	–	–	35,906	143,074
Mr. Heng, Keith Kai Neng	107,168	–	–	35,906	143,074
Ms. Zhang Dong Fang (v)	107,168	–	–	35,906	143,074
	2,528,237	166,700	159,370	406,933	3,261,240

36 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

The remuneration of each director and the chief executive of the Company for the year ended 30 June 2022 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	Discretionary bonuses RMB	Other benefits RMB	Share options RMB	Total remuneration RMB
Chairman					
Mr. Zhu Gen Rong (i)	572,917	271,200	62,525	–	906,642
Executive directors					
Mr. Wang Ai Yan (Chief Executive Officer) (ii)	959,958	249,600	97,125	70,993	1,377,676
Mr. Fang Hui	993,790	–	–	–	993,790
Mr. Gan Jun (iii)	372,671	–	11,180	–	383,851
Mr. Chen Hongwei (iv)	416,329	–	–	35,497	451,826
Non-executive director					
Mr. Shi Chenghu	165,632	–	–	70,993	236,625
Independent non-executive directors					
Mr. Kong Chi Mo (vi)	149,069	–	–	–	149,069
Mr. Yao Yang Yang	99,379	–	–	21,298	120,677
Mr. Heng, Keith Kai Neng	99,379	–	–	21,298	120,677
Ms. Zhang Dong Fang (v)	56,101	–	–	21,298	77,399
	3,885,225	520,800	170,830	241,377	4,818,232

36 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

(i) Mr. Zhu Gen Rong was removed as Chairman and executive director of the Company with effect from 10 February 2022.

(ii) Mr. Wang Ai Yan retired, was reappointed and has resigned on 24 November 2021, 7 December 2021 and 1 December 2022 respectively as executive director and chief executive officer of the Company.

(iii) Mr. Gan Jun was appointed on 7 December 2021 and resigned on 1 April 2022 as executive director of the Company.

(iv) Mr. Chen Hongwei was appointed as executive director of the Company with effect from 1 April 2022.

(v) Ms. Zhang Dong Fang was appointed as independent non-executive director of the Company with effect from 7 December 2021.

(vi) Mr. Kong Chi Mo has resigned from independent non-executive director of the Company with effect from 17 December 2021.

For the year ended 30 June 2023, none of the directors waived or agreed to waive any remuneration (2022: none of the directors waived or agreed to waive any remuneration).

(b) Director' termination benefits

There were no termination benefits paid to any director for the year ended 30 June 2023 and 2022.

(c) Consideration provided to third parties for making available directors' services

During the year ended 30 June 2023 and 2022, the Group provided no consideration to third parties for making available director's services.

36 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(d) Information about loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed elsewhere in the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments shown above were mainly for services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

37 LITIGATION

Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly-owned subsidiary of the Company, received a first instance judgment (the "Judgment") dated 24 December 2021 handed down by the Intermediate People's Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the "Court") in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. Zhejiang Huazhang had lodged an appeal application (the "Appeal Application) with the Higher People's Court of Yunnan Province (雲南省高級人民法院) (the "Appeal Court") against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the Judgement and the legal proceedings in question be retried at the Court. The Judgment has been set aside and will not be enforced, but the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts will remain in full force as ordered thereunder. Management expects the amount would become unrestricted within 12 months. Details of the legal proceedings were set out in the Company's announcements dated 21 January 2022 and 9 September 2022.