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

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhu Gen Rong (Chairman)
Mr. Wang Ai Yan (Chief Executive Officer)
Mr. Fang Hui

Non-Executive Directors

Mr. Shi Chenghu

Independent Non-Executive Directors

Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang

AUDIT COMMITTEE

Mr. Kong Chi Mo (Chairman)
Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang

REMUNERATION COMMITTEE

Mr. Heng, Keith Kai Neng (Chairman)
Mr. Kong Chi Mo
Mr. Yao Yang Yang

NOMINATION COMMITTEE

Mr. Yao Yang Yang (Chairman)
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng
Mr. Fang Hui

COMPANY SECRETARY

Mr. Chan So Kuen

AUTHORISED REPRESENTATIVES

Mr. Zhu Gen Rong
Mr. Chan So Kuen

LEGAL ADVISOR

As to Hong Kong Law

Stevenson, Wong & Co.

AUDITORS

PricewaterhouseCoopers

REGISTERED ADDRESS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

Room 1101, Building 2
Canal Advertising Industry Building
No. 99 Xiangyuan Road, Gong District
Hangzhou, Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 901, 9/F, Ocean Centre,
5 Canton Road, Tsim Sha Tsui
Kowloon
Hong Kong (with effect from 29 September 2021)

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
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1673

WEBSITE

www.hzeg.com

Financial Summary

Year ended 30 June	2021 RMB	2020 RMB	2019 RMB	2018 RMB	2017 RMB
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**496,906,070**	368,159,248	763,974,066	612,123,398	416,007,189
Gross profit	**105,627,700**	74,195,176	120,976,684	137,256,906	91,592,396
Gross profit margin	**21.3**	20.2%	15.8%	22.4%	22.0%
Profit/(Loss) attributable to the shareholders of the Company	**16,515,929**	(77,503,863)	(128,269,107)	48,285,144	30,638,948
Net profit/(loss) margin	**3.3%**	(21.0%)	(17.0%)	7.8%	7.3%
As 30 June					
Major Items of Consolidated Statement of Financial Position					
Non-current assets	**359,842,261**	464,272,556	346,840,328	473,912,784	137,945,745
Current assets	**1,024,802,276**	908,352,703	938,686,140	927,472,642	489,371,916
Non-current liabilities	**34,847,154**	34,336,858	32,384,732	108,805,388	67,622,369
Current liabilities	**666,983,489**	767,313,297	598,568,375	525,977,066	239,377,599
Capital and reserves attributable to the shareholders of the Company	**684,750,990**	571,443,645	655,356,325	765,786,978	319,117,623
Gearing ratio (Note 1)	**7.2%**	15.8%	7.7%	2.8%	2.6%

Notes:

(1) 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%.

Chairman's Statement

Dear shareholders,

On behalf of the board of directors of Huazhang Technology Holding Limited ("Huazhang Technology" or the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2021 (the "Year 2021").

In Year 2021, the external operating environment remained uncertain due to the impact of the pandemic. With efficient management, the Group recorded a profit of approximately RMB16.5 million in Year 2021 after experiencing significant losses in two financial years, which represents a significant improvement as compared to loss of approximately RMB77.2 million recorded last year. Revenue and gross profit for Year 2021 amounted to approximately RMB496.9 million and approximately RMB105.6 million, representing an increase of approximately 35.0% and 42.4%, respectively, as compared to those of last year. At the same time, the provision for Year 2021 decreased significantly. The management of the Group will continue to make ongoing efforts to strengthen its management and performance assessment in order to achieve the best interests of the Group.

The global impact of the COVID-19 pandemic over the past year imposed a challenge for the Group's overseas operations. In order to ensure the completion of the Group's first overseas turnkey project, the Group, under cooperation with over 20 suppliers and their personnel, assigned over 30 technical personnel to Vietnam for installation and commissioning work. In addition, the Group also designated 2 technical personnel to Malaysia to complete the commissioning work. Although a number of technical personnel were dispatched abroad, the Group still managed to maintain normal delivery of domestic turnkey projects and recorded fruitful results this year, as evidenced by the fact that a total of 5 projects involving the turnkey and renovation of paper making equipment were delivered throughout the year.

By weathering through a challenging year, the Group has proven to have a technically solid and strong engineering design and implementation team, which is always committed to satisfying customer service despite the hardships. At present, the Group has more than 130 engineers and technical personnel involved in the design and manufacture of key equipment such as paper making equipment, paper pulp process, automation system, headboxes, shakers, etc. They all have more than 10 years of technical experience in paper making industry. The Group's technical team is one of the most highly skilled, professional as well as largest teams in China's paper manufacturing industry.

The Group support its customers' success via its "technology + manufacturing" approach to turnkey projects, demonstrating its deep integration in the paper-making equipment industry chain, as well as the unique value of its design capabilities in such integration. The Group focuses on building a top-notch design team in the pulp and paper making industry with the goal of pursuing excellence and narrowing the gap with first-tier international suppliers.

Facing a new market and new challenges, the Group's design team is well positioned and has completed the technical solution proposal and preliminary design of a 6600/1200 metre of paper machine and the preparation of key components in the hope of making a breakthrough in technology and market by 2022.

Chairman's Statement

In recent years, the Chinese government has placed increasing emphasis on environmental protection and has proposed in the "14th Five-Year Plan" to peak China's CO2 emissions by 2030 and achieve carbon neutrality by 2060. All these policies contribute the Group to be more proactive in promoting and exploring environmental protection business. Due to the increase in metal prices and the pollution caused by metal mining, the scrap metal recycling business can achieve environmental protection by reducing the waste of metal resources. Therefore, while focusing on the environmental protection business of sludge and sewage treatment, the Group has developed the metal scrap trading business this year, which has accumulated more customers and suppliers on the one hand, and helped the Company enter into the recycled metal industry on the other hand, so that the Group can make more accurate decisions when expanding the recycled metal business and making investments in the future. The Group believes that its business will become more diversified and internationalized, so as to diversify its previously risk of relying on a single market in the paper making industry.

Lastly, on behalf of the Board, I would like to express my sincere gratitude to the management team and our staff for their tenacious efforts and outstanding contributions to the development of the Group in the past year. I would also like to extend my heartfelt thanks to our shareholders, investors, customers and business partners for their ongoing support to the Group. With their assistance and efforts, the Group will move forward courageously in the direction of "Integrating Together, Creating Together, Benefiting Together" and deliver sustainable business growth to create more values for all parties.

Zhu Gen Rong
Chairman

Hong Kong
30 September 2021

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHU Gen Rong (朱根荣), aged 58, is the chairman of our board and an executive Director. He is also one of our controlling shareholders. Mr. Zhu oversees the overall operation and is responsible for the overall strategic planning, development, and management of our Group. Mr. Zhu has over 25 years of experience in the mechanical and engineering industry. Prior to founding our Group, Mr. Zhu worked at Hangzhou Project and Research Institute of Electro mechanic in Light Industry (輕工業杭州機電設計研究院) from 1984 to 1993, a state-owned entity principally engaged in the business of, among others, researches in the technology for pulp, paper-making and the automation of electric instruments and he took up several positions including the deputy head of the product development department. He then worked as general manager at Hangzhou Microelectronics Company Limited (杭州華章微電子公司) from 1993 to 1996, a company principally engaged in the business of manufacturing of mixed integrated circuit and electrical ballast, projects of industrial automation system, and the purchasing of materials and equipment for industrial automation systems. He also founded Hangzhou Yiyi Consultation (then known a Hangzhou Huazhang Electric Engineering Company Limited) in December 1996, Hangzhou Rongtai Electric in December 1998 and Shanghai Yunjie Consultation (then known as Shanghai Huazhang Electric Control Engineering Company Limited) in May 1999, of which the businesses of all three companies were then transferred to Huazhang Automation (Zhejiang) in November 2006. Hangzhou Rongtai Electric has been deregistered. Mr. Zhu founded Zhejiang Huazhang Technology Limited (浙江華章科技有限公司 ("Zhejiang Huazhang")), the PRC operating subsidiary of our Company, in July 2001. Mr. Zhu obtained a diploma in industrial electrical automation (工業電氣自動化) from Nanjing Electrical School (南京機電學校) in July 1984. He has been the vice president of the China Association of the Federation of Industry and Commerce (中華全國工商業聯合會紙業商會) since October 2009.

Mr. WANG Ai Yan (王愛燕), aged 55, was appointed and became an executive Director on 1 October 2014. Mr. Wang has also been the chief executive officer of the Group since 1 October 2014, who is responsible to oversee the Group's daily operation and accounting and financial matters with the assistance of the chief financial officer of the Group. Mr. Wang obtained a bachelor's degree in Electrical automation and an EMBA degree from Zhejiang University (浙江大學) in 1992 and 2014, respectively. Mr. Wang has over 20 years of experience in the mechanical and engineering industry. He worked as an assistant engineer at the Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業部杭州機電設計研究所) from 1987 to 1993. From 1993 to 1996, Mr. Wang worked as the vice general manager at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司). He worked as the vice general manager at Hangzhou Yiyi Corporate Management Consultation Limited (杭州意義諮詢有限公司) (then known as Hangzhou Huazhang Electric Engineering Company Limited (杭州華章電氣工程有限公司)) from December 1996 to August 2006. Mr. Wang worked as a director and general manager at Zhejiang Huazhang Automation Equipment Company Limited from September 2006 to September 2014.

Biographical Details of Directors and Senior Management

Mr. Fang Hui (方暉), aged 33, was appointed and become an executive Director and a member of the Nomination Committee, on 29 April 2021. He has strong background in solid waste recycling and recovery, waste disposal and environmental protection. Between 2013 and 2014, he was a general manager assistant at Chiho-Tiande (HK) Limited, a subsidiary of Chiho Environmental 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: 976). In 2015, Mr. Fang helped to found HeHe Resources Limited ("HeHe") where he became a director. HeHe is an investment holding company based in Hong Kong which seeks to identify and invest in environmental projects throughout the world. In 2017, HeHe and Taizhou Hengshengtianyue Metal Co. Ltd.* (台州市恒晟天悦金屬有限公司) founded Zhejiang HeHe Environmental Resources Co., Ltd.* (浙江和合環境資源有限公司) ("Zhejiang HeHe") where Mr. Fang also became a director. Zhejiang HeHe is a PRC joint venture company based in Taizhou, China. It was established with a total investment amount of USD50 million with the aim to build a 500mu waste recycling and recovery park in Taizhou. 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. Through HeHe, Mr. Fang and his father, Mr. Fang AnKong helped the Company found Hua Zhang Environmental Resources Investment Limited ("Environmental Resources") which owns HeHe Resources FZE ("HeHe FTZ"). HeHe FTZ is a Dubai FTZ company and is the vehicle which Mr. Fang and his father Mr. Fang AnKong successfully secured the necessary licenses for the Group's recycling project in Dubai in 2019. Between 18 September 2019 and 1 September 2020, Mr. Fang was a director of Environmental Resources. As at 21 June 2021, Mr. Fang has reappointed as director of Environmental Resources. Mr. Fang is the chairman of Hong Kong Lu Qiao Association Co. Ltd.* (香港路橋同鄉會有限公司) and Taizhou City Lu Qiao Lu Gang Real Estate Association Co. Ltd.* (台州市路橋旅港同鄉置業有限公司). Mr. Fang is also a director of Dan Shui Investment Limited which is an investment company, and Creation Best International Limited ("Creation Best").

NON-EXECUTIVE DIRECTORS

Mr. Shi Chenghu (石成虎), aged 46, was appointed and become an non-executive Director 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 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 then. 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 officers 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 it's 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 University of Science and Technology Beijing in 1996 and Executive Master of Business Administration from China Europe International Business School in 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kong Chi Mo (江智武) ***CESGA®, FCCA, FCG, FCS, FHKIoD & MHKSI***, aged 46, was appointed as our independent non-executive Director on 6 May 2013. Mr. Kong also chairs the audit committee and is a member of the remuneration committee and the nomination committee of the Company. Mr. Kong is primarily responsible for providing independent advice and guidance to the Board.

Presently, Mr. Kong serves as an independent non-executive director of AK Medical Holdings Limited (stock code: 01789) and an independent non-executive director of ZACD Group Ltd. (stock code: 08313). All of the above-mentioned public companies are listed on the Hong Kong Stock Exchange.

After graduation, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited, an indirect wholly-owned subsidiary of Hutchison Telecommunications Hong Kong Holdings Limited (stock code: 00215), from June 1997 to March 1998. Mr. Kong worked as a tax associate in PricewaterhouseCoopers, an international accounting firm, from March 1998 to October 1999 and worked in KPMG, another international accounting firm, from October 1999 to December 2007, during which his last position held in KPMG was audit senior manager. Mr. Kong successively served as an executive director, chief financial officer, company secretary and authorized representative during his employment with China Vanadium Titano-Magnetite Mining Company Limited (stock code: 00893), from May 2008 to March 2020. Mr. Kong served as an independent non-executive director of Aowei Holding Limited (stock code: 01370), from June 2013 to March 2021, and an independent non-executive director of Starlight Culture Entertainment Group Limited (stock code: 01159), from May 2017 to May 2019. All of the above-mentioned public companies are listed on the Hong Kong Stock Exchange.

Mr. Kong is qualified as an European Federation of Financial Analysts Societies Certified ESG Analyst, the first internationally recognized ESG Professional Accreditation in Hong Kong and a Value Reporting Foundation's Fundamentals of Sustainability Accounting Credential Level II Candidate. Aside from the above-mentioned ESG- and sustainability-related qualifications, in aspects of accounting, corporate secretarial and governance, Mr. Kong is also admitted as (i) a Fellow of The Association of Chartered Certified Accountants in the United Kingdom, (ii) a Fellow Chartered Secretary and a Fellow Chartered Governance Professional of both The Chartered Governance Institute in the United Kingdom and The Hong Kong Chartered Governance Institute, (iii) a Fellow of The Hong Kong Institute of Directors, and (iv) an Ordinary Member of Hong Kong Securities and Investment Institute. Mr. Kong obtained his Bachelor's degree in Business Administration from The Chinese University of Hong Kong in December 1997.

Biographical Details of Directors and Senior Management

Mr. Heng, Keith Kai Neng (邢凱能), aged 42, was appointed and become an independent non-executive Director and the chairman of Remuneration Committee, and a member of the Audit Committee and the Nomination Committee, respectively on 2 January 2019. Mr. Heng obtained his bachelor of arts degree in accounting and finance degree 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 and a member of the Association of Chartered Certified Accountants, member of the Hong Kong Institute of Certified Public Accountants, associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and 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 33, was appointed and become an independent non-executive Director and a chairman of Nomination Committee, and a member of Audit Committee and the Remuneration Committee, respectively on 31 March 2021. He obtained 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 Poly Developments and Holdings Group Co. Ltd (保利發展控股集團股份有限公司), and served as a designer of design division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司) and the vice general manager and the manager of 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 was the senior manager of investment division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司). Since December 2020, Mr. Yao has been serving as vice president of Tianjin Yikai Tomorrow Asset Management Co., Ltd. * (天津易凱明天資產管理有限公司). He has over 6 years of experience in the fields of business development and investment in China.

SENIOR MANAGEMENT

Mr. CHAN So Kuen (陳素權), aged 41, is company secretary, chief financial officer and authorized representative of the Company with effect from 28 February 2014. Mr. Chan has been appointed as an independent non-executive director of Link Holdings Limited (stock code: 8237) and Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (stock code: 1915) since 16 October 2014 and 15 January 2015, respectively. All these public companies are listed on the main board or GEM of the Stock Exchange. Mr. Chan has over 15 years of experience in financing, auditing and accounting. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and obtained a bachelor's degree in accountancy from The Hong Kong Polytechnic University in 2001.

Management Discussion and Analysis

INDUSTRY REVIEW

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

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

BUSINESS REVIEW

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

Project Delivery

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

Management Discussion and Analysis

Successful Completion of the First Overseas Turnkey Project

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

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

Various Technical Innovations

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

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

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

FINANCIAL REVIEW

Revenue and gross profit margin

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

(i) Industrial products

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

(ii) Project contracting services

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

(iii) Environmental business

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

(iv) Supporting services

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

Selling and distribution expenses

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

Administrative expenses

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

Research and development expenses

The research and development expenses increased by approximately 13.8% from approximately RMB24.0 million for the year ended 30 June 2020 to approximately RMB27.4 million for the year ended 30 June 2021, accounting for approximately 6.5% and approximately 5.5% of the Group's revenue for the year ended 30 June 2020 and 2021 respectively. The Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes, the Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment gains/(losses) on financial and contract assets

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

Other income and gains, net

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

Finance costs – net

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

Income tax expense

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

Management Discussion and Analysis

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

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

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

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

The Group recorded a profit for the year attributable to the shareholders of the Company amounting to approximately RMB18.0 million for the year ended 30 June 2021 as compared with loss for the year attributable to the shareholders of the Company amounting to approximately RMB77.5 million for the year ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources, loans from banks and equity financing. As at 30 June 2021, the Group had cash and cash equivalent balance amounting to approximately RMB145.3 million (30 June 2020: approximately RMB40.4 million) and interest-bearing loans amounting to approximately RMB53.0 million (30 June 2020: approximately RMB107.2 million). Increase in cash and cash equivalents is primarily attributing to the Group recorded a cash inflow from operating activities amounting to approximately RMB119.0 million for the year ended 30 June 2021 (30 June 2020: cash outflow amounting to approximately RMB45.9 million).

Convertible Bonds

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

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

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

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

On 1 December 2020, the Company issued the new convertible bonds in principal amount of HK$100,000,000 million (equivalent to approximately RMB85,041,000) ("New Convertible Bonds").

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

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

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

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

(a) convertible at the option of the bond holders into ordinary shares of the Company at HK$0.71 (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and

(b) the maturity date is 30 November 2021 and unless previously converted or cancelled, after 1 June 2021, the Bondholders shall have the option to request for the redemption by the Issuer of the Bonds by serving onto the Issuer a prior written notice of not less than two weeks from the intended date of early redemption of the Bonds.

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

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

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

No new convertible bonds has been converted into ordinary shares during the period.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

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

Investments in an associate

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

Financial assets at fair value through profit or loss

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

Borrowing and charges of assets

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

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

As at 30 June 2021, the banking facilities granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB59.5 million, RMB104.0 million and RMB75.4 million respectively (30 June 2020: approximately RMB63.1 million, RMB110.0 million and RMB77.1 million respectively).

Gearing ratio

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

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

Trade and other receivables

Trade and bills receivables decreased by approximately RMB86.1 million from approximately RMB563.7 million as at 30 June 2020 to approximately RMB477.6 million as at 30 June 2021, primarily due to most of customers settled the receivables in accordance with the contract terms for the year ended 30 June 2021 as the paper industry is recovering. The provision for impairment of trade receivables and other receivables decreased by approximately RMB5.1 million to approximately RMB96.2 million and increased by approximately RMB0.7 million to approximately RMB28.1 million, respectively, for the year ended 30 June 2021 as compared with last year. The Group will strengthen customer credit risk management to guard against the increased in bad debt provision, and will take legal action if necessary.

Capital Expenditure

For the year ended 30 June 2021, the Group's capital expenditure amounted to approximately RMB7.9 million (2020: RMB5.8 million). The capital expenditure of the Group for the year was mainly used to recognition of right-of-use assets in relation of leasing an office and purchase of machines.

COMMITMENTS

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

CONTINGENT LIABILITIES

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

FOREIGN CURRENCY RISK

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

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 301 employees (30 June 2020: 296 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2021 were approximately RMB54.4 million, as comparable to approximately RMB52.8 million for the year ended 30 June 2020. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the year, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

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

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

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

From the listing date to 30 June 2021, the proceeds from the listing by way of placing were used as follows:

	Use of proceeds in the same manner and proportion as shown in the prospectus from the listing date to 30 June 2021 RMB'000	Actual use of proceeds from the listing date to 30 June 2021 RMB'000	Unused proceeds RMB'000	Expected timeline of full utiligate of the balance
Increase production capacity	23,521	18,299	5,222	2021
Cost saving construction	15,709	–	15,709	2021
Continuous product development and innovation	5,208	5,208	–	
Increase market awareness and image of the Group	3,385	2,057	1,328	2021
Improve the current information management system	260	260	–	
	48,083	25,824	22,259	

The unused net proceeds have been placed as interest bearing deposits with licensed bank 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

ABOUT THIS REPORT

This is the Environmental, Social and Governance ("ESG") Report (the "ESG Report") of the Group for the year ended 30 June 2021, which outlines the principles and sustainably philosophy of the Group in fulfilling its corporate social responsibility ("CSR") and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

During the year ended 30 June 2021 (the "Reporting Period"), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG report provides details of the Company's policies and practices in two aspects namely environmental and social for the Reporting Period.

REPORTING PRINCIPLES

To respect to the reporting principles, the Group ensures that ESG issues discussed in this Report are sufficiently important and material to investors and stakeholders including but not limited to shareholders, governments, employees, clients, suppliers and communities.

In order to determine what issues are relevant and material to our business with respect to sustainability, the Group is aware that the key is to understand what issues that the stakeholders concerned most. Therefore, the Group defines the stakeholders as people who affect our business or who are affected by our business. In the daily operational business, the Group actively exchange information with the stakeholders through the transparent platform while the Group is devoted to continuous improve the communication system. In addition, the Group is committed to maintaining a long-term relationship with its stakeholders and are actively engaged in addressing their concerns with timely follow-up actions. The Group is dedicated to create a sustainable growth for the benefits of all our stakeholders.

SCOPE OF THE ESG REPORT

The Groups core business is engaged in the design, manufacture and sale of cylinder blocks and cylinder heads in the PRC. The data disclosed in the ESG Report was collected from the main office and the production plants of the Group in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

REPORTING FRAMEWORK

The Group has prepared the ESG report pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. The ESG Report adhere to the reporting principles of the ESG Reporting Guide, and complies with the "Comply or Explain" provisions therein. In view of our first time disclosure of certain key performance indicators ("KPIs"), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

ACCESS OF THE ESG REPORT

The ESG report is released in both printed and online versions. The online version is available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.hzeg.com).

This report is released in both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

CONTACT INFORMATION

We highly appreciate and welcome your feedback on the ESG Report so that we may meet the stakeholder's interests and for our sustainability initiatives. For any enquires or recommendations, please forward to us at Room 805A, 8/F, Tower 1, 75 Mody Road, Tsim Sha Tsui, Hong Kong or by email at ir@hzeg.com.

STAKEHOLDER ENGAGEMENT

Communication with stakeholders is very important to the Group. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, business partners, the public and the community. The table sets out the communication channels and expectations of the major stakeholders.

Major stakeholders	Communication Channels	Expectations
Shareholders	• Annual general meeting and other shareholder meetings • Annual report and interim report • Announcements and circulars • Company's website • Meeting with investors	• Return on investment • Information disclosure and transparency • Protection of shareholders' rights and fair treatment of shareholders
Government and regulatory authorities	• Policy guidance • Response to public consultation in writing • Meeting	• Compliance with laws and regulations • Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility • Proper tax payment
Employees	• Regular meetings and training • Performance assessment • Staff newsletters and broadcasts • Labour union	• Salary and welfare • Safe working environment • Fair career development opportunities
Customers	• Regular meetings • Site visit • Exhibition • Email	• High quality products and services • Group reputation and brand image
Business partners	• Business partner meetings • Site visit • Email • Tendering process • Purchase review	• Long-term partnership • Win-win cooperation • Fair purchase • Timely payment
The public and the community	• Site visit • Email • public newsletters and broadcasts	• Volunteer • Community visit • Donate

ENVIRONMENTAL

Environmental Policy

The production of the Company industrial automation systems and sludge treatment products mainly involves the assembly of parts and components, and such production processes are subject to various PRC environmental laws and regulations such as the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (中華人民共和國固體廢物污染環境防治法).

As advised by our PRC Legal Advisers, our operations in the PRC are subject to, among others, the following environmental laws and regulations: (i) the Environmental Protection Law of the PRC (中華人民共和國環境保護法); (ii) the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法); (iii) the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國污染防治法); (iv) the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (中華人民共和國固體廢物污染環境防治法); (v) the Law of the PRC on the Environmental Impact Assessment (中華人民共和國環境影響評價法); and (vi) the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例).

The Company pledges to uphold quality management and implement policies for conserving resources and managing waste. The Company has established the following policies in compliance with environmental regulations:

1. The Company obtained the ISO14001 Environmental Management System certifications – implemented internal procedures to prevent and manage pollution.

2. The Company commits to fulfill and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.

ENERGY CONSERVATION AND EMISSION REDUCTION

Reducing energy consumption and improving energy efficiency are keys to slowing down global climate change, and therefore the Group strives to improve its energy saving performance on operation.

Wastes Control

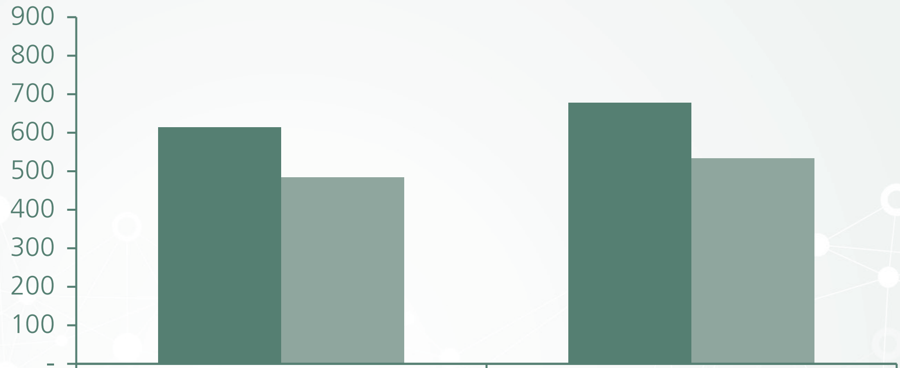
The Group produced various hazardous liquid waste and solid wastes in the course of manufacturing, which amounted decreased by 61.0% to approximately 0.96 tonnes for the year (2020: approximately 2.46 tones), consisting of various chemicals and wastes, such as spray water of paint room, scraps and waste packaging used in the manufacture of products. For such hazardous substance, the Group primarily cooperated with qualified units for its centralized and regular treatment.

To ensure that the Group comply with the applicable environmental laws and regulations, we have implemented internal procedures to prevent and manage pollution. The Group conduct regular testing in relation to air, noise and waste water emitted or produced to ensure that our pollution levels are within the allowed levels as stipulated in the relevant PRC laws and regulations.

Power Consumption Control

The headquarters and other offices of the Group all adhere to the principle of energy conservation and environmental protection. Each office of the Group has formulated a guideline on the use of airconditioners, where heaters are allowed in winter only when the temperature is below 0°C, and airconditioning are allowed during summer when the temperature is above 30°C.

Power consumption and corresponding carbon emission



	2020	2021
Power consumption (kWh in ‘000s)	614.02	677.86
Carbon emission (tonnes)	483.70	533.99

Water Consumption Control

The Group treasures water resources and is committed to controlling water consumption and avoiding wastage.

Water consumption and corresponding carbon emission

	2020	2021
Water consumption (Kiloton)	8.54	9.25
Carbon emission (tonnes)	3.50	3.79

During the year ended 30 June 2021, the total power consumption of the Group was approximately 677,860 kWh, and the density was approximately 1,306.4 kWh/output value of RMB million and total water consumption was approximately 9,250 tonnes and the density was approximately 17.8 kg/output value of RMB million.

The total power consumption and total water consumption increased by approximately 17.0% and approximately 20.5% for the year ended 30 June 2021, as compared with the last year, respectively. Such increase was mainly because business growth of the Company.

Packaging materials

The Group does not use cartons, paper and plastics as packaging materials. Therefore, the Group does not consume packaging materials.

The Group will continue to closely monitor the utilisation of resources and conduct regular assessment to seek better ways for contributing to environmental protection.

SOCIAL

Employees

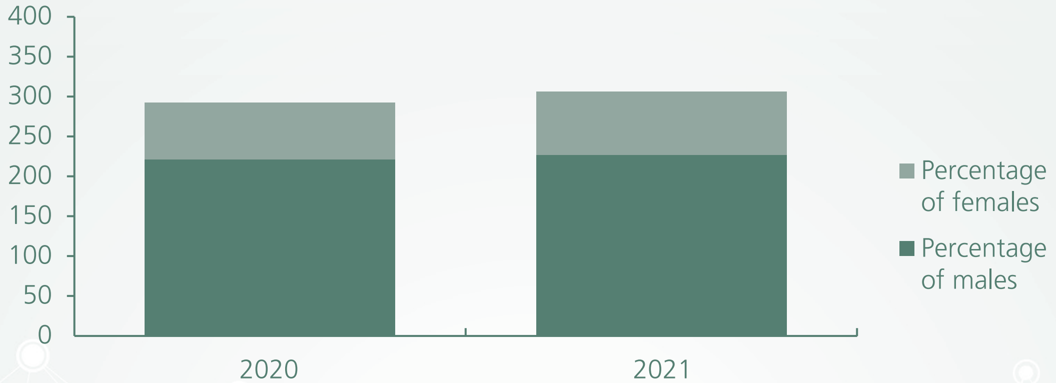
The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and the management are reasonable and competitive in the market and the Group believes that its long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of the employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, the Group provides regular training to our employees depending on their position in the Group. Besides these, the Group has formulated detailed regulations in its employee manual with respect to promotion, dismissal, working hours, vacations and annual leaves and other aspects.

During the year, talent management was the key focus of the Group's human resources strategy. As at 30 June 2021, the Group employs 301 employee The following table sets forth the number and breakdown of our full-time employees by function as at 30 June 2021:

	Number of employees
Production	64
Technical and Research and development	119
Sales and marketing	25
Procurement and warehouse	7
Maintenance services	8
General administration and management	59
Quality control	7
Accounting and finance	12
Total	301

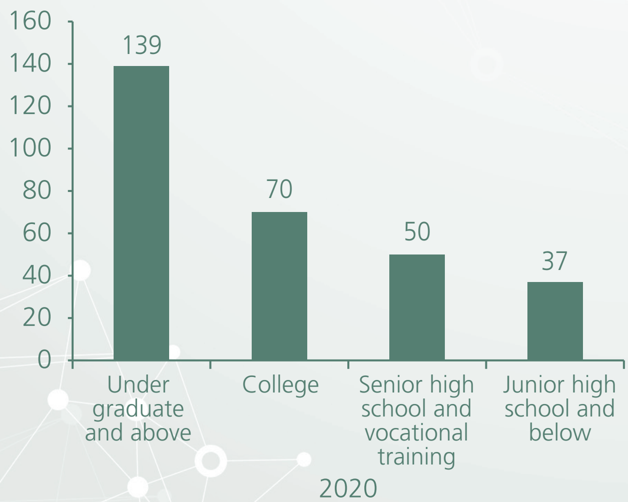
EMPLOYMENT STATISTICS BY GENDER, AGE AND EDUCATION LEVEL

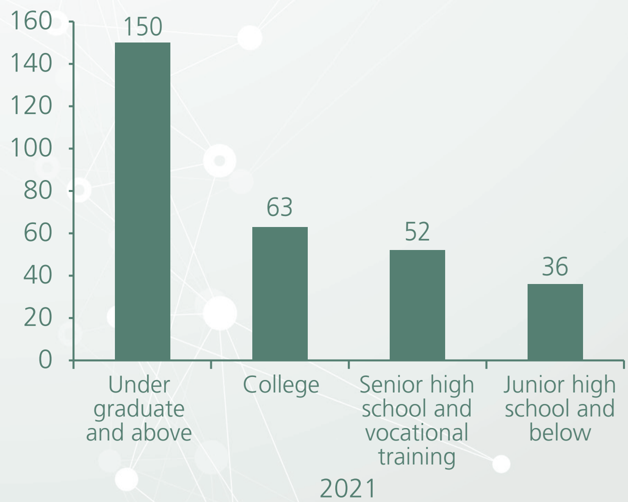
Distribution of employees by gender



Distribution of employees by age

Distribution of employees by education level

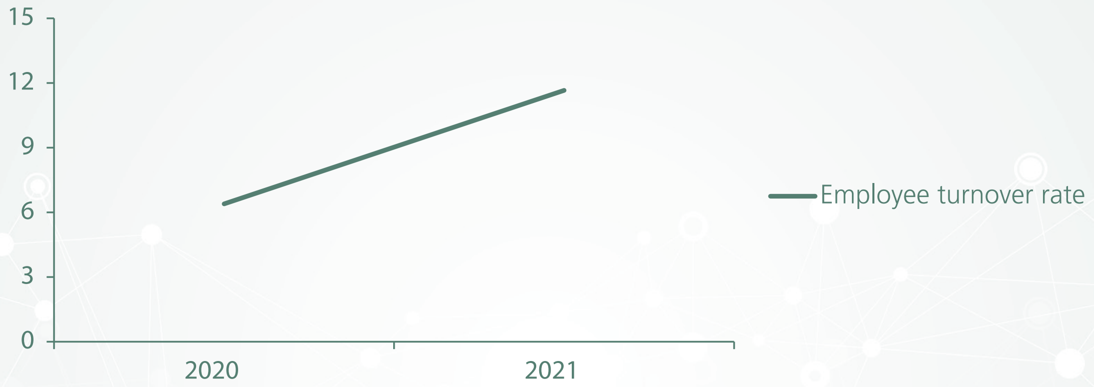




Benefits

To attract, motivate and retain talents, the Group has set up a compensation and benefits management system, and regularly reviews the compensation and benefits packages of employees to ensure their competitiveness in the market. The employment benefits provided by the Group include pension, medical insurance, high temperature subsidy, labour protection and training subsidy.

Employee turnover rate



OCCUPATIONAL HEALTH AND SAFETY

Safety Management System

The Group is subject to various production safety rules and regulations in the PRC. The Group are committed to providing a safe and non-hazardous working environment for all staff. The Group are subject to the relevant PRC laws and regulations regarding production safely, including the principle law governing the administration of production safety in the PRC, namely the PRC Production Safety Law (中華人民共和國安全生產法) which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the process of production, the Group has implemented various safety guidelines and operating procedures for our production process to ensure safe operation of our production facilities and to prevent injuries. The Group conducts regular and thorough worksite inspection to eliminate potential hazards in our work environment, and installation of first-aid cases at production sites, use of labour protective equipment. The Group also provides mandatory safety training to all new employees prior to commencement of work. Furthermore, the Group provides our employees with occupational safety education and training such as the provision of periodic training courses on self-rescue and escape to employees to enhance their awareness of safety issues from time to time. We have also undertaken accidental insurance policies for our employees. The Group has obtained certifications for the following management systems, namely: (i) ISO 14001:2004 Environment Management System; and (ii) OHSAS 18001:2007 Occupational Health and Safely Management System, for the Group business operations.

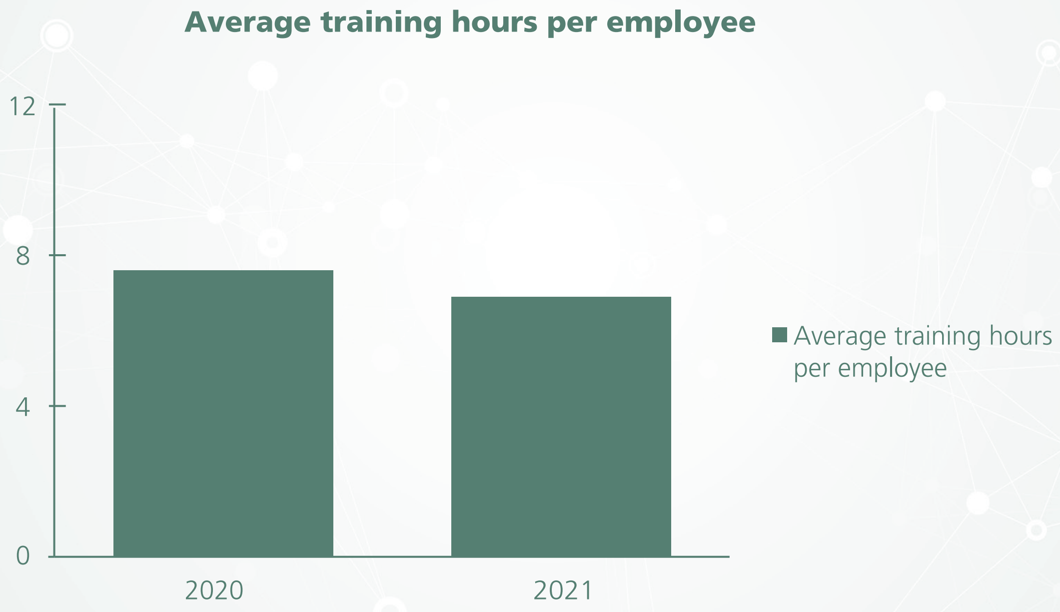
As part of our internal control measures, the Group has set up a work injury and accident administration system for the management, report, investigation and settlement of work injuries and accidents, and which prescribes in detail the procedures for handling an accident at different stages so that all the employees involved in an accident will have a clear guidance should an accident occur.

As at 30 June 2021, there were no any injury cases in Tongxiang.

Save as disclosed herewith, the Group has not experienced any other material accident in our production nor suffered any claims for personal or property damages during the year, and our PRC Legal Advisor has confirmed that the Group is in compliance in all material respects with applicable laws relating to labor safety matters in the PRC.

Employee training and development

The Company has established a comprehensive training system and mechanism to provide on-job teaching and training for its employees, in order to enhance their knowledge and skills. The training mainly consist of orientation training, on-job training and external training.



Employees Practices

Almost 99.9% of employees hired by the Group have been located in the PRC. The Company strictly complies with the requirements of the Labour Law of the PRC without violating the relevant rules and regulations:

1. Workers' wages, overtime payments and related benefits are made in accordance with the local minimum wage (or above);

2. Holidays and statutory paid leaves are compliant with the requirements of the PRC; and

3. The Company treats all the employees equally, and their employment, remuneration and promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

Fair Recruitment

The Group recruit staff based on a fair, open and impartial principle to ensure the recruitment and selection process is objective and consistent. The Company only take into account an individual's competence, regardless of the age (no recruitment of minors under the age of 16), nationality, race, gender, religion, pregnancy or disability. This process avoids any employment discrimination and offers equal employment opportunities to all candidates.

Employment

The Group stringently comply with all national and local laws, such as the Labor Law, Labor Contract Law and Employment Promotion Law of the PRC. We legally abide by labour policies and eliminate any malpractice such as the use of child labour or forced-labour workers.

RELATIONSHIPS WITH CUSTOMERS

Through the efforts of sales and marketing team, the Group have established solid relationships with its major customers for periods over five years. The customers of the Group are primarily large paper-making enterprise located in the PRC.

SUPPLY CHAIN MANAGEMENT

The Group recognise that supply chain management is essential in improving operational efficiency, and therefore we work closely with the suppliers to meet customers' needs in an effective and efficient manner, while emphasizing responsible operating practices.

We source parts and components such as inverters, control panels and cooling fans for the production of our industrial automation systems from our suppliers. We also purchase parts and components such as high pressure relief valves, piston pumps and steel-belts for the production of our sludge treatment products. In selecting our suppliers, we consider a number of factors, including but not limited to their technical capabilities, competitiveness in price, financial condition, reputation in the industry, environmental protection policy and our working relationship. The credit period offered by our suppliers of parts and components generally ranges between 15 days and 60 days, depending on the nature, the number of years of business relationship and the amount of our purchasers. The Group had relationship of one to eight years with our five largest suppliers and the Group did not rely on any single supplier for raw materials or key components.

Selection of suppliers – suppliers are chosen based on their ability to guarantee good product quantity and quality, reasonable prices, timely delivery and good services. When selecting and evaluating potential suppliers, we require them to arrange for site visits and request for samples of the materials to be supplied to us to ensure that the materials and the quality of their service meet our requirements. We also conduct quality control inspections on parts and components and other materials supplied prior to their use. When parts and components are delivered to us by our suppliers, we conduct sample checks to ensure that they meet our specifications and quality requirements. Any parts and components that fail to meet our requirements will be returned to the supplier.

QUALITY CONTROL AND MANAGEMENT PRODUCT RESPONSIBILITY

Quality Control

According to the Provisions on the Administration of Compulsory Product Certification (強制性產品認證管理規定) issued by the State Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) in 2001 and renewed in 2009, most of the parts and components required for the production of the motor control centre are listed on a directory of products subject to Compulsory Product Certification. Therefore, it was necessary to obtain the China Compulsory Certificate (the "3C Certificate") (強制性產品認證) to manufacture our motor control centre. We have obtained all 3C Certificates necessary for the production of our motor control centre as required by the Provisions on the Administration of Compulsory Product Certification.

Product testing – prior to delivery, we will conduct in-house testing on all finished products. Products which do not meet the relevant quality standards will be re-worked and are subject to the in-house testing again after the re-work.

Staff training – our staff receive training relating to the relevant ISO standards.

We have 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 department(s) 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.

Warranty period

The sales contracts for our industrial automation systems and sludge treatment products normally stipulate a warranty period of either 18 months from the date of delivery, or 12 months after completion of on-site testing, whichever is earlier. During the warranty period, on-site engineering and maintenance services, and/or the repair and replacement of certain spare parts and components are provided free-of-charge by our engineers. Upon the expiry of the warranty period, our customers will pay us the remaining 5% to 10% of the contract value.

Procurement and receipt of raw materials

Once the project design has been completed, the project implementation team will, based on the detailed project design, determine the procurement of the necessary raw materials, set out the production sequence and allocate the necessary personnel. The procurement team will procure raw materials based on the project implementation plan. Procurement arrangements are entered into with our suppliers for the purchase of the necessary raw materials required for each individual project after we have entered into sales contracts with our customers. This will ensure the timely delivery of raw materials in accordance with the production schedule and avoid any fluctuations in the prices of the raw materials during the course of the project.

INTELLECTUAL PROPERTIES

Since the intellectual property rights authorized for our use are material and consist mainly of trade secrets, to guard our interests, we require all of our employees, including management personnel, research and development personnel, technical personnel, sales personnel and production workers to execute a confidentiality agreement which covers a wide range of confidential information including technical plans and reports, project design, circuit design, manufacturing methods, commercial secrets, industrial processes, technical standards, measurement software, database, product designs, and records of research design and development. As at 30 June 2021, the Group had a total of 127 registered patents (including 26 invention patents, 72 utility model patents and 29 software copyrights.

Bribery, corruption and other misconduct

The Group's employee handbook regulates our employees' conduct with respect to conflicts of interest, bribery, corruption and other misconduct. The Group provides regular training for our employees to emphasize the importance of employees' conduct and refresh their knowledge on the reporting system on employees' misconduct. An effective whistle blowing policy is also in place to minimize the risk of fraudulent acts, criminal offences or wrongdoings occurring in the workplace.

The Group has complied with major relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance" and the Mainland's "Corruption Ordinance of the People's Republic of China".

During the year ended 30 June 2021, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

COMMUNITY INVOLVEMENT

The Group strives to improve the society through community involvement. Both management and employees of the Group have been eager to take their own initiatives in helping and supporting the local communities and neighbors.

During the year, the Group sent the employee representatives to join pairing help families with "Heart warmer" activities.

FUTURE DIRECTION

The Group recognises the importance of corporate social responsibilities, and strives to improve its performance in this aspect going forward. As our businesses continue to expand, the Group will strive to promote our corporate social responsibilities initiatives to all operation units and communities where our businesses are located.

The Group will continue to work hard on various aspects to improve our performance in corporate social responsibilities, including:

– Continue to reinforce and comply with sustainable environmental practices; and

– Continue to enhance the occupational health & safety standards; and

The Group will regularly review this corporate social responsibilities policy to ensure the corporate social responsibilities initiatives and performance address the needs of the society in this ever-changing environment.

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 30 June 2021.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 1 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 2021 and the financial information of the Group as at 30 June 2021 are set out in the audited financial statements of this report.

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 30 June 2021 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 11 to 21 of this annual report. The analysis of the key financial performance indicators of the Group is also shown in "Management Discussion and Analysis" section of this annual report.

KEY RISKS AND UNCERTAINTIES

Please refer to Note 3 to the consolidated financial statements for details of the main financial risks faced by the Group and the Group's management objectives and policies regarding such risks. In addition to such financial risks, the Directors are of the view that demands on our products and services, fluctuation in costs of raw materials and difficulty in obtaining financing are also major of the 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 our results of 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 the global economic and market conditions and changes in the PRC government's policies.

Difficulty 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 the Company's securities.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 30 June 2021, 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 head "Environmental, Social and Governance Report" on pages 22 to 34 of this annual report.

RELATIONSHIP WITH OUR STAFF , CUSTOMERS AND SUPPLIERS

The Directors are of the view that our staff is one of the most valuable assets of our Group and have contributed to the success of the Group. Since its establishment, 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 its experienced staff. The Directors believe that we have maintained a very good relationship with our staff.

Through the efforts of sales and marketing team the Group have 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.

FINAL DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2020 (2019: nil).

The Board does not recommend the payment of a final dividend for the year ended 30 June 2021 (2020: nil).

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. This 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 procedures have been set out in Articles 133 to 142 of the Company's Articles of Association posted on the website of the Company.

Review and Monitor of this Policy

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 of Association. 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 November 2021 (Friday) to 24 November 2021 (Wednesday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 18 November 2021 (Thursday).

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

Directors' Report

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 24 November 2021. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

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.

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.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
July 2020	698,000	2.2	1.84	1,402,635
September 2020	206,000	1.22	1.03	235,090
October 2020	58,000	1.37	1.32	77,601
	962,000			1,715,326

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

Such shares have been cancelled on 10 September 2020 and 17 November 2020.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2021.

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

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

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

(i) a discount of approximately 22.62% to the closing price of HK$0.840 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;

(ii) a discount of approximately 23.17% over the average closing price of approximately HK$0.846 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;

(iii) a discount of approximately 22.62% over the average closing price of approximately HK$0.840 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement;

(iv) a discount of approximately 64.86% to the closing price of HK$1.85 per Share as quoted on the Stock Exchange on the 12 April 2021 ("Latest Practicable Date");

(v) a discount of approximately 29.8% to the audited consolidated net asset value of the Group of approximately RMB0.78 per Share as at 30 June 2020 (equivalent to approximately HK$0.93 based on the exchange rate on the Latest Practicable Date) and calculated based on the audited consolidated net assets of the Group of approximately RMB570,975,104 as at 30 June 2020 as extracted from the annual report of the Company for the year of 2020 and the number of issued Shares as at the Latest Practicable Date); and

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

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

Directors' Report

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

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

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

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

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

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 28 and 29 to the consolidated financial statements.

As at 30 June 2021, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amount to RMB540,822,066. The amount of RMB540,822,066 represents the Company's share premium, retained earnings and translation difference, 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 borrowings of the Group as at 30 June 2021 are set out in Note 24 and Note 27 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 30 June 2021 represented approximately 24.6% (30 June 2020: 46.0%) and approximately 44.0% (30 June 2020: 62.0%), 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 2021 represented approximately 13.6% (30 June 2020: 14.0%) and approximately 38.4% (30 June 2020: 40.0%), respectively, of the Group's total purchases.

None of the Directors or their respective associates, and none of the existing shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers and suppliers.

Directors' Report

DIRECTORS

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

Executive Directors

Mr. Zhu Gen Rong (Chairman)
Mr. Wang Ai Yan (Chief Executive Officer)
Mr. Liu Chuan Jiang (resigned with effect from 7 May 2021)
Mr. Jin Hao (resigned with effect from 7 May 2021)
Mr. Fang Hui (appointed with effect from 29 April 2021)

Non-Executive Directors

Mr. Shi Chenghu (appointed with effect from 27 April 2021)

Independent Non-Executive Directors

Mr. Dai Tian Zhu (resigned with effect from 31 March 2021)
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang (appointed with effect from 31 March 2021)

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

In accordance with the Articles, Mr. Wang Ai Yan, Mr. Fang Hui, Mr. Shi Chenghu, Mr. Heng, Keith Kai Neng, and Mr. Yao Yang Yang will retire at the 2021 AGM and, being eligible, will offer themselves for re-election at the 2021 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 30 June 2021.

DIRECTORS' SERVICE CONTRACTS

Each of executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 16 May 2013 and will continue thereafter until terminated in accordance with the terms of the contract, except that Mr. Wang Ai Yan has entered into a service contract with the Company for an initial term of three years commencing from 1 October 2014 and will continue thereafter until terminated in accordance with the terms of the contract and Mr. Fang Hui has entered into a service contract with the Company for an initial term of three years commencing from 29 April 2021 and will continue thereafter until terminated in accordance with the terms of the 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 contract.

Independent non-executive Directors are appointed for a term up to 30 June 2021 and will continue thereafter unless terminated by either party giving at least one month's notice in writing. The appointment period of them has been extended to 30 June 2024. Except that Mr. Heng, Keith Kai Neng and Mr. Yao Yang Yang has entered into a service contract with the Company for an initial term of three years commencing from 2 January 2019 and 31 March 2021, respectively, and can be extended in accordance with the terms of the contract.

Other than as disclosed above, no Director proposed for re-election at the forthcoming AGM has 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

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 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 in relation to the provision of metal scraps by the Environmental Resources from time to time (the "Master Sales Agreement") with Taizhou Hengshengtianyue Metal Co., Ltd.* (台州恒晟天悦金属有限公司) (the "Customer") for a term of approximately 12 months, expiring on 30 June 2022. 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, the 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.

The Customer is one of the new customers which the Group intends to establish a relationship because it 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
Sales of metal scraps	RMB14,632,704

For the year ended 30 June 2021, 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 HK$17,176,955, which was within the annual cap of HK$18 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 2021, the Independent Non-executive Directors of the Company have concluded that the continuing connected transaction has 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 agreements 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 2021 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 us 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 agreements 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

No 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.

RELATED PARTY TRANSACTION

Details of the related party transactions are provided under Note 33 to the consolidated financial statements of this annual report, and save as disclosed in the section headed "Continuing Connected Transactions" in this annual 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 Note 7 and 8 to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of 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 situation, the market condition, the 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 (the "MPF Scheme") has been set up for employees in Hong Kong, in accordance to the Mandatory Provident Fund Ordinance. All employees in Hong Kong are required to join the MPF Scheme and the employees and its employer are each required to contribute 5% of their gross earnings with a current ceiling of HK$1,500 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 comprehensive income 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 in accordance to 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.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

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

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

In this regard, each of the Controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the Deed for the year ended 30 June 2021. The independent non-executive directors of the Company who forms the Independent Board Committee have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Deed and have confirmed that, as far as they can ascertain, there is no breach of any of the undertakings in the Deed given by the Controlling Shareholders.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as the information set out in the section headed "Compliance of Non-competition Undertakings", during the year ended 30 June 2021 and up to the date of this report, none of the Directors or controlling shareholder or any of their respective associates, had engaged in any business that competes or is likely to compete with the business of the Group, or has any other conflict of interest with the Group.

SHARE OPTION SCHEME

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

1. Purpose

The purpose of the 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 employees including any executive, non-executive Directors, advisors, consultants of the Group to take up options.

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

The maximum number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Listing Date (i.e. a total of 27,200,000 shares). The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the Scheme is 27,200,000 shares, representing 3.07% of the issued shares of the Company as at the date of this 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 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 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.

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 granted. 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; and (iii) the nominal value of a share.

8. Life of the Share option Scheme

The Share Option Scheme became valid and effective for a period of ten years commencing on the Listing 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 Share Option Scheme shall remain in full force and effect in all other respects and options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

As at 15 January 2019, a total of 19,000,000 share options (the "Share Options") have been granted to a Director and certain employees of the Group under the Share Option Scheme.

Directors' Report

The following table discloses movements in the Company's share options outstanding under the Share Option Scheme:

For the year ended 30 June 2021

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

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

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

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

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

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

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

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

Validity period of the Share Options:

The Share Options shall be vested and are exercisable in the following manners:

A. 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

B. 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.

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

Directors' Report

If all such share options is exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 2.52% as at 30 June 2021.

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

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

As at the date of this report, no share option is exercised, cancelled or lapsed.

SHARE AWARD SCHEME

The Company conditionally adopted the share award scheme (the "Share Award Scheme") on 11 January 2019. The purposes of the Share Award Scheme are to attract talents who might be able to assist in the development of the waste recycling and treatment project. Florescent Holdings Limited and the Company entered into a agreement setting out, amongst others, the conditions and other terms in relation to the gift over the gift shares (consisting of 170 million Shares) at nil consideration to the trustee of the Share Award Scheme to be established by the Company.

For more detail and the principal terms of the Share Award Scheme are disclosed in the announcement of the Company dated on 11 January 2019. A framework agreement relating to the Share Award Scheme has been terminated. Details of which have been disclosed in the announcements dated 26 May 2020 and 1 September 2020.

As at the date of this report, no share award is granted and exercised.

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 2021, 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 Securities and Future Ordinance (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

Name of director	Company/name of associated company	Natural of interest	Number of securities	Approximate percentage of shareholding
Mr. Zhu Gen Rong	The Company	Interest of a controlled corporation	295,422,000 shares (Note 1)	33.32%
		Beneficial owner	2,044,000 shares (Note 2)	0.23%
		Interest of people acting in concert	368,000 shares (Note 1)	0.04%
	Florescent Holdings Limited	Interest of a controlled corporation	37,790 shares (Note 3)	94.48%
	Lian Shun Limited	Beneficial interest	11,411,000 shares (Note 4)	50.56%
Mr. Wang Ai Yan (Note 4)	The Company	Interest of a controlled corporation	295,422,000 shares (Note 5)	33.32%
		Beneficial owner	368,000 shares (Note 6)	0.04%
		Interest of people acting in concert	2,044,000 shares (Note 5)	0.23%
	Florescent Holdings Limited	Interest of a controlled corporation	37,790 shares (Note 3)	94.48%
	Lian Shun Limited	Beneficial interest	3,860,000 shares (Note 4)	17.10%
Mr. Fang Hui	The Company	Interest of a controlled corporation	294,691,223 shares/underlying shares (Note 7)	33.23%
		Beneficial interest	7,440,000 shares (Note 7)	0.84%
Mr. Shi Chenghu	The Company	Beneficial interest	89,452,000 shares	10.08%

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 94.48% by Lian Shun Limited, which in turn is owned as to 50.56% by Mr. Zhu Gen Rong. Mr. Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited. He is also deemed to be interested in the Shares held in the personal name of Mr. Wang Ai Yan.

2. The 2,044,000 shares which Mr. Zhu Gen Rong is interested in as beneficial owner.

3. Florescent Holdings Limited is owned as to 94.48% by Lian Shun Limited and as to 5.52% by Qunyu Limited.

4. Lian Shun Limited is owned as to 50.56% by Mr. Zhu Gen Rong, as to 17.10% by Mr. Wang Ai Yan, as to 14.80% by Mr. Liu Chuan Jiang and as 17.54% by Mr. Jin Hao.

5. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 94.48% by Lian Shun Limited, which in turn is owned as to 17.10% by Mr. Wang Ai Yan. Mr. Wang is regarded as one of the parties acting in concert with Mr. Zhu Gen Rong under the Takeovers Code and is deemed to be interested in the Shares held by Florescent Holdings Limited. He is also deemed to be interested in 2,044,000 shares held in the personal name of Mr. Zhu Gen Rong.

6. The 368,000 shares which Mr. Wang Ai Yan is interested in as beneficial owner.

7. Dao He Investment Limited is an investment holding company beneficially owned by Mr. Fang Hui, being an executive Director. Dao He Investment Limited holds 294,691,223 shares including 140,845,070 new Shares upon full conversion of the Bonds. Mr. Fang Hui holds 7,440,000 Shares.

Save as disclosed above, as at 30 June 2021, 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 2021, so far as the Directors are aware, the interests and short positions owned by the following persons or institutions in the shares and underlying shares of the Company 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 are as follows:

Long positions in the shares

Name of Substantial Shareholders	Capacity/Natural of interest	Number of Shares directly or indirectly interested	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owner	295,422,000	33.32%
Lian Shun Limited	Interest of a controlled corporation	295,422,000 (Note 1)	33.32%
Mr. Zhu Gen Rong	Interest of a controlled corporation/Beneficial owner, person acting in concert	297,834,000 (Note 2)	33.59%
Mr. Wang Ai Yan	Interest of a controlled corporation/Beneficial owner, person acting in concert	297,834,000 (Note 3)	33.59%
Mr. Liu Chuan Jiang	Interest of a controlled corporation/person acting in concert	297,834,000 (Note 4)	33.59%
Ms. Zhu Ling Yun	Person acting in concert	297,834,000 (Note 5)	33.59%
Mr. Fang Hui	Interest of a controlled corporation/Beneficial owner	302,131,223 (Note 6)	34.07%
Dao He Investment Limited	Beneficial owner	294,691,223 (Note 6)	33.23%
Mr. Shi Chenghu	Beneficial owner	89,452,000	10.08%
Li Chao Wang	Interest of a controlled corporation	59,817,294 (Note 7)	6.75%
Rosy Ease Limited	Interest of a controlled corporation	59,817,294 (Note 7)	6.75%
Swift Fortune Holdings Limited	Beneficial owner	59,817,294 (Note 7)	6.75%
Gain Channel Limited	Interest of a controlled corporation	59,817,294 (Note 7)	6.75%
Song Min	Interest of spouse	59,817,294 (Note 8)	6.75%
F & L Holding (HK) Limited	Contract of transfer	170,000,000 (Note 9)	19.17%
Wealthy Land Investments Group Limited	Having a security interest in shares	411,872,000	46.45%

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 94.48% by Lian Shun Limited. Under the SFO, Lian Shun Limited is deemed to be interested in the shares held by Florescent Holdings Limited.

2. Florescent Holdings Limited is owned as to 94.48% by Lian Shun Limited, which in turn is owned as to 50.56% by Mr. Zhu Gen Rong. Under the SFO, Mr. Zhu is deemed to be interested in the shares held by Florescent Holdings Limited and include 2,044,000 shares which Mr. Zhu is interested in as beneficial owner and include 368,000 shares which Mr. Wang is interested in as beneficial owner.

3. Florescent Holdings Limited is owned as to 94.48% by Lian Shun Limited, which in turn is owned as to 17.10% by Mr. Wang Ai Yan. Mr. Wang is regarded as one of the parties acting in concert with Mr. Zhu Gen Rong under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited and Mr. Zhu.

4. Florescent Holdings Limited is owned as to 94.48% by Lian Shun Limited, which in turn is owned as to 14.80% by Mr. Liu Chuan Jiang. Mr. Liu is regarded as one of the parties acting in concert with Mr. Zhu Gen Rong under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited, held by Mr. Zhu and Mr. Wang Ai Yan.

5. Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu are deemed to be interested in the Shares held by each of the other parties under SFO due to the acting-in-concert arrangement.

6. Dao He Investment Limited is an investment holding company beneficially owned by Mr. Fang Hui, being an executive Director. Dao He Investment Limited holds 294,691,223 shares including 140,845,070 new Shares upon full conversion of the Bonds. Mr. Fang Hui holds 7,440,000 Shares.

7. Swift Fortune Holdings Limited is owned as to 100.00% by Rosy Ease Limited, a wholly owned subsidiary of Gain Channel Limited, which in turn is owned as to 74.21% by Mr. Li Chao Wang. Under SFO, Mr. Li is deemed to be interested in the shares held by Swift Fortune Holdings Limited.

8. Ms. Song Min is the wife of Mr. Li Chao Wang and is deemed to be interested in the Shares which are interested in by Mr. Li Chao Wang under the SFO.

9. According to a framework agreement dated 11 January 2019, Florescent Holdings Limited has agreed to transfer 170,000,000 shares to F&L Holding (HK) Limited at nil consideration in the future for the purpose of the establishment of a share award scheme. The framework agreement has been terminated as stated in announcement dated 26 May 2020.

Save as disclosed above, as at 30 June 2021, the Directors are not aware of any interests or short positions owned by any persons in the shares or underlying shares of the Company 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the year ended 30 June 2021 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 was established on 6 May 2013. The primary duties of the audit committee are mainly to review the financial systems of the Group; to review the accounting policy, financial position and financial reporting procedures of the Group; to communicate with external auditors; to assess the performance of internal financial and audit personnel; and to assess the risk management and internal controls of the Group. The audit committee consists of three independent non-executive Directors namely, Mr. Kong Chi Mo, Mr. Heng, Keith Kai Neng and Mr. Yao Yang Yang. The audit committee is chaired by Mr. Kong Chi Mo.

The audit committee of the Company has discussed with the management and external auditors about the accounting principles and policies adopted by the Group and discussed risk management, internal controls and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 30 June 2021.

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 of Association of the Company. The Articles of Association is available on the website of The Stock Exchange of Hong Kong Limited.

AUDITORS

The auditor of the Company, PricewaterhouseCoopers, 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 2021 have been audited by PricewaterhouseCoopers.

Ernst & Young resigned as the auditor of the Company with effect from 21 December 2018 while PricewaterhouseCoopers has been appointed as the new auditor immediately to fill the casual vacancy following the resignation of Ernst & Young.

On behalf of the Board
Zhu Gen Rong
Chairman

Zhejiang Province, China
30 September 2021

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. The Board is pleased to report compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 30 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the year ended 30 June 2021 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. Board should ensure that changes to its composition can be managed without undue disruption. 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. Zhu Gen Rong (Chairman)
Mr. Wang Ai Yan (Chief Executive Officer)
Mr. Liu Chuan Jiang (resigned with effect from 7 May 2021)
Mr. Jin Hao (resigned with effect from 7 May 2021)
Mr. Fang Hui (appointed with effect from 29 April 2021)

Non-Executive Director

Mr. Shi Chenghu (appointed with effect from 27 April 2021)

Independent Non-Executive Directors

Mr. Dai Tian Zhu (resigned with effect from 31 March 2021)
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang (appointed with effect from 31 March 2021)

An updated list of directors and their role and functions is maintained at the website 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.

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.

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.

THE ATTENDANCE OF MEETINGS OF THE BOARD

During the year, the Board convened 4 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 would also ensure that all directors are properly briefed on matters arising at board meetings.

Corporate Governance Report

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.

Details of the Director's attendance record in full meetings of the Board and in all general meetings for the year ended 30 June 2021 are as follows:

Name of Director	Meeting of the Board of Directors No. of Attendance by Directors/No. of Meetings	Annual general meeting No. of Attendance by Directors/No. of Meetings	Extra ordinary general meeting No. of Attendance by Directors/No. of meetings
Mr. Zhu Gen Rong (Chairman)	4/4	1/1	1/1
Mr. Wang Ai Yan (Chief Executive Officer)	4/4	1/1	1/1
Mr. Liu Chuan Jiang (resigned with effect from 7 May 2021)	3/4	1/1	1/1
Mr. Jin Hao (resigned with effect from 7 May 2021)	3/4	1/1	1/1
Mr. Fang Hui (appointed with effect from 29 April 2021)	1/4	N/A	N/A
Mr. Shi Chenghu (appointed with effect from 27 April 2021)	1/4	N/A	1/1
Mr. Dai Tian Zhu (resigned with effect from 31 March 2021)	3/4	1/1	N/A
Mr. Kong Chi Mo	4/4	1/1	1/1
Mr. Heng, Keith Kai Neng	4/4	1/1	1/1
Mr. Yao Yang Yang (appointed with effect from 31 March 2021)	1/4	N/A	1/1

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 D.3 of the Corporate Governance Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhu Gen Rong and Mr. Wang Ai Yan is the Chairman and Chief Executive Officer of the Board of the Company, respectively and are responsible for the overall strategy planning and policy making of the Group.

The Chairman also takes the lead to ensure that the Board works effectively and acts in the best interest of the Company by encouraging the directors to make active contribution in Board's affairs and promoting a culture of openness and debate.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "Articles") provide that at each AGM, 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.

PROFESSIONAL DEVELOPMENT

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 received by the respective directors are kept and updated by the company secretary of the Company.

The individual training record of each director received for the year ended 30 June 2021 is summarized below:

Name of director	Attending seminar(s)/ programme(s)/ conference(s) relevant to the business or directors' duties
Mr. Zhu Gen Rong (Chairman)	✔
Mr. Wang Ai Yan (Chief Executive Officer)	✔
Mr. Liu Chuan Jiang (resigned with effect from 7 May 2021)	✔
Mr. Jin Hao (resigned with effect from 7 May 2021)	✔
Mr. Fang Hui (appointed with effect from 29 April 2021)	✔
Mr. Shi Chenghu (appointed with effect from 27 April 2021)	✔
Mr. Dai Tian Zhu (resigned with effect from 31 March 2021)	✔
Mr. Kong Chi Mo	✔
Mr. Heng, Keith Kai Neng	✔
Mr. Yao Yang Yang (appointed with effect from 31 March 2021)	✔

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.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 6 May 2013 comprising 3 independent non-executive Directors namely, Mr. Kong Chi Mo, Mr. Heng, Keith Kai Neng and Mr. Yao Yang Yang. Mr. Kong Chi Mo is 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 Company's website and on the website 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 internal auditor 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 2021. In addition, the Audit Committee has reviewed external auditor's remuneration.

The attendance of each Director at Audit Committee meetings as follows:

Name of Director	No. of Attendance/ No. of Meetings
Mr. Kong Chi Mo (Chairman)	2/2
Mr. Dai Tian Zhu (resigned with effect from 31 March 2021)	2/2
Mr. Heng, Keith Kai Neng	2/2
Mr. Yao Yang Yang (appointed with effect from 31 March 2021)	N/A

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 the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The roles and functions of the Remuneration Committee include consulting the Chairman of the Board 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.

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' emolument are set out in Note 8 to the financial statements.

The attendance of each Director at Remuneration Committee meetings as follows:

Name of Director	No. of Attendance/ No. of Meetings
Mr. Heng, Keith Kai Neng (Chairman)	1/1
Mr. Dai Tian Zhu (resigned with effect from 31 March 2021)	1/1
Mr. Kong Chi Mo	1/1
Mr. Yao Yang Yang (appointed with effect from 31 March 2021)	N/A

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 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 Company's website and on the website 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. No change has been proposed to the structure, size and composition of the Board during the meeting and the committee had also confirmed the diversity of the Board.

The attendance of each Director at Nomination Committee meetings as follows:

Name of Director	No. of Attendance/ No. of Meetings
Mr. Yao Yang Yang (Chairman) (appointed Chairman with effect from 31 March 2021)	N/A
Mr. Dai Tian Zhu (Chairman) (resigned Chairman with effect from 31 March 2021)	1/1
Mr. Zhu Gen Rong (resigned nomination committee with effect from 29 April 2021)	1/1
Mr. Kong Chi Mo	1/1
Mr. Heng, Keith Kai Neng	1/1
Mr. Fang Hui (appointed as a member of nomination committee with effect from 29 April 2021)	N/A

NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 (the "Nomination Policy") 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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 procedure has been set out in the "Procedure for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

3. Review and Monitor of this Policy

(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.

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 7 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 is also characterised by significant diversity, whether considered in terms of professional background and skills.

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, control impact of the identified risks and facilitate implementation of coordinated mitigating measures. The risks have been disclosed in the report of the directors 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.

Also, the Board engaged an external independent consultant to assess the effectiveness of the Group's risk management, 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 2021. 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 2021.

AUDITOR'S REMUNERATION

During the financial year ended 30 June 2021, the fees paid/payable to the Company's auditor are set out as follows:

Services rendered	Fees paid/ payable (RMB'000)
Annual audit services	2,150
	2,150

COMPANY SECRETARY

Mr. Chan So Kuen was appointed as the Company Secretary on 28 February 2014. According to Rule 3.29 of the Listing Rules, an issuer's company secretary must take no less than 15 hours of relevant professional training in each financial year while Mr. Chan has taken no less than 15 hours of relevant professional training in 2021.

The biographical details of Mr. Chan are set out under the section headed "Biographical Details of Directors and Senior Management".

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM 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 AGM, 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 registrars 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 (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company;

(b) At least 21 clear days' notice in writing (and not less than 20 business days) if calling for an annual general meeting or the proposal constitutes a special resolution of the Company in EGM.

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

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual, interim reports, notices, announcements and circulars and the Company's website at www.hzeg.com.

During the year ended 30 June 2021, there had been no significant change in the Company's constitutional documents.

Independent Auditor's Report

To the Shareholders of Huazhang Technology Holding Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 168, which comprise:

- the consolidated statement of profit or loss for the year ended 30 June 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 30 June 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2021, 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 Kong 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 OPINION

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Recognition of revenue from sales of goods and project contracting services over time
- Provision for impairment of trade and other receivables and contract assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of revenue from sales of goods and project contracting services over time	
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 goods and project contracting services is recognised over time when the Group's performance under a sales contract creates or enhances an asset that the customer controls as the asset is created or enhanced, otherwise, the revenue is recognised at a point in time when the buyer obtains control of the asset. For the year ended 30 June 2021, revenue of the Group from sales of goods and project contracting service was totalled RMB496,906,070, of which RMB199,243,665 was recognised on the over time basis. For the revenue from sales of goods and project contracting services recognised over time, 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 year end. 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, evaluated and tested key controls, on a sample basis, over 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 cost 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 performed site visit of projects, on a sample basis, to evaluate the ongoing status of the projects. 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 over time were supported by the available evidence.

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", and Note 21 "Trade and other receivables, contract assets and prepayments" to the consolidated financial statements. As at 30 June 2021, the net carrying amounts of the Group's trade receivables, other receivables and contract assets were RMB428,544,011, RMB96,493,597 and RMB16,325,135, respectively, after netting off accumulated allowance for impairment provision of RMB96,219,937, RMB28,051,042 and RMB508,140, 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, evaluated and tested the key controls, on a sample basis, over 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 interviewing with sales personnel, 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 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.

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. We have nothing to report in this regard.

RESPONSIBILITIES OF 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 the 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. We report our opinion solely to you, as a body, 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 judgment and maintain professional scepticism 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.

- 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 for our audit opinion.

Independent Auditor's Report

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.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Mang Kwong Fung, Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 September 2021

Consolidated Statement of Profit or Loss

For the year ended 30 June 2021

	Notes	For the year ended 30 June 2021 RMB	2020 RMB
Revenue	5	**496,906,070**	368,159,248
Cost of sales	5, 7	**(391,278,370)**	(293,964,072)
Gross profit		**105,627,700**	74,195,176
Selling and distribution expenses	7	**(9,481,146)**	(9,171,733)
Administrative expenses	7	**(51,588,442)**	(57,122,809)
Research and development expenses	7	**(27,360,497)**	(24,048,315)
Net impairment gains/(losses) on financial and contract assets		**4,850,835**	(83,861,306)
Other income and gains, net	6	**23,409,817**	27,291,315
Operating profit/(loss)		**45,458,267**	(72,717,672)
Finance income	9	**623,198**	276,510
Finance costs	9	**(22,921,063)**	(10,491,027)
Finance costs, net		**(22,297,865)**	(10,214,517)
Share of net loss of associates accounted for using the equity method	13	**(52,462)**	–
Profit/(loss) before income tax		**23,107,940**	(82,932,189)
Income tax expense	10	**(6,592,011)**	5,742,749
Profit/(loss) for the year		**16,515,929**	(77,189,440)
Profit/(loss) is attributable to:			
The shareholders of the Company		**17,984,484**	(77,503,863)
Non-controlling interests		**(1,468,555)**	314,423
		16,515,929	(77,189,440)
Earnings/(losses) per share attributable to the shareholders of the Company for the year (expressed in RMB cents per share)			
Basic earnings/(losses) per share	11	**2.45**	(10.56)
Diluted earnings/(losses) per share	11	**2.45**	(10.56)

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Notes	2021 RMB	2020 RMB
		For the year ended 30 June	
Profit/(loss) for the year		**16,515,929**	(77,189,440)
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**9,514,873**	(3,816,712)
Other comprehensive income/(loss) for the year, net of tax		**9,514,873**	(3,816,712)
Total comprehensive income/(loss) for the year		**26,030,802**	(81,006,152)
Total comprehensive income/(loss) for the year is attributable to:			
The shareholders of the Company		**27,499,357**	(81,320,575)
Non-controlling interests		**(1,468,555)**	314,423
		26,030,802	(81,006,152)

The notes on pages 81 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	As at 30 June 2021 RMB	2020 RMB
ASSETS			
Non-current assets			
Property, plant and equipment	14	**73,441,278**	79,483,658
Other right-of-use assets	15	**5,830,519**	5,303,580
Investment properties	16	**104,021,068**	109,975,507
Prepaid land lease payments	15, 17(i)	**75,375,942**	77,087,727
Goodwill	18	**39,934,884**	39,934,884
Other intangible assets	17(ii)	**10,668,801**	12,664,279
Deferred tax assets	25	**16,260,156**	14,318,685
Investments in an associate	13	**4,947,538**	–
Financial assets at fair value through profit or loss	19	**5,447,433**	–
Trade and other receivables	21(i)	**23,744,860**	125,321,393
Prepayments	21(iii)	**169,782**	182,843
		359,842,261	464,272,556
Current assets			
Inventories	20	**156,144,094**	113,679,076
Trade and other receivables	21(i)	**550,390,302**	529,419,356
Prepayments	21(iii)	**89,226,697**	135,171,764
Financial assets at fair value through other comprehensive income		**43,493,570**	50,049,740
Pledged deposits	22	**23,922,992**	28,602,729
Contract assets	21(ii)	**16,325,135**	11,035,234
Cash and cash equivalents	22	**145,299,486**	40,394,804
		1,024,802,276	908,352,703
Total assets		**1,384,644,537**	1,372,625,259

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	As at 30 June 2021 RMB	2020 RMB
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	25	**5,477,481**	6,110,739
Deferred income	26	**22,837,500**	24,187,500
Lease liabilities	15	**4,430,761**	4,038,619
Trade and other payables	23	**2,101,412**	–
		34,847,154	34,336,858
Current liabilities			
Trade and other payables	23	**343,430,172**	354,215,675
Contract liabilities	5	**181,819,504**	206,393,720
Interest-bearing loans	24	**53,046,324**	107,208,500
Income tax payable		**6,287,003**	7,048,968
Lease liabilities	15	**1,086,252**	1,201,155
Convertible bonds	27	**81,314,234**	91,245,279
		666,983,489	767,313,297
Total liabilities		**701,830,643**	801,650,155
Net assets		**682,813,894**	570,975,104
EQUITY			
Share capital	28	**7,471,631**	6,203,955
Share premium	28	**589,857,286**	509,708,723
Equity component of convertible bonds	27	**6,199,604**	35,161,248
Other reserves	29	**105,804,845**	61,516,759
Accumulated deficits		**(24,582,376)**	(41,147,040)
Capital and reserves attributable to the shareholders of the Company		**684,750,990**	571,443,645
Non-controlling interests		**(1,937,096)**	(468,541)
Total equity		**682,813,894**	570,975,104

The notes on pages 81 to 168 are an integral part of these consolidated financial statements.

The financial statements on pages 75 to 168 were approved by the Board of Directors on 30 September 2021 and were signed on its behalf by:

Zhu Gen Rong
Director

Wang Ai Yan
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Notes	Attributable to the shareholders of the Company						Non-controlling interests	Total equity
		Share capital	Share premium	Equity component of convertible bonds	Other reserves	Accumulated deficits	Total		
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance at 1 July 2020		6,203,955	509,708,723	35,161,248	61,516,759	(41,147,040)	571,443,645	(468,541)	570,975,104
Profit/(loss) for the year		–	–	–	–	17,984,484	17,984,484	(1,468,555)	16,515,929
Other comprehensive income		–	–	–	9,514,873	–	9,514,873	–	9,514,873
Total comprehensive income/(loss) for the year		–	–	–	9,514,873	17,984,484	27,499,357	(1,468,555)	26,030,802
Extinguishment of convertible bonds	27, 29	–	–	(35,161,248)	35,161,248	–	–	–	–
Issue of shares	28	1,276,308	81,683,692	–	–	–	82,960,000	–	82,960,000
Issue of new convertible bonds	27	–	–	6,199,604	–	–	6,199,604	–	6,199,604
Shares bought back	28	(8,632)	(1,535,129)	–	–	–	(1,543,761)	–	(1,543,761)
Employee share option	29	–	–	–	(1,807,855)	–	(1,807,855)	–	(1,807,855)
Profit appropriation to statutory reserves	29	–	–	–	1,419,820	(1,419,820)	–	–	–
		1,267,676	80,148,563	(28,961,644)	34,773,213	(1,419,820)	85,807,988	–	85,807,988
Balance at 30 June 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
Balance at 1 July 2019		6,203,955	509,708,723	23,609,589	78,411,838	37,422,220	655,356,325	(782,964)	654,573,361
(Loss)/profit for the year		–	–	–	–	(77,503,863)	(77,503,863)	314,423	(77,189,440)
Other comprehensive income/(loss)		–	–	380,818	(4,197,530)	–	(3,816,712)	–	(3,816,712)
Total comprehensive income/(loss) for the year		–	–	380,818	(4,197,530)	(77,503,863)	(81,320,575)	314,423	(81,006,152)
Extinguishment of convertible bonds	27, 29	–	–	11,170,841	(11,170,841)	–	–	–	–
Employee share option	29	–	–	–	(2,592,105)	–	(2,592,105)	–	(2,592,105)
Profit appropriation to statutory reserves	29	–	–	–	1,065,397	(1,065,397)	–	–	–
		–	–	11,170,841	(12,697,549)	(1,065,397)	(2,592,105)	–	(2,592,105)
Balance at 30 June 2020		6,203,955	509,708,723	35,161,248	61,516,759	(41,147,040)	571,443,645	(468,541)	570,975,104

The notes on pages 81 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Notes	For the year ended 30 June 2021 RMB	 2020 RMB
Cash flows from operating activities			
Cash generated from/(used in) operations	30(a)	**129,147,341**	(39,875,198)
Income tax paid		**(10,184,216)**	(6,033,558)
Net cash inflow/(outflow) from operating activities		**118,963,125**	(45,908,756)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,071,173)**	(9,717,773)
Proceeds from disposals of property, plant and equipment	30(b)	**1,358**	12,200
Purchase of other intangible assets		**(603,185)**	(529,936)
Investments in an associate	13	**(5,000,000)**	–
Acquisitions of financial assets at fair value through profit or loss	19	**(5,000,000)**	–
Interest received		**623,198**	276,510
Net cash outflow from investing activities		**(12,049,802)**	(9,958,999)
Cash flows from financing activities			
Proceeds from issue of shares	28	**82,960,000**	–
Shares bought back	28	**(1,543,761)**	–
Proceeds from interest – bearing loans	24	**52,760,000**	107,045,000
Proceeds from interest – free loan from a related party		**–**	5,425,200
Repayment of interest – bearing loans		**(107,000,000)**	(33,513,000)
Repayment of interest – free loan from a related party		**(5,480,640)**	–
Repayments of interest – free loans from third parties		**(4,470,000)**	–
Interest paid		**(16,684,366)**	(5,890,799)
Principal elements of lease payments		**(1,490,021)**	(1,233,557)
Net cash (outflow)/inflow from financing activities		**(948,788)**	71,832,844
Net increase in cash and cash equivalents		**105,964,535**	15,965,089
Cash and cash equivalents at beginning of the year	22	**40,394,804**	24,196,754
Effect of exchange rate changes on cash and cash equivalents		**(1,059,853)**	232,961
Cash and cash equivalents at end of the year	22	**145,299,486**	40,394,804

The notes on pages 81 to 168 are an integral part of these consolidated financial statements.

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 Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The 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"), unless otherwise stated. The consolidated financial statements were approved and authorised for issue by the Company's Board of Directors (the "Board") on 30 September 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) New and amended standards adopted by the Group

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

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

The standards, amendments and interpretations listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

A number of new standards, amendments and interpretations to existing standards that are relevant to the Group but not yet effective for the financial year beginning at 1 July 2020 and have not been early adopted by the Group are as follows:

Standards, amendments and interpretations		Effective for annual periods beginning on or after
Accounting Guideline 5 (Amendments)	Merger Accounting for Common Control Combination	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to HKFRS Standards 2018 – 2020		1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17 (Amendments)	Insurance Contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 (Amendments) and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020)	Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

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.

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 and joint ventures 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 and joint ventures 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 consolidated financial statements are presented in RMB, the Company's functional currency is Hong Kong Dollar ("HK$").

(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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

- 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

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Property, plant and equipment include buildings, machinery and vehicles, 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 recognized 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.

2.13 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.17 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

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 8. 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.

2.23 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:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Share-based payments *(Continued)*

(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.

2.24 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 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 income in the consolidated statement of profit or loss.

2.26 Revenue recognition

(a) Sale of goods – industrial products, sludge treatment products and spare parts

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, sludge treatment product. 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 machinery 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition *(Continued)*

(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.

(d) Rental income

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

(e) 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.

(f) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition *(Continued)*

(g) 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.

2.27 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Leases *(Continued)*

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.

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.

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 15). 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 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 interest rate risk 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 recognized 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") 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 2021 would have been approximately RMB962,688 better/worse (2020: RMB146,124), for various financial assets and liabilities denominated in USD.

(ii) Cash flow and fair value interest rate risk

The Group's 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 2021 and 2020, 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, 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 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.

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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 are based on the payment profiles of sales over a period of 36 months before 30 June 2021 or 30 June 2020 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 2021 and 30 June 2020 was determined as follows for trade receivables and contract assets:

30 June 2021	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							
Gross carrying amount	215,009,057	77,014,715	9,852,866	9,546,056	57,586,011	155,755,243	524,763,948
Expected loss rate	0% – 0.5%	0.5% – 9.2%	0.5% – 12.6%	0.5% – 100.0%	0.5% – 100.0%	0.5% – 100.0%	
Loss allowance	1,075,045	4,208,611	457,481	664,547	36,369,381	53,444,872	96,219,937
Contract assets							
Gross carrying amount	16,833,275	–	–	–	–	–	16,833,275
Expected loss rate	0.5% – 8.3%						
Loss allowance	508,140	–	–	–	–	–	508,140

30 June 2020	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							
Gross carrying amount	317,088,861	33,094,076	26,703,775	47,774,757	64,974,852	155,004,691	644,641,012
Expected loss rate	0% – 0.5%	0.5% – 7.5%	0.5% – 8.7%	0.5%-100.0%	0.5% – 100.0%	0.5% – 100.0%	
Loss allowance	1,553,692	1,407,533	852,069	6,115,169	38,156,268	53,248,469	101,333,200
Contract assets							
Gross carrying amount	11,588,617	–	–	–	–	–	11,588,617
Expected loss rate	0.5% – 6.8%						
Loss allowance	553,383	–	–	–	–	–	553,383

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 2021	**Less than 1 year RMB**	**Between 1 and 2 years RMB**	**Between 2 and 5 years RMB**	**Over 5 years RMB**	**Total RMB**
Convertible bonds	**88,200,480**	**–**	**–**	**–**	**88,200,480**
Interest-bearing loans	**54,746,539**	**–**	**–**	**–**	**54,746,539**
Trade and other payables	**299,278,533**	**–**	**–**	**–**	**299,278,533**
Lease liabilities	**1,374,946**	**1,273,237**	**3,697,919**	**–**	**6,346,102**
	443,600,498	**1,273,237**	**3,697,919**	**–**	**448,571,654**

As at 30 June 2020	Less than 1 year RMB	Between 1 and 2 years RMB	Between 2 and 5 years RMB	Over 5 years RMB	Total RMB
Convertible bonds	93,627,600	–	–	–	93,627,600
Interest-bearing loans	110,026,748	–	–	–	110,026,748
Trade and other payables	301,631,597	–	–	–	301,631,597
Lease liabilities	1,481,718	1,265,870	3,246,953	–	5,994,541
	506,767,663	1,265,870	3,246,953	–	511,280,486

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, convertible bonds, 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 2021 and 2020 were as follows:

	As at 30 June	
	2021	2020
	RMB	RMB
Total debt	**153,458,371**	227,224,993
Total equity	**682,813,894**	570,975,104
Total capital	**836,272,265**	798,200,097
Gearing ratio	**18.4%**	28.5%

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 2021 and 2020.

At 30 June 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVOCI:				
– Bills receivables	**–**	**43,493,570**	**–**	**43,493,570**
Financial assets at FVPL:				
– Unlisted equity investments	**–**	**–**	**5,447,433**	**5,447,433**

At 30 June 2020	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at FVOCI:				
– Bills receivables	–	50,049,740	–	50,049,740

(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.

(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 initially recognised at fair value based on level 2 valuation method and subsequently measured at fair value.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(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, the Black-Scholes model 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 2020 and 2021:

	Financial assets at FVPL Unlisted equity investments
Opening balance at 1 July 2020	–
Acquisitions	5,000,000
Gains recognised in profit or loss	447,433
Closing balance at 30 June 2021	5,447,433

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	Black-Scholes model, risk-free rate, expected volatility	Expected exit date and probability	The earlier the exit date, the lower the fair value; the higher the probability, the higher the fair value

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 2021 and 2020.

The carrying amounts of the Group's other financial assets (including trade and other receivables, pledged deposits and cash and cash equivalents) and financial liabilities (including trade and other payables, convertible bonds 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. For the 2021 and 2020 reporting period, the recoverable amount of CGU 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.

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 over time, 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 operating segments as follows:

- Industrial products;
- Project contracting services;
- Environmental products; and
- Supporting services.

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

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

Segment liabilities include all liabilities of the Group except convertible bonds, income tax 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 2021:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers	244,040,682	182,521,867	19,886,736	50,456,785	496,906,070
Timing of revenue recognition					
At a point in time	244,040,682	–	3,164,938	50,456,785	297,662,405
Over time	–	182,521,867	16,721,798	–	199,243,665
Segment cost of sales	(196,369,075)	(139,034,873)	(17,007,587)	(38,866,835)	(391,278,370)
Segment gross profit	47,671,607	43,486,994	2,879,149	11,589,950	105,627,700
Segment results	22,105,187	36,633,605	(6,219,022)	(7,463,416)	45,056,354
Common administrative expenses					(23,007,904)
Other income and gains, net (Note 6)					23,409,817
Share of net loss of associates (Note 13)					(52,462)
Finance costs, net (Note 9)					(22,297,865)
Profit before income tax					23,107,940
Income tax expense (Note 10)					(6,592,011)
Profit for the year					16,515,929

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	141,942	–	23,246	1,115,540	6,595,823	7,876,551
Depreciation of property, plant and equipment (Notes 14)	979,974	55,613	1,164,856	4,508,290	–	6,708,733
Depreciation of other right-of-use assets (Notes 15)	–	–	–	–	1,497,222	1,497,222
Depreciation of investment properties (Notes 16)	–	–	–	5,643,697	310,742	5,954,439
Amortisation of prepaid land lease payments (Notes 17(i))	106,538	–	141,354	1,336,421	127,472	1,711,785
Amortisation of other intangible assets (Notes 17(ii))	2,587,935	–	–	10,728	–	2,598,663

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2020:

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

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	4,148,327	153,540	117,003	812,194	579,670	5,810,734
Depreciation of property, plant and equipment (Notes 14)	1,002,953	141,160	1,662,309	4,388,007	–	7,194,429
Depreciation of other right-of-use assets (Notes 15)	–	–	–	–	1,204,752	1,204,752
Depreciation of investment properties (Notes 16)	–	–	–	5,643,697	310,742	5,954,439
Amortisation of prepaid land lease payments (Notes 17(i))	106,538	–	141,354	1,336,421	127,472	1,711,785
Amortisation of other intangible assets (Notes 17(ii))	2,047,850	–	–	375,700	–	2,423,550

5 SEGMENT INFORMATION *(Continued)*

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

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

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

	As at 30 June	
Segment assets	**2021**	2020
	RMB	RMB
Project contracting services	**447,870,231**	587,588,549
Supporting services	**358,128,717**	368,174,479
Industrial products	**297,048,596**	258,161,109
Environmental products	**85,056,488**	64,530,169
Total segment assets	**1,188,104,032**	1,278,454,306
Unallocated:		
Cash and cash equivalents (Note 22)	**145,299,486**	40,394,804
Pledged deposits (Note 22)	**23,922,992**	28,602,729
Deferred tax assets (Note 25)	**16,260,156**	14,318,685
Other right-of-use assets (Note 15)	**5,830,519**	5,303,580
Investment properties	**5,057,570**	5,368,312
Prepayments – non-current portion (Note 21(iii))	**169,782**	182,843
	1,384,644,537	1,372,625,259

5 SEGMENT INFORMATION *(Continued)*

Segment liabilities	As at 30 June 2021 RMB	 2020 RMB
Industrial products	**267,007,692**	230,487,233
Project contracting services	**203,447,045**	228,941,947
Supporting services	**108,782,810**	189,776,195
Environmental products	**26,441,117**	40,248,552
Total segment liabilities	**605,678,664**	689,453,927
Unallocated:		
Convertible bonds (Note 27)	**81,314,234**	91,245,279
Other payables	**3,033,729**	8,662,207
Income tax payable	**6,287,003**	7,048,968
Lease liabilities (Note 15)	**5,517,013**	5,239,774
	701,830,643	801,650,155

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

	As at 30 June 2021 RMB	 2020 RMB
Contract assets (Note 21(ii)) (i):		
Contract assets relating to sales of goods	**11,297,306**	4,791,885
Contract assets relating to project contracting services	**5,535,969**	6,796,732
Less: provision for impairment	**(508,140)**	(553,383)
	16,325,135	11,035,234
Contract liabilities (i) (ii):		
Contract liabilities relating to sales of goods	**139,900,672**	144,894,727
Contract liabilities relating to project contracting services	**41,918,832**	61,498,993
	181,819,504	206,393,720

5 SEGMENT INFORMATION *(Continued)*

(i) Significant changes in contract assets and liabilities

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

(ii) Revenue recognised in relations to contract liabilities

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

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

(iii) Unsatisfied long-term contracts

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

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

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

6 OTHER INCOME AND GAINS, NET

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Interest income recognised from project contracting services	**10,885,693**	7,968,988
Government grants	**6,113,650**	3,515,292
Interest income from customer delaying on payment	**2,001,418**	10,580,304
Tax refund	**1,770,784**	1,141,863
Rental income	**1,115,723**	655,375
Net fair value gains on financial assets at FVPL (Note 19)	**447,433**	–
Interest income from loan to a customer	**81,686**	311,975
Reversal of Interest	**–**	2,924,713
Others	**993,430**	192,805
	23,409,817	27,291,315

7 EXPENSES BY NATURE

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Raw materials used	**345,717,766**	288,598,596
Employee benefit expenses (Note 8)	**54,362,477**	52,774,133
Outsourcing service fees	**11,197,467**	13,449,901
Addition of provision for write-down of inventories (Note 20)	**7,669,602**	4,916,152
Depreciation of property, plant and equipment (Note 14)	**6,708,733**	7,194,429
Travelling expenses	**6,409,696**	8,867,781
Depreciation of investment properties (Note 16)	**5,954,439**	5,954,439
Change in inventories of finished goods and work in progress (Note 20)	**5,928,042**	(29,962,862)
Professional service fees	**5,889,612**	8,604,291
Office expenses	**4,865,491**	3,228,700
Transportation expenses	**4,149,940**	2,267,814
Miscellaneous tax charges other than value added tax and income tax	**3,359,615**	2,323,356
Entertainment expenses	**3,008,379**	2,489,046
Amortisation of other intangible assets (Note 17(ii))	**2,598,663**	2,423,550
Auditor's remuneration – Audit services	**2,150,000**	1,900,000
Amortisation of prepaid land lease payments (Note 17(i))	**1,711,785**	1,711,785
Depreciation of other right-of-use assets (Note 15(ii))	**1,497,222**	1,204,752
Warranty expenses	**1,419,793**	1,052,854
Rental expenses (Note 15(ii))	**1,028,273**	1,354,142
Advertising costs	**438,118**	417,999
Utilities	**306,624**	689,026
Other expenses	**3,336,718**	2,847,045
	479,708,455	384,306,929

8 EMPLOYEE BENEFIT EXPENSES

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Wages and salaries	**41,836,811**	41,361,608
Bonuses	**5,892,706**	4,876,681
Social security costs	**5,384,747**	4,686,093
Pension costs – defined contribution plans	**1,342,848**	2,006,391
Share options (Note 29)	**(1,807,855)**	(2,592,105)
Other benefits	**1,713,220**	2,435,465
	54,362,477	52,774,133

8 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 2021 include four (2020: four) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining one (2020: one) individual for the year ended 30 June 2021 is as follows:

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Salaries, allowances and benefits in kind	**613,354**	602,870
Bonuses	**51,113**	91,344
Share options	**(15,666)**	(63,928)
Other benefits	**16,611**	16,442
	665,412	646,728

The emoluments fell within the following bands:

	For the year ended 30 June	
	2021	2020
Emolument bands		
Within HK$1,000,000 (equivalent to approximately RMB851,900)	**1**	1

9 FINANCE COSTS, NET

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Finance costs		
– Interest on convertible bonds (Note 27)	**(13,308,299)**	(6,959,294)
– Interest on loans (Note 24)	**(5,161,210)**	(3,187,835)
– Net foreign exchange losses	**(4,043,178)**	(6,962)
– Interest paid/payable for lease liabilities (Note 15)	**(372,640)**	(336,936)
– Others	**(35,736)**	–
	(22,921,063)	(10,491,027)
Finance income		
– Interest income	**623,198**	276,510
	623,198	276,510
Finance costs, net	**(22,297,865)**	(10,214,517)

10 INCOME TAX EXPENSE

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

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

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

10 INCOME TAX EXPENSE *(Continued)*

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

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

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

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

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

11 EARNINGS/(LOSSES) PER SHARE

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

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

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

12 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 30 June 2021 and 2020 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 2021 %	Ownership interest held by the Group 2020 %	Ownership interest held by non-controlling interests 2021 %	Ownership interest held by non-controlling interests 2020 %
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	**–**	–

12 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 2021 %	Ownership interest held by the Group 2020 %	Ownership interest held by non-controlling interests 2021 %	Ownership interest held by non-controlling interests 2020 %
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	–	–
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	100	–	–

* Zhejiang Huazhang is registered as a wholly-foreign-owned enterprise under PRC law.

13 INTERESTS IN AN ASSOCIATE

The Group has interests in a an associate that is accounted for using the equity method during the year ended 30 June 2021.

	For the year ended 30 June	
	2021	2020
	RMB	RMB
At 1 July 2020	**–**	–
Additions:		
– Additional investments in an associate	**5,000,000**	–
Share of net loss of associates	**(52,462)**	–
At 30 June 2021	**4,947,538**	–

Set out below is the associate of the Group as at 30 June 2021 which, in the opinion of the directors, is material to the Group. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Company name	Place of incorporation and kind of legal entity	Measurement method	Ownership interest held by the Group 30 June 2021	Quoted fair value 30 June 2021	Carrying amount 30 June 2021
			%	RMB	RMB
Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu")	PRC/Limited Company	Equity method	33.33	–*	4,947,538

* Private entity – no quoted price available.

13 INTERESTS IN AN ASSOCIATE *(Continued)*

(a) Summarised financial information for the associate

The tables below provide summarized financial information for the associate that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associate and not the Group's share of those amounts. They have been amended to reflect adjustments made when using the equity method, including fair value adjustments and modifications of differences in accounting policies adopted.

Summarised statement of financial position	**As at 30 June 2021 RMB**
Current assets	
– Cash and cash equivalents	**91,376**
– Other current assets	**15,777,791**
	15,869,167
Current liabilities	**1,026,554**
Net assets	**14,842,613**
Reconciliation to carrying amounts:	
Opening net assets at the incorporation date (18 December 2021)	**15,000,000**
Loss for the year	**(157,387)**
Closing net assets	**14,842,613**
The Group's share in %	**33.33%**
The Group's share	**4,947,538**
Carrying amount	**4,947,538**
Revenue	**2,127,711**
Loss for the year	**(157,387)**
The Group's share	**(52,462)**

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB	Machinery and vehicles RMB	Furniture, fittings and equipment RMB	Construction in progress RMB	Total RMB
Year ended 30 June 2021					
Opening net book amount as at 1 July 2020	**64,490,539**	**13,328,875**	**1,664,244**	**–**	**79,483,658**
Additions	**381,956**	**–**	**295,587**	**–**	**677,543**
Disposals (Note 30(b))	**–**	**–**	**(11,190)**	**–**	**(11,190)**
Depreciation charge (Note 7)	**(4,265,091)**	**(2,072,449)**	**(371,193)**	**–**	**(6,708,733)**
Closing net book amount as at 30 June 2021	**60,607,404**	**11,256,426**	**1,577,448**	**–**	**73,441,278**
Year ended 30 June 2020					
Opening net book amount as at 1 July 2019	63,350,891	15,101,372	1,692,333	1,848,911	81,993,507
Additions	104,500	237,008	370,996	3,988,624	4,701,128
Disposals (Note 30(b))	–	–	(16,548)	–	(16,548)
Internal transfer	5,837,535	–	–	(5,837,535)	–
Depreciation charge (Note 7)	(4,802,387)	(2,009,505)	(382,537)	–	(7,194,429)
Closing net book amount as at 30 June 2020	64,490,539	13,328,875	1,664,244	–	79,483,658

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

For the year ended 30 June 2021 and 2020, the amounts of depreciation expenses charged to cost of sales, selling and distribution expenses, administrative expenses and research and development expenses are as follows:

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Administrative expenses	**3,415,416**	3,229,065
Cost of sales	**3,165,445**	3,794,698
Research and development expenses	**121,008**	163,103
Selling and distribution expenses	**6,864**	7,563
	6,708,733	7,194,429

As at 30 June 2021, buildings with an aggregate carrying amount of RMB59,508,867 (2020: RMB63,137,052) were pledged as collateral for the Group's banking facilities (Note 24) and Nil (2020: RMB1,353,487) were pledged as collateral for interest – bearing loans (Note 24).

15 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	As at	
	30 June 2021	1 July 2020
	RMB	RMB
Right-of-use assets		
Buildings	**5,830,519**	5,303,580
Prepaid land lease payments (Note 17(i))	**75,375,942**	77,087,727
	81,206,461	82,391,307
Lease liabilities		
Current	**1,086,252**	1,201,155
Non-current	**4,430,761**	4,038,619
	5,517,013	5,239,774

Additions to the right-of-use assets during the year ended 30 June 2021 were RMB6,595,823 (2020: RMB579,670).

15 LEASES *(Continued)*

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	For the year ended 30 June	
	2021 RMB	2020 RMB
Depreciation charge of right-of-use assets		
Buildings	**(1,497,222)**	(1,204,752)
Prepaid land lease payments (Note 17(i))	**(1,711,785)**	(1,711,785)
	(3,209,007)	(2,916,537)
Interest expense (Note 9)	**(372,640)**	(336,936)
Expense relating to short-term leases (Note 7)	**(1,017,300)**	(1,354,142)
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses) (Note 7)	**(10,973)**	–

The total cash outflow (including short-term lease) for leases during the year ended 30 June 2021 was RMB2,890,934 (2020: RMB3,394,686).

16 INVESTMENT PROPERTIES

	Investment properties RMB
Year ended 30 June 2021	
Opening net book amount as at 1 July 2020	**109,975,507**
Depreciation charge (Note 7)	**(5,954,439)**
Closing net book amount as at 30 June 2021	**104,021,068**
Year ended 30 June 2020	
Opening net book amount as at 1 July 2019	115,929,946
Depreciation charge (Note 7)	(5,954,439)
Closing net book amount as at 30 June 2020	109,975,507

16 INVESTMENT PROPERTIES *(Continued)*

Amount recognised in profit or loss for investment properties included:

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Rental income	**7,134,768**	3,518,552
Depreciation of investment properties	**(5,954,439)**	(5,954,439)
	1,180,329	(2,435,887)

The Group engages external, independent and qualified valuers to determine the fair value of the Group's investment properties at the end of every financial year. As at 30 June 2021, the fair value of the investment property, together with its connected prepaid land lease payments, was approximately RMB253,000,000 (30 June 2020: RMB246,800,000), determined based on the valuations performed by Vincorn Consulting and Appraisal Limited, using market approach.

As at 30 June 2021, investment properties with an aggregate carrying amount of RMB104,021,068 (30 June 2020: RMB109,975,507) were pledged as collateral for the Group's banking facilities (Note 24).

17 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

(i) Prepaid land lease payments

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Opening net book amount	**77,087,727**	78,799,512
Amortisation charge (Note 7)	**(1,711,785)**	(1,711,785)
Closing net book amount	**75,375,942**	77,087,727

Amortisation expenses of RMB1,710,675 (2020: RMB1,710,675) and RMB1,110 (2020: RMB1,110) have been charged to administrative expenses and research and development expenses respectively for the year ended 30 June 2021.

As at 30 June 2021, prepaid land lease payments with an aggregate carrying amount of RMB75,375,942 (30 June 2020: RMB77,087,727) 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	Software RMB	Total RMB
Year ended 30 June 2021			
Opening net book amount as at 1 July 2020	**10,751,212**	**1,913,067**	**12,664,279**
Additions	**–**	**603,185**	**603,185**
Amortisation charge (Note 7)	**(2,047,850)**	**(550,813)**	**(2,598,663)**
Closing net book amount as at 30 June 2021	**8,703,362**	**1,965,439**	**10,668,801**
Year ended 30 June 2020			
Opening net book amount as at 1 July 2019	12,799,062	1,758,831	14,557,893
Additions	–	529,936	529,936
Amortisation charge (Note 7)	(2,047,850)	(375,700)	(2,423,550)
Closing net book amount as at 30 June 2020	10,751,212	1,913,067	12,664,279

Amortisation expenses of RMB2,598,663 (2020: RMB2,423,550) have been charged to administrative expenses for the year ended 30 June 2021.

18 GOODWILL

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

Goodwill of the Group mainly arose from the acquisition of Haorong and MCN (together, the "MCN Group") and Fu An 777 Logistics Limited ("777 Logistics", together with its subsidiaries, collectively known as the "777 Logistics Group") in 2017.

Goodwill is allocated to the CGU of headbox business under the business segment of industrial products and the CGU of logistics and warehousing services under the business segment of supporting services for impairment test.

18 GOODWILL *(Continued)*

The following table sets out the key assumptions for the CGUs that have significant goodwill allocated to them:

30 June 2021	**Headbox business**
Sales (% annual growth rate)	**2% – 3%**
Budgeted gross margin (%)	**28% – 34%**
Long term growth rate (%)	**2.5%**
Pre-tax discount rate (%)	**19.4%**

30 June 2020	Headbox business
Sales (% annual growth rate)	2% – 5%
Budgeted gross margin (%)	32% – 34%
Long term growth rate (%)	3%
Pre-tax discount rate (%)	19.3%

These assumptions have been used for the analysis of CGUs within the operating segment.

Sales is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in rubber, a key raw material, which management does not expect to be able to pass on to customers through price increases.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGUs.

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

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:

	As at 30 June	
	2021	2020
	RMB	RMB
Non-current assets		
– Unlisted equity investments	**5,447,433**	–

(ii) Amounts recognised in profit or loss

During the year, the following gains were recognised in profit or loss:

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Fair value gains on equity investments at FVPL recognised in other income and gains, net (Note 6)	**447,433**	–

(iii) Risk exposure and fair value measurements

Information about the fair value measurement is set out in Note 3.3.

20 INVENTORIES

	As at 30 June	
	2021	2020
	RMB	RMB
Raw materials	**96,065,714**	40,003,052
Work in progress	**11,985,907**	21,794,399
Finished goods	**67,770,816**	63,890,366
	175,822,437	125,687,817
Less: provision	**(19,678,343)**	(12,008,741)
	156,144,094	113,679,076

As at 30 June 2021, raw materials and finished goods with a cost of RMB16,003,233 and RMB8,412,821 were considered as obsolete (30 June 2020: RMB14,872,897 and RMB3,731,639) and a provision of RMB11,265,522 and RMB8,412,821 (30 June 2020: RMB8,277,102 and RMB3,731,639) to write down their net realisable value was made against those inventories.

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

(i) Trade and other receivables

	As at 30 June	
	2021	2020
	RMB	RMB
Warranty receivables (a)	**14,405,121**	24,401,686
Other trade receivables (b)	**510,358,827**	620,239,326
	524,763,948	644,641,012
Less: provision for impairment of trade receivables (d)	**(96,219,937)**	(101,333,200)
Trade receivables – net	**428,544,011**	543,307,812
Bills receivables	**49,097,554**	20,372,673
Trade and bills receivables	**477,641,565**	563,680,485
Payment on behalf of an independent third party	**87,287,538**	87,265,017
Other receivables due from related parties (Note 33(c)(ii))	**11,297,003**	–
Deductible input value added tax	**9,624,065**	10,203,052
Loan to a customer	**5,312,236**	4,088,398
Other receivables – guarantee	**4,158,422**	3,304,332
Loan deposit to an independent third party	**–**	9,134,400
Others	**6,865,375**	4,401,774
	124,544,639	118,396,973
Less: provision for impairment of other receivables (e)	**(28,051,042)**	(27,336,709)
Other receivables – net	**96,493,597**	91,060,264
Total trade and other receivables	**574,135,162**	654,740,749
Less: trade and other receivables – non-current portion	**(23,744,860)**	(125,321,393)
	550,390,302	529,419,356

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

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

	As at 30 June	
	2021	2020
	RMB	RMB
Warranty receivables		
1 year to 2 years	**3,678,837**	11,926,904
Over 2 years	**10,726,284**	12,474,782
	14,405,121	24,401,686

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

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

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

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

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

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

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

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

As at 30 June 2021, provisions amounting to RMB79,154,496 (30 June 2020: RMB79,154,496) were made on certain trade receivables given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these trade receivables.

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

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

As at 30 June 2021, provisions amounting to RMB24,585,572 (30 June 2020: RMB24,585,572) were made on certain other receivables respectively given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these other receivables.

Due to the short-term nature of the current receivables, their carrying amounts approximate their fair value as at the end of the reporting period.

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

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

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(ii) Contract assets

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

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

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

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

	As at 30 June	
	2021	2020
	RMB	RMB
RMB	**11,446,442**	11,588,617
USD	**5,386,833**	–
	16,833,275	11,588,617

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(iii) Prepayments

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

22 CASH AND CASH EQUIVALENTS

	As at 30 June	
	2021	2020
	RMB	RMB
Cash at bank and on hand	**169,222,478**	68,997,533
Less: pledged deposits	**(23,922,992)**	(28,602,729)
	145,299,486	40,394,804

(i) The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable.

(ii) The carrying amount of cash and cash equivalents and pledged deposits are denominated in the following currencies:

	As at 30 June	
	2021	2020
	RMB	RMB
RMB	**147,079,954**	60,436,960
HK$	**15,416,446**	785,705
USD	**6,027,019**	7,723,938
Euro	**665,069**	30,081
AED	**33,990**	20,849
	169,222,478	68,997,533

23 TRADE AND OTHER PAYABLES

	As at 30 June	
	2021	2020
	RMB	RMB
Trade payables	**166,489,237**	153,320,676
Bills payable	**52,868,655**	64,577,308
	219,357,892	217,897,984
Other taxes payables	**42,233,017**	49,918,691
Deposits for project contracting services	**35,295,556**	29,986,987
Interest-free loan from independent third parties	**13,580,800**	18,050,800
Amount due to suppliers on a customer's behalf	**13,419,622**	13,618,244
Provision for legal claims (a)	**7,447,420**	–
Accruals	**5,980,742**	7,038,078
Employee benefit payables	**3,496,196**	2,086,926
Other deposits	**581,402**	1,471,836
Provision for warranty expenses	**523,838**	578,461
Payables for property, plant and equipment	**77,716**	1,471,346
Amounts due to related parties (Note 33(c)(i))	**5,920**	5,488,478
Interest payable for convertible bonds	**–**	2,283,600
Others	**3,531,463**	4,324,244
	126,173,692	136,317,691
Total trade and other payables	**345,531,584**	354,215,675
Less: trade and other payables – non-current portion		
– Employee benefit payables	**(2,101,412)**	–
	343,430,172	354,215,675

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

23 TRADE AND OTHER PAYABLES *(Continued)*

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

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

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

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

24 INTEREST – BEARING LOANS

	As at 30 June	
	2021	2020
	RMB	RMB
Bank borrowings (a)	**50,000,000**	107,000,000
Loan from a related party (Note 33(c)(i))	**1,435,020**	–
Loan from independent third parties	**1,408,904**	–
Loan from a non-controlling shareholder	**202,400**	208,500
	53,046,324	107,208,500

24 INTEREST – BEARING LOANS *(Continued)*

Movement of interest – bearing loans is analysed as follows:

	Loan from a non-controlling shareholder RMB	Loan from banks RMB	Loan from independent third parties RMB	Loan from a related party RMB	Total RMB
For the year ended 30 June 2021					
Opening net book amount as at 1 July 2020	**208,500**	**107,000,000**	**–**	**–**	**107,208,500**
Additions	**–**	**50,000,000**	**1,360,000**	**1,400,000**	**52,760,000**
Accrual of interest (Note 9)	**2,400**	**4,852,435**	**271,355**	**35,020**	**5,161,210**
Repayments	**(8,500)**	**(111,852,435)**	**(222,451)**	**–**	**(112,083,386)**
Closing net book amount as at 30 June 2021	**202,400**	**50,000,000**	**1,408,904**	**1,435,020**	**53,046,324**
For the year ended 30 June 2020					
Opening net book amount as at 1 July 2019	642,151	23,000,000	31,143,513	–	54,785,664
Additions	–	107,000,000	45,000	–	107,045,000
Accrual of interest (Note 9)	26,500	3,161,335	–	–	3,187,835
Repayments	(460,151)	(26,161,335)	(10,213,000)	–	(36,834,486)
Reversal of interest (i)	–	–	(2,924,713)	–	(2,924,713)
Reclassify to trade and other payables (i) (Note 23)	–	–	(18,050,800)	–	(18,050,800)
Closing net book amount as at 30 June 2020	208,500	107,000,000	–	–	107,208,500

(i) As at 30 June 2021, the Group's interest-bearing loans were all denominated in RMB.

As at 30 June 2021, the loan from a non-controlling shareholder bore interest at a rate of 7.2% per annum (30 June 2020: 7.2%).

As at 30 June 2021, the Group's loans of RMB50,000,000 from banks bore interest at an average rate of 5.11% per annum (30 June 2020: 4.71%) and all of them were borrowed by using banking facilities.

As at 30 June 2021, the loan from a related party (Note 33(c)(i)) bore interest at a rate of 8.4% per annum (30 June 2020: nil).

24 INTEREST – BEARING LOANS *(Continued)*

As at 30 June 2021 and 2020, the Group's loans were payable as follows:

	As at 30 June	
	2021	2020
	RMB	RMB
Within one year	**50,000,000**	107,208,500
On demand	**3,046,324**	–
	53,046,324	107,208,500

As at 30 June 2021 and 2020, the Group had the following unutilised banking facilities:

	As at 30 June	
	2021	2020
	RMB	RMB
Authorised banking facilities – expiring within one year	**227,934,494**	253,934,494
Less: utilised banking facilities	**(69,421,394)**	(156,007,660)
	158,513,100	97,926,834

As at 30 June 2021, the banking facilities granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB59,508,867, RMB104,021,068 and RMB75,375,941, respectively (30 June 2020: RMB63,137,052, RMB109,975,507 and RMB77,087,727, 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. 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 2021 and 2020, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	As at 30 June	
	2021	2020
	RMB	RMB
Total deferred tax assets prior to offsetting	**16,327,271**	14,318,685
Set-off of deferred tax assets pursuant to set-off	**(67,115)**	–
Deferred tax assets	**16,260,156**	14,318,685
– to be recovered within 12 months	**16,260,156**	14,318,685
Total deferred tax liabilities prior to offsetting	**5,544,596**	6,110,739
Set-off of deferred tax liabilities pursuant to set-off	**(67,115)**	–
Deferred tax liabilities	**5,477,481**	6,110,739
– to be recovered after more than 12 months	**4,840,666**	5,351,910
– to be recovered within 12 months	**636,815**	758,829
	5,477,481	6,110,739

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

The movement on the deferred tax liabilities, prior to offsetting, are as follows:

	Gains on fair value gains of financial assets RMB	Fair value adjustments arising from acquisition of subsidiaries RMB	Others RMB	Total RMB
At 1 July 2020	**–**	**6,099,571**	**11,168**	**6,110,739**
Charged/(credited) to the consolidated statement of profit or loss	**67,115**	**(636,815)**	**3,557**	**(566,143)**
At 30 June 2021	**67,115**	**5,462,756**	**14,725**	**5,544,596**
At 1 July 2019	–	6,847,232	–	6,847,232
Charged/(credited) to the consolidated statement of profit or loss	–	(747,661)	11,168	(736,493)
At 30 June 2020	–	6,099,571	11,168	6,110,739

The movement on the deferred tax assets, prior to offsetting, are as follows:

	Provision for warranty expense RMB	Provision for impairment RMB	Provision for deductible losses RMB	Provision for accruals RMB	Others RMB	Total RMB
At 1 July 2020	**86,770**	**11,549,544**	**2,532,553**	**–**	**149,818**	**14,318,685**
Credited/(charged) to the consolidated statement of profit or loss	**(8,193)**	**1,009,839**	**(961,806)**	**1,968,746**	**–**	**2,008,586**
At 30 June 2021	**78,577**	**12,559,383**	**1,570,747**	**1,968,746**	**149,818**	**16,327,271**
At 1 July 2019	80,112	6,142,269	1,985,199	–	145,515	8,353,095
Credited/(charged) to the consolidated statement of profit or loss	6,658	5,407,275	547,354	–	4,303	5,965,590
At 30 June 2020	86,770	11,549,544	2,532,553	–	149,818	14,318,685

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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 2021, the Group did not recognise deferred tax assets of RMB13,009,658 (2020: RMB11,467,109) in respect of tax losses amounting to RMB117,705,992 (2020: RMB99,872,507) that can be carried forward to offset against future taxable income due to uncertainty of realisation.

As at 30 June 2021, accumulated tax losses amounting to RMB25,423,508, RMB46,508,008 and RMB8,943,275 in the PRC will expire in 2024, 2025 and 2026 respectively and accumulated tax losses amounting to RMB55,172,757 in Hong Kong have no expiration date (As at 30 June 2020: accumulated tax losses amounting to RMB25,880,224 and RMB46,508,008 in the PRC will expire in 2024 and 2025 respectively and accumulated tax losses amounting to RMB40,899,858 in Hong Kong have no expiration date).

26 DEFERRED INCOME

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Government grant:		
At beginning of the year	**24,187,500**	25,537,500
Amortised as income	**(1,350,000)**	(1,350,000)
At end of the year	**22,837,500**	24,187,500

27 CONVERTIBLE BONDS

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

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

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

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

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

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

27 CONVERTIBLE BONDS *(Continued)*

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

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

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

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

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

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

27 CONVERTIBLE BONDS *(Continued)*

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

(a) convertible at the option of the bond holders into ordinary shares of the Company at HK$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and

(b) the maturity date is 30 November 2021 and unless previously converted or cancelled, after 1 June 2021, the Bondholders shall have the option to request for the redemption by the Issuer of the Bonds by serving onto the Issuer a prior written notice of not less than two weeks from the intended date of early redemption of the Bonds.

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

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

27 CONVERTIBLE BONDS *(Continued)*

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

	Liability component of Convertible Bonds RMB	Equity component of Convertible Bonds RMB	Total RMB
At 1 July 2020	**91,245,279**	**35,161,248**	**126,406,527**
Extinguishment of the old Convertible Bonds (Note 29)	**(85,041,000)**	**(35,161,248)**	**(120,202,248)**
Issue of the new Convertible Bonds	**78,841,396**	**6,199,604**	**85,041,000**
Interest expense (Note 9)	**13,308,299**	**–**	**13,308,299**
Interest paid and payable	**(8,944,740)**	**–**	**(8,944,740)**
Currency translation differences	**(8,095,000)**	**–**	**(8,095,000)**
At 30 June 2021	**81,314,234**	**6,199,604**	**87,513,838**
At 1 July 2019	85,525,913	23,609,589	109,135,502
Interest expense (Note 9)	11,708,524	–	11,708,524
Interest paid and payable	(4,515,977)	–	(4,515,977)
Extinguishment (Note 9, 29)	(4,749,230)	11,170,841	6,421,611
Currency translation differences	3,276,049	380,818	3,656,867
At 30 June 2020	91,245,279	35,161,248	126,406,527

28 SHARE CAPITAL AND PREMIUM

	As at 30 June	
	2021	2020
	RMB	RMB
Issued and fully paid:		
886,741,378 (30 June 2020: 733,857,225) ordinary shares	**7,471,631**	6,203,955

	Number of issued shares	Ordinary shares RMB	Share premium RMB	Total RMB
Opening balance 1 July 2020	**733,857,225**	**6,203,955**	**509,708,723**	**515,912,678**
Issue of shares (i)	**153,846,153**	**1,276,308**	**81,683,692**	**82,960,000**
Shares repurchased (ii)	**(962,000)**	**(8,632)**	**(1,535,129)**	**(1,543,761)**
Balance 30 June 2021	**886,741,378**	**7,471,631**	**589,857,286**	**597,328,917**
At 1 July 2019 and 30 June 2020	733,857,225	6,203,955	509,708,723	515,912,678

(i) On 10 May 2021, the Company issued 153,846,153 ordinary shares at HK$0.65 each to use the net proceeds to fund part of its investment in the waste recycling plants.

(ii) In July, September and October 2020, the Company repurchased 698,000, 206,000 and 58,000 ordinary shares respectively through purchases on Hong Kong Exchange and Clearing limited. All the repurchased ordinary shares had been cancelled as at 30 June 2021. The total amount paid to repurchase these ordinary shares was RMB1,543,761 and had deducted from the share capital and share premium of the equity.

Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, 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 RMB	Merger reserve RMB	Statutory reserves (i) RMB	Translation reserves RMB	Employee Share Option Scheme (ii) RMB	Fair value reserve RMB	Total RMB
At 1 July 2020	**2,335,540**	**33,028,254**	**30,211,367**	**5,304,584**	**1,807,855**	**(11,170,841)**	**61,516,759**
Translation differences	–	–	–	9,514,873	–	–	9,514,873
Appropriation to statutory reserves (i)	–	–	1,419,820	–	–	–	1,419,820
Share options (ii)	–	–	–	–	(1,807,855)	–	(1,807,855)
Extinguishment of convertible bonds	–	–	–	–	–	35,161,248	35,161,248
At 30 June 2021	**2,335,540**	**33,028,254**	**31,631,187**	**14,819,457**	**–**	**23,990,407**	**105,804,845**
At 1 July 2019	2,335,540	33,028,254	29,145,970	9,502,114	4,399,960	–	78,411,838
Translation differences	–	–	–	(4,197,530)	–	–	(4,197,530)
Appropriation to statutory reserves (i)	–	–	1,065,397	–	–	–	1,065,397
Share options (ii)	–	–	–	–	(2,592,105)	–	(2,592,105)
Extinguishment of convertible bonds	–	–	–	–	–	(11,170,841)	(11,170,841)
At 30 June 2020	2,335,540	33,028,254	30,211,367	5,304,584	1,807,855	(11,170,841)	61,516,759

29 OTHER RESERVES *(Continued)*

(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.

(ii) As approved by the Company's board meetings on 15 January 2019, a total of 19,000,000 share options were granted to selected directors and employees as follows. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Employee Share Option Scheme

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Date of grant	Number of share options in an aggregate	Exercises price HK$/share	Exercisable period
15 January 2019	3,000,000	4.04	Note 1
15 January 2019	3,000,000	4.04	Note 2
15 January 2019	13,000,000	4.04	Note 3

Note 1: The share options are exercisable in different periods from January 2019 to January 2021, and with different vesting requirements.

Note 2: The share options are exercisable in different periods from January 2019 to January 2022, and with different vesting requirements.

Note 3: The share options are exercisable in different periods from January 2019 to January 2023, and with different vesting requirements.

There was no movement of share options outstanding during the year ended 30 June 2021.

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit/(loss) before income tax to cash generated from/(used in) operations

	Notes	For the year ended 30 June 2021 RMB	2020 RMB
Profit/(loss) before income tax		**23,107,940**	(82,932,189)
Adjustments for:			
Interest income	9	**(623,198)**	(276,510)
Interest expense		**18,877,885**	10,484,065
Reversal of interest	6	**–**	(2,924,713)
Depreciation of property, plant and equipment	14	**6,708,733**	7,194,429
Depreciation of other right-of-use assets	15	**1,497,222**	1,204,752
Depreciation of investment properties	16	**5,954,439**	5,954,439
Amortisation of prepaid land lease payments	17(i)	**1,711,785**	1,711,785
Amortisation of other intangible assets	17(ii)	**2,598,663**	2,423,550
Amortisation of deferred income	26	**(1,350,000)**	(1,350,000)
Collection of written-off debtors		**1,319,461**	–
Net impairment (gains)/losses on financial and contract assets		**(4,850,835)**	83,861,306
Write-down of inventories	20	**7,669,602**	4,916,152
Share of results of an associate	13	**52,462**	–
Fair value gains on financial assets	19	**(447,433)**	–
Amortisation of employee share option scheme	29	**(1,807,855)**	(2,592,105)
Losses on disposal of property, plant and equipment		**9,988**	5,515
Gains on disposals of other right-of-use assets		**(256,901)**	–
Changes in working capital:			
– Decrease in pledged deposits relating to operating activities	22	**4,679,737**	1,373,870
– Increase in inventories	20	**(50,134,620)**	(31,719,886)
– Decrease/(increase) in prepayments and other receivables		**42,545,543**	(48,456,684)
– Decrease/(increase) in trade and bills receivables		**90,239,384**	(132,629,042)
– Decrease/(increase) in financial assets at fair value through other comprehensive income		**6,556,170**	(21,289,228)
– Increase in trade and other payables		**4,908,043**	28,293,198
– (Increase)/decrease in contract assets		**(5,244,658)**	71,644,445
– (Decrease)/increase in contract liabilities		**(24,574,216)**	65,227,653
Cash generated from/(used in) operations		**129,147,341**	(39,875,198)

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Net book amount		
– Property, plant and equipment (Note 14)	**11,190**	16,548
Losses on disposal of plant and equipment, net	**(9,988)**	(5,515)
Value added tax	**156**	1,167
Proceeds from disposal of property, plant and equipment	**1,358**	12,200

(c) Net debt reconciliations

	For the year as at 30 June	
	2021	2020
	RMB	RMB
Cash and cash equivalents (Note 22)	**145,299,486**	40,394,804
Borrowings (Note 24)	**(53,046,324)**	(107,208,500)
Interest-free loan from a related party (Note 33(c)(i))	**–**	(5,480,640)
Lease liabilities (Note 15)	**(5,517,013)**	(5,239,774)
Interest-free loan from third parties (Note 23)	**(13,580,800)**	(18,050,800)
Net debt	**73,155,349**	(95,584,910)
Cash and cash equivalents (Note 22)	**145,299,486**	40,394,804
Gross debt (Note 15, 23, 24, 33(c)(i))	**(72,144,137)**	(135,979,714)
Net debt	**73,155,349**	(95,584,910)

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(c) Net debt reconciliations *(Continued)*

	Other assets	Liabilities from financing activities				
	Cash and cash equivalents RMB	Interest – bearing loans RMB	Loan from a related party RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	Total RMB
Net debt as at 1 July 2020	40,394,804	(107,208,500)	(5,480,640)	(5,239,774)	(18,050,800)	(95,584,910)
Cash flows						
– Inflow from operating activities	118,963,125	–	–	–	–	118,963,125
– Outflow from investing activities	(12,049,802)	–	–	–	–	(12,049,802)
– Outflow from financing activities	(948,788)	112,083,386	5,480,640	1,862,661	4,470,000	122,947,899
– Inflow from financing activities	–	(52,760,000)	–	–	–	(52,760,000)
Foreign exchange adjustments	(1,059,853)	–	–	–	–	(1,059,853)
Other non-cash changes						
– Recognition of other right-of-use assets	–	–	–	(1,767,260)	–	(1,767,260)
– Accrual of interest	–	(5,161,210)	–	–	–	(5,161,210)
– Increase in future finance charges on leases	–	–	–	(372,640)	–	(372,640)
Net debt as at 30 June 2021	145,299,486	(53,046,324)	–	(5,517,013)	(13,580,800)	73,155,349

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(c) Net debt reconciliations *(Continued)*

	Other assets	Liabilities from financing activities				
	Cash and cash equivalents RMB	Interest – bearing loans RMB	Loan from a related party RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	Total RMB
Net debt as at 1 July 2019	24,196,754	(54,785,664)	–	(5,893,661)	–	(36,482,571)
Cash flows						
– Outflow from operating activities	(45,908,756)	–	–	–	–	(45,908,756)
– Outflow from investing activities	(9,958,999)	–	–	–	–	(9,958,999)
– Inflow from financing activities	71,832,844	(107,045,000)	(5,425,200)	–	–	(40,637,356)
– Outflow from financing activities	–	36,834,486	–	1,570,493	–	38,404,979
Foreign exchange adjustments	232,961	–	(55,440)	–	–	177,521
Other non-cash changes						
– Recognition of other right-of-use assets	–	–	–	(579,670)	–	(579,670)
– Increase in future finance charges on leases	–	–	–	(336,936)	–	(336,936)
– Accrual of interest	–	(3,187,835)	–	–	–	(3,187,835)
– Reversal of interest	–	2,924,713	–	–	–	2,924,713
– Reclassify to trade and other payables	–	18,050,800	–	–	(18,050,800)	–
Net debt as at 30 June 2020	40,394,804	(107,208,500)	(5,480,640)	(5,239,774)	(18,050,800)	(95,584,910)

31 DIVIDENDS

	For the year ended 30 June	
	2021	2020
	RMB	RMB
Proposed final dividend	**–**	–

No dividends was paid during the year ended 30 June 2021 and 2020.

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

32 COMMITMENTS

(a) As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2021 and 2020 are summarised as follows:

	As at 30 June	
	2021	2020
	RMB	RMB
No later than 1 year	**7,269,877**	4,936,964
Later than 1 year and no later than 5 years	**11,032,972**	1,127,700
	18,302,849	6,064,664

(b) As lessee

The Group leases various offices and motor vehicles under non-cancellable operating leases expiring within six months to 1 year. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Group has recognised right-of-use assets for these leases, except for short-term and low-value leases. Minimum lease payments under non-cancellable operating leases (short-term or low-value lease) contracted for at the end of the reporting period but not recognised in the financial statements are as follows:

	As at 30 June	
	2021	2020
	RMB	RMB
No later than 1 year	**194,381**	54,200

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 year ended 30 June 2021 and 30 June 2020 and balances arising from related party transactions as at 30 June 2021 and 30 June 2020.

(a) Name and relationship with related parties

Name of related parties	Relationships
Mr. Zhu Gen Rong ("Mr. Zhu") (i)	One of the controlling shareholders, chairman of the Company, executive director
Mr. Wang Ai Yan ("Mr. Wang") (i)	One of the controlling shareholders, chief executive officer, executive director
Mr. Liu Chuan Jiang ("Mr. Liu") (i)	One of the controlling shareholders
Mr. Fang Hui	Executive director of the Company
Mr. Shi Chenghu	Non-executive director of the Company
Mr. Zhu Gen yi	Brother of Mr. Zhu
Mr. Jin Hao	Director of Zhejiang Huazhang
Mr. Hu Cheng Rong	Legal representative of Wukong
Taizhou Hengshengtianyue Metal Co., Ltd. ("Taizhou Metal")	Controlled by close family members of Mr. Fang Hui
Jiafu	An 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 financial statements, the Group had the following transactions with related parties during the year ended 30 June 2021.

(b) Transactions with related parties

	As at 30 June	
	2021	2020
	RMB	RMB
Sales of metal scraps to Taizhou Metal	**14,632,704**	–

	As at 30 June	
	2021	2020
	RMB	RMB
Key management compensation		
– Salaries	**3,983,192**	3,924,562
– Bonuses	**530,785**	542,320
– Other benefits	**101,551**	407,743
– Share options	**(48,555)**	(174,355)
	4,566,973	4,700,270

33 RELATED-PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

(i) Due to related parties

	As at 30 June	
	2021	2020
	RMB	RMB
Loan from related parties		
– Mr. Hu Cheng Rong (Note 24)	**1,435,020**	–
– Mr. Zhu (Note 23)	**–**	5,480,640
Others (Note 23)		
– Mr. Liu	**4,420**	–
– Mr. Jin Hao	**1,500**	2,771
– Mr. Zhu	**–**	4,010
– Mr. Wang	**–**	1,057

The loan from Mr. Zhu was borrowed in September 2019, unsecured, non-interest bearing and is repayable in December 2020.

The loan from Mr. Hu Cheng Rong, the legal representative of Wukong, was borrowed in March and June 2021 with an interest rate of 8.4% per annum and is payable on demand.

(ii) Due from related parties

	As at 30 June	
	2021	2020
	RMB	RMB
Other receivables from related parties		
– Taizhou Metal (Note 21)	**11,297,003**	–
Prepayment to related parties		
– Jiafu	**20,166,157**	–

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 30 June	
	2021	2020
	RMB	RMB
ASSETS		
Non-current assets		
Investments in subsidiaries	**479,750,112**	481,557,967
Current assets		
Other receivables	**343,124,081**	300,165,411
Prepayments	**129,839**	145,226
Cash and cash equivalents	**94,442**	334,500
	343,348,362	300,645,137
Total assets	**823,098,474**	782,203,104
LIABILITIES		
Current liabilities		
Other payables	**163,300,532**	182,112,012
Convertible bonds	**81,314,234**	91,245,279
	244,614,766	273,357,291
Total liabilities	**244,614,766**	273,357,291
EQUITY		
Share capital	**7,471,631**	6,203,955
Share premium	**589,607,761**	509,459,198
Equity component of convertible bonds	**6,199,604**	35,161,248
Accumulated deficits	**(76,975,705)**	(61,985,289)
Other reserves (a)	**52,180,417**	20,006,701
Total equity	**578,483,708**	508,845,813
Total equity and liabilities	**823,098,474**	782,203,104

The statement of financial position of the Company was approved by the Board on 30 September 2021 and was signed on its behalf by:

Zhu Gen Rong
Director

Wang Ai Yan
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

	Other reserves RMB	Accumulated deficits RMB
At 1 July 2020	**20,006,701**	**(61,985,289)**
Translation differences	**(1,179,677)**	**–**
Employee share options	**(1,807,855)**	**–**
Extinguishment of convertible bonds	**35,161,248**	**–**
Loss for the year	**–**	**(14,990,416)**
At 30 June 2021	**52,180,417**	**(76,975,705)**
At 1 July 2019	33,185,728	(52,988,513)
Translation differences	583,919	–
Employee share options	(2,592,105)	–
Extinguishment of convertible bonds	(11,170,841)	–
Loss for the year	–	(8,996,776)
At 30 June 2020	20,006,701	(61,985,289)

35 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 2021 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	Bonuses RMB	Other benefits RMB	Share options RMB	Total remuneration RMB
Chairman					
Mr. Zhu Gen Rong	852,451	160,000	19,184	–	1,031,635
Executive directors					
Mr. Wang Ai Yan (Chief Executive Officer)	804,451	135,000	22,409	–	961,860
Mr. Jin Hao (iv)	600,000	50,000	17,710	(32,889)	634,821
Mr. Liu Chuan Jiang (iv)	480,000	110,000	17,695	–	607,695
Mr. Fang Hui (iii)	170,376	–	–	–	170,376
Non-executive directors					
Mr. Shi Chenghu (ii)	30,107	–	–	–	30,107
Independent non-executive directors					
Mr. Kong Chi Mo	102,226	–	–	–	102,226
Mr. Yao Yang Yang	25,556	–	–	–	25,556
Mr. Heng, Keith Kai Neng	102,226	–	–	–	102,226
	3,167,393	455,000	76,998	(32,889)	3,666,502

35 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 2020 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	Bonuses RMB	Other benefits RMB	Share options RMB	Total remuneration RMB
Chairman					
Mr. Zhu Gen Rong	869,943	140,000	97,255	–	1,107,198
Executive directors					
Mr. Wang Ai Yan (Chief Executive Officer)	822,438	132,000	97,255	–	1,051,693
Mr. Jin Hao	487,195	80,000	86,417	(110,427)	543,185
Mr. Liu Chuan Jiang	611,775	100,000	86,417	–	798,192
Mr. Liang Hui Qun (i)	144,512	–	–	–	144,512
Independent non-executive directors					
Mr. Kong Chi Mo	108,384	–	–	–	108,384
Mr. Dai Tian Zhu	108,384	–	–	–	108,384
Mr. Heng, Keith Kai Neng	108,384	–	–	–	108,384
	3,261,015	452,000	367,344	(110,427)	3,969,932

(i) Mr. Liang Hui Qun has resigned from executive director of the Company with effect from 27 September 2019.

(ii) Mr. Shi Chenghu was appointed as non-executive director of the Company with effect from 27 April 2021.

(iii) Mr. Fang Hui was appointed as executive director of the Company with effect from 29 April 2021.

(iv) Mr. Jin Hao and Mr. Liu Chuan Jiang has resigned from executive director of the Company with effect from 7 May 2021 and remained as senior management of the Group.

For the year ended 30 June 2021, none of the directors waived or agreed to waive any remuneration (2020: none of the directors waived or agreed to waive any remuneration).

35 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Director' termination benefits

There were no termination benefits paid to any director for the year ended 30 June 2021 and 2020.

(c) Consideration provided to third parties for making available directors' services

During the year ended 30 June 2021 and 2020, the Group provided no consideration to third parties for making available director's services.

(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.

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

ANNUAL REPORT 2022

Contents

Corporate Information

DIRECTORS

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

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	2022 RMB	2021 RMB	2020 RMB	2019 RMB	2018 RMB
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**323,868,801**	496,906,070	368,159,248	763,974,066	612,123,398
Gross profit	**33,154,639**	105,627,700	74,195,176	120,976,684	137,256,906
Gross profit margin	**10.2%**	21.3%	20.2%	15.8%	22.4%
(Loss)/profit attributable to the shareholders of the Company	**(363,753,165)**	17,984,484	(77,503,863)	(128,269,107)	48,285,144
Net (loss)/profit margin	**(112.31%)**	3.6%	(21.1%)	(16.8%)	7.9%

At 30 June					
Major Items of Consolidated Statement of Financial Position					
Non-current assets	**329,758,940**	359,842,261	464,272,556	346,840,328	473,912,784
Current assets	**712,047,236**	1,024,802,276	908,352,703	938,686,140	927,472,642
Non-current liabilities	**30,030,727**	34,847,154	34,336,858	32,384,732	108,805,388
Current liabilities	**615,712,183**	666,983,489	767,313,297	598,568,375	525,977,066
Capital and reserves attributable to the shareholders of the Company	**400,986,036**	684,750,990	571,443,645	655,356,325	765,786,978
Gearing ratio (Note)	**8.9%**	7.2%	15.8%	7.7%	2.8%

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,

The board (the "Board") of directors (the "Directors") of Huazhang Technology Holding Limited ("Huazhang Technology" or the "Company") is pleased to present to you the results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2022 (the "Year 2022").

During the Year 2022, there were multiple outbreaks of the pandemic across China, and pandemic prevention and control also became normalized. Affected by the pandemic, the downward pressure on China's economy has continued to increase. With insufficient demand and rising costs, operating difficulties for market players have become more apparent. The paper industry is a typical pro-cyclical industry, and its level of prosperity has a significant positive correlation with the macroeconomic trend, and its degree of fluctuation is more severe than that of the macroeconomic. In addition, in recent years, China has proactively promoted the policies such as double carbon and plastic ban, which, in turn, has increased the operating pressure of papermaking enterprises and slowed down their investment plans.

The Group's revenue and gross profit in the Year 2022 recorded approximately RMB323.9 million and approximately RMB33.2 million, respectively, representing a decrease of approximately 34.8% and 68.7%, respectively, as compared to that of last year. Under the backdrop of declining macro economy and industry prosperity, all employees of the Group have overcome multiple unfavorable factors by actively responding to those factors, and always adhering to its original mission, ensuring the stable development of the Group's operations.

In the Year 2022, the Group's project team forged ahead with great achievements, including the general contract of Shanying International's 6600/1200 paper machine project, which is currently the largest paper machine manufactured by a domestic paper machine supplier in China. In addition, after persistent and proactive approaches, the Group has entered into a large order of over RMB100 million with Hunan Jinye, signifying an important milestone in the Company's business development.

Overseas projects have advanced steadily. Malaysia's 7800/1500 transmission system and Vietnam Miza (越南米亞) turnkey project have successfully achieved their production target. In addition, the Group was responsible for providing the automation control system for the entire line of Lee & Man's 1.2 million ton project in Malaysia. On the basis of the existing stable, with occasional breakthroughs, orders, the Group has planned a mechatronics sales strategy with paper machine automatic control system as the core and paper machine general contracting and back-up pulp equipment as the basis, laying a solid foundation for sustainable development in the new financial year as well as for new performance growth points.

Huazhang Technology is one of the forerunning and leading companies in intelligent manufacturing and intelligent papermaking. It fully combines the Internet, IoT and big data to give full play to the advantages of Huazhang Technology and help the take-off of intelligent manufacturing in the paper industry. As a provincial level industrial digitalized service provider, Huazhang Technology mainly provides high-efficiency transmission control technology services for papermaking lines to reduce production energy consumption and improve the level of equipment intelligence and digitalization. Through the remote operation and maintenance technical services of papermaking equipment based on the IoT, the Company improves the control methods of key equipment and processes, realizes the visualization, digitization and intelligent control of workshop information of papermaking enterprises, reduces energy consumption and improves efficiency.

Board Statement

In July 2021, the "14th Five-Year Plan for Circular Economy Development" (《「十四五」循環經濟發展規劃》) was released. Through the implementation of the three "Five-Year Plans", the development of China's green circular economy has entered a new stage. Under the active guidance of the two goals of "carbon peaking and carbon neutrality" of China, the energy conservation and environmental protection industry will receive technical and financial support from all aspects. The Group took the lead early on, actively promoted and explored the environmental protection business, and developed the metal scrap trading business. It is believed that the Group's business will become more diversified and internationalized, diversifying the risk of relying on a single market in the paper industry in the past.

Huazhang Technology has been forging ahead for 30 years and has become one of the leading papermaking equipment suppliers in China. At the beginning of the Year 2022, a new leadership of the Group will unveil, which will lead the Company to adhere to the business philosophy of "integration, co-creation, and sharing", focusing on the two major strategies of "making the papermaking equipment industry more refined and stronger, and the circular economy industry bigger and stronger", making a new and brilliant chapter for Huazhang through togetherness, concerted efforts, and solidarity. The next 30 years of brilliant performance for Huazhang is highly anticipated.

Finally, the Board 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. The Board would also like to express our deep gratitude to the shareholders, investors, customers and partners who have always supported the Group. With the help and efforts of the above parties, the Group will surely move forward bravely, maintain continuous business growth, and strive for more value for all parties.

The Board of Huazhang Technology Holding Limited

Hong Kong
30 December 2022

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Hongwei (陳宏衛), aged 49, was appointed as executive director of the Company on 1 April 2022. Mr. Chen graduated from Enshizhou Minzhu Technical Institute* (恩施州民族技工學校) with a Certificate in Mechanical Manufacturing and Automation in 1996. Mr. Chen has over 26 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 34, 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 47, 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 43, 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 34, 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 7 years of experience in the fields of business development and investment in China.

Ms. Zhang Dong Fang (張東方), aged 60, 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 in 1983. 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. CHAN So Kuen (陳素權), aged 42, has been the chief financial officer of the Company since 28 February 2014 and resigned from the post on 31 December 2022. Mr. Chan has been appointed as an independent non-executive director of Link Holdings Limited and Yangzhou Guangling District Taihe Rural Micro-finance Company Limited since 16 October 2014 and 15 January 2015, respectively. The former is listed on the GEM (Stock Code: 8237) and the latter on the main board (Stock Code: 1915) of The Stock Exchange of Hong Kong Limited. Mr. Chan has over 16 years of experience in financing, auditing and accounting. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and obtained a Bachelor's degree in Accountancy from The Hong Kong Polytechnic University in 2001.

Ms. Yeung Wing Yan (楊詠恩), aged 42, 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 15 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

INDUSTRY REVIEW

Affected by factors such as the COVID-19 pandemic and international geopolitical tensions impacting global economy, China's economy is currently facing multiple challenges and difficulties. According to the data released by the National Bureau of Statistics, China's gross domestic product ("GDP") in the first half of 2022 was RMB56.3 trillion, representing a significant slowdown in GDP growth of 2.5%. Since March this year, Shanghai, China's economic and financial center, has entered into a lockdown and pandemic prevention period that lasted for two months. The Yangtze River Delta region where it is located is an important production base for the manufacturing industry, and most industries were suspended from work and production. China's economy is under downward pressure, and the paper making industry is inevitably affected.

As an important fundamental raw material industry, the paper making industry plays an important role in national economy. According to the data released by the National Bureau of Statistics, in the first half of 2022, China's machine-made paper and paperboard production output was 67.724 million tonnes, representing a year-on-year decrease of 0.6%. The sales revenue of paper and paper product enterprises above designated size amounted to RMB737.46 billion, representing a year-on-year increase of 2.5%. Affected by factors such as the COVID-19 pandemic, inflation and changes in downstream demand, the price of wood pulp has been fluctuating since 2021. The cost of raw materials such as wood pulp is high, and paper making enterprises are unavoidably turning to the downstream. However, due to its weak demand from end-users, the condition of "weak demand during peak season, let alone low season" is resulted. As the cost pressure is difficult to pass on, the industry's profitability is contracted.

In the long run, after experiencing a slowdown in growth rate and more advanced technology after the early stage of rapid growth, the paper making industry will gradually become mature. As the government has increased its emphasis on environmental protection, the environmental protection policies are becoming more and more stringent, backward production capacity is being continuously eliminated, and the industry concentration will further be improved. Driven by its environmental protection policies, China's paper making industry will pay more attention to the concepts of recycling, low carbon, green and environmental protection. While expanding production capacity, we will pay more attention to the improvement of product quality. Under the continuous development of relevant technologies in wood pulp production, paper making, machinery and equipment, sewage treatment, etc., the structure of the paper making industry will be optimised.

BUSINESS REVIEW

For the year ended 30 June 2022, the Group's revenue decreased by 34.8% to approximately RMB323.9 million, which was mainly affected by the delay in certain contracting service projects led by customers. However, the value of new contracts was stable at approximately RMB497.7 million and approximately RMB500.3 million for the year ended 30 June 2022 and 2021 respectively.

Management Discussion and Analysis

Paper making related businesses

Steady Growth of New Contracts

For the year ended 30 June 2022, the Group adopted an active marketing strategy and implemented an integrated sales model. The value of new contracts was maintained at approximately RMB497.7 million for the year ended 30 June 2022 and the outstanding contracts amount as at 30 June 2022 were at approximately RMB599.3 million. In particular, the Group has secured the general contract with Shanying International Holdings Co., Ltd for the 6600/1200 paper machine project. It is currently the largest paper machine manufactured by domestic paper machine suppliers. In addition, the Group also secured the general contract with Minfeng Special Paper Co., Ltd. for two specialized paper machines and Shandong Sun Paper Industry Joint Stock Co., Ltd. for the PM1 transmission and transformation project.

Demonstrating Strengths for Milestone Projects

The Group has an engineering design and implementation team with solid skills and valiant style, which always takes pride in providing satisfactory customer service despite of difficulties. In January 2022, the PM4 paper machine speed-enhancing and production-increasing transformation project of Shanxi Qiangwei Paper Industry Co., Ltd. was successfully launched, which is one of the Group's milestone projects. Based on the original configuration of paper machines, the Group organised a strong design and project implementation team, which has repeatedly communicated, demonstrated and formulated a strict technical path for design. Finally, through a series of design optimisation such as changing the transmission of large gears to direct connection with the drying tank, reasonable distribution of the drying balance capacity before and after the drying process, and shifting from roped tail threading to ropeless tail threading, the smoothness of the operation of PM4 paper machine has been significantly improved, laying a solid foundation for improving the speed of vehicles. This transformation involved almost the entire drying unit, under heavy workload, with difficulties at construction and facing tightness of time. However, in the process of project implementation, the Group strictly controlled the quality and progress, and arranged special personnel to supervise the selection of suppliers, procurement, supervision and pre-installation. The Group completed the project tasks with quality and quantity on time, which was highly praised by the users. It once again proved that the Group has a leading position in the paper making industry in terms of its professionalism of design and installation.

In addition, the PM2 paper machine project for Dahua Paper Company Nigeria Limited in Nigeria has been successfully put into operation. The project is also the largest paper machine project in Africa. The Group provided the paper machine and rewinding machine transmission system. The project team has overcome the impact of the COVID-19 pandemic to ensure quality, progress and service, and senior engineers were despatched to Africa for the adjustments and trials of the equipment. The project has demonstrated the first-class professional skills and supreme combat power, solidarity and competitiveness of the project team.

Technology Innovation to Promote Sustainable Development

For the year ended 30 June 2022, the Group still insisted on promoting sustainable development with technological innovation, and invested a lot of resources in product research and development, and the related expenses amounted to approximately RMB45.9 million. During the year ended 30 June 2022, the Group filed 74 new patent applications. As at 30 June 2022, the Group registered a total of 139 patents, including 23 invention patents, 83 utility model patents and 33 software copyrights. In 2022, the Group was awarded the title of "Excellent Enterprise in Digital Economy Development" in Tongxiang City in 2021 and was listed among the "Provincial Industrial Digitalization Service Providers".

In December 2021, the Group's "high-efficiency forming linkage line for the preparation of derivative fuels for paper making solid waste" (用於造紙固體廢棄物衍生燃料製備的高效成型聯動線) was selected as the first set of product in the key areas of equipment manufacturing industry in Jiaxing City in 2021. It is demonstrated that the Group's strategy of establishing a research institute has been effective and brought encouragement to our scientific researchers. Based on the advantages of differentiation in new technologies, new products and new materials, the research institute of the Group has led China's paper making equipment technology to reach the international advanced level.

In terms of the research and development progress of the research institute, the newly designed scraper mobile device is undergoing the testing process and the ropeless tail threading system is awaiting practical trials. The PDM mechanical design system, which assists in the deployment, has basically completed its work, and is under continuous optimisation. The cooperation of new products with the data detection and control accessories of the smart manufacturing department is in the design and processing stage, clarifying the research direction of new materials, and the design of the new structure hydroforming machine is in progress.

Environmental protection related business

The Group has been committed to the development of the green business, in particular, the establishment of waste recycling treatment plants outside the PRC since 2019 to capture the opportunities to expand global waste recycling treatment. According to the requirements of the "14th Five-Year Plan for the Development of Circular Economy" (《「十四五」循環經濟發展規劃》) issued in 2021, China will basically establish a resource recycling industry system by 2025 to significantly improve the efficiency of resource utilisation. The overall resource production rate of waste renewable resources industry will increase by 20% compared with 2020, of which, the amount of recycled non-ferrous metal will reach 20 million tonnes. With the introduction of the "dual carbon" goal and the 14th Five-Year Plan, the circular economy will become an important vehicle to achieve carbon peak and carbon neutrality. Should this opportunity be materialised, it will be an exciting expansion plan of the Group's environmental protection services business. As at 30 June 2022, the Group is still exploring opportunities overseas and negotiating with governments and business partners in overseas countries to fight for optimal investment conditions.

The Group has started trading of scrap materials, especially metal scrap, since 2021. For the year ended 30 June 2022, the trading volume of the scrap materials trading business was approximately RMB32.4 million and a revenue of approximately RMB0.6 million was recognised. In the future, considering the market potential of global waste recycling treatment, the Group will further allocate resources to environmental protection related business and believes that the business in such area will further grow.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 34.8% from approximately RMB496.9 million for the year ended 30 June 2021 to approximately RMB323.9 million for the year ended 30 June 2022, primarily attributing to the delay of certain contracting service projects by customers in project contracting services segment. The gross profit margin decreased from approximately 21.3% for the year ended 30 June 2021 to approximately 10.2% for the year ended 30 June 2022, primarily attributing to provisions for the loss incurred from a project were recognised.

(i) Industrial products

Revenue from sales of industrial products decreased by approximately 32.4% from approximately RMB244.0 million for the year ended 30 June 2021 to approximately RMB164.9 million for the year ended 30 June 2022. Such decrease was primarily attributable to slowdown of the project progress led by the customers and shortage of supply of the parts from the suppliers. The gross profit margin of industrial products increased from approximately 19.5% for the year ended 30 June 2021 to approximately 21.3% for the year ended 30 June 2022.

(ii) Project contracting services

Revenue from project contracting services decreased by approximately 54.1% from approximately RMB182.5 million for the year ended 30 June 2021 to approximately RMB83.8 million for the year ended 30 June 2022. Such decrease was mainly due to the installation work of a mega contracting project in Vietnam was completed in the financial year of 2021 and several contracting projects were delayed by the customers. The gross profit margins of project contracting services decreased sharply from approximately 23.8% for the year ended 30 June 2021 to approximately -20.1% for the year ended 30 June 2022, such change was primarily due to attributing to a loss from an engineering procurement construction project (the "EPC Project") was recognised.

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.

(iii) Environmental business

Revenue from sales of environmental business decreased by approximately 35.8% from approximately RMB19.9 million for the year ended 30 June 2021 to approximately RMB12.8 million for the year ended 30 June 2022. Such decrease was primarily due to a decrease in demand in sludge treatment products and wastewater treatment business as the market competition was keen. The gross profit margin of environmental business changed from approximately 14.5% for the year ended 30 June 2021 to approximately 5.5% for the year ended 30 June 2022.

(iv) Supporting services

Revenue from the provision of supporting services increased by approximately 23.6% from approximately RMB50.5 million for the year ended 30 June 2021 to approximately RMB62.3 million for the year ended 30 June 2022. The revenue from the provision of supporting services increased significantly mainly due to the increase in demand and size of the renovation projects for the year ended 30 June 2022. The gross profit margin for the provision of supporting services was stable at approximately 23.0% for the years ended 30 June 2021 and 2022.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 34.7% from approximately RMB9.5 million for the year ended 30 June 2021 to approximately RMB12.8 million for the year ended 30 June 2022, accounting for approximately 1.9% and approximately 3.9% of the Group's revenue for the years ended 30 June 2021 and 2022 respectively. Increase in selling and distribution expenses is mainly attributable to an increase in staff costs in relation to increment of staff salaries and an incentive paid for the improved performance.

Administrative expenses

The administrative expenses increased by approximately 49.3% from approximately RMB51.6 million for the year ended 30 June 2021 to approximately RMB77.0 million for the year ended 30 June 2022, accounting for approximately 10.4% and approximately 23.8% of the Group's revenue for the years ended 30 June 2021 and 2022 respectively. Increase in administrative expenses is mainly attributable to (i) an increase in staff costs due to an increase in headcount of management team and increment of staff salaries and incentive payment; (ii) an increase in entertainment fee for the year ended 30 June 2022 as compared with the respective period in 2021; and (iii) 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 as no such provision for the year ended 30 June 2021.

Research and development expenses

The research and development expenses increased by approximately 67.7% from approximately RMB27.4 million for the year ended 30 June 2021 to approximately RMB45.9 million for the year ended 30 June 2022, accounting for approximately 5.5% and approximately 14.2% of the Group's revenue for the years ended 30 June 2021 and 2022 respectively. Increase in research and development expenses is mainly attributable to (i) an increase in staff costs due to increment of staff salaries and incentive paid to staff for their contribution; and (ii) an increase in usage of the raw materials as the Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes and new products. The Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment (losses)/gains on financial and contract assets

The Group recorded a change from reversal of net impairment losses on financial and contract assets of approximately RMB4.9 million for the year ended 30 June 2021 to net impairment losses on financial and contract assets of approximately RMB234.7 million for the year ended 30 June 2022, primarily due to the following reasons:

(i) Based on the latest information available to the Group, the carrying amounts of a customer as at 31 May 2022 was at net liabilities position. The management of the Group considered that the recoverability of the customer is remote and made further impairment loss on the receivables from such customer of approximately RMB129.8 million. After making the provision of the impairment, the Group have made full provision of impairment loss of the receivables from such customer. The Group still continue to work with the financing lease companies in a joint effort for collection.

(ii) The Group has identified a number of abnormal payments and receipts between Zhejiang Huazhang and a number of companies which are not subsidiaries of the Group (the "Subject Transactions"), the aggregated balance of the Subject Transactions were approximately RMB95.8 million. The Company have assessed the recoverability of these receivables as those companies have liquidities issues or even suspended its business. As a result, the Group need to make a full provision of loss allowance on expected credit loss of these receivables balances. The Company will consult the company lawyer to determine any further legal action in order to recover the amounts. For further information, please refer to the Company's announcement dated 11 August 2022 and 26 October 2022.

(iii) Based on the future economic conditions and historical collection experience, the management of the Group have evaluated the expected credit losses of the receivables and prepayments as at 30 June 2022. Based on the assessment, the Group is required to make a further provision of loss allowance on expected credit loss of the receivables and prepayments balances.

The Group holds on-going discussion with the customers with regard to collection and will take legal action if necessary.

Other income and gains, net

Other income and gains, net decreased by 21.8% from approximately RMB23.4 million for the year ended 30 June 2021 to approximately RMB18.3 million for the year ended 30 June 2022, primarily attributing to (i) a interest income from customer delaying on payment of RMB2.0 million was recorded for the year ended 30 June 2021 while no such transaction was incurred for the year ended 30 June 2022; and (ii) a decrease in tax refund and government grants of approximately RMB1.8 million and approximately RMB1.6 million, respectively, for year ended 30 June 2022 as compared with the corresponding period in 2021.

Finance costs, net

The finance costs, net decreased by approximately 30.8% from RMB22.3 million for the year ended 30 June 2021 to approximately RMB15.4 million for the year ended 30 June 2022, primarily attributing to a change from exchange losses of approximately RMB4.0 million for the year ended 30 June 2021 to exchange gains of approximately RMB1.2 million for the year ended 30 June 2022 and an increase in interest income of approximately RMB2.5 million for the year ended 30 June 2022 as compared with the corresponding period in 2021.

Impairment loss on goodwill

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, for the year ended 30 June 2022 as no such impairment was incurred for the year ended 30 June 2021. The Group engaged independent valuer, Valplus, to determine the recoverable amounts of these business units. Due to the impact of COVID-19 Outbreak in the Mainland China, the Group's headbox business and logistics and warehousing services business in the PRC was faced with downward pressure. The business is also affected by macroeconomic performance that is affecting the domestic economy, the gross profit margin and revenue of headbox business and logistic and warehousing services business were decreased. As a result, the value of those business were decreased.

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 as no such impairment was incurred for the year ended 30 June 2021. Due to 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. Therefore, the management of the Group considered that recoverability of the investment in associate was remote, and made impairment on this investment.

Income tax expense

The income tax increased from approximately RMB6.6 million for the year ended 30 June 2021 to approximately RMB15.5 million for the year ended 30 June 2022, such increase was primarily due to increase in deferred income tax in relation to reversal of tax loss recognized in the previous year and a decrease in current income tax due to decrease in operating profits of the major operating subsidiaries for the year ended 30 June 2022 as compared with the corresponding year.

The effective tax rates of the Group changed from approximately 28.5% for the year ended 30 June 2021 to approximately 4.4% for the year ended 30 June 2022.

(Loss)/profit for the year and net (loss)/profit margin

As a result of the foregoing, the Group recorded a loss of approximately RMB366.7 million for the year ended 30 June 2022 from a profit of approximately RMB16.5 million for the year ended 30 June 2021. The margin changed from net profit margin of approximately 3.6% for the year ended 30 June 2021 to net loss margin of approximately 112.31% for the year ended 30 June 2022.

(Loss)/profit for the year attributable to the shareholder of the Company

The Group recorded a loss for the year attributable to the shareholders of the Company amounting to approximately RMB363.8 million for the year ended 30 June 2022 as compared with profit for the year attributable to the shareholders of the Company amounting to approximately RMB18.0 million for the year ended 30 June 2021.

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 2022, the Group had cash and cash equivalent balance amounting to approximately RMB141.0 million (30 June 2021: approximately RMB145.3 million) and interest-bearing loans amounting to approximately RMB38.5 million (30 June 2021: approximately RMB53.0 million).

CONVERTIBLE BONDS

On 1 December 2020, the Company issued the new Convertible Bonds in a principal amount of HK$100.0 million (equivalent to approximately RMB85.0 million). The net proceeds from the above issue have been used to repay the convertible bonds issued on 29 March 2017.

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

Pursuant to the subscription agreement dated 1 December 2020, the new Convertible Bonds are:

(a) convertible at the option of the bond holders into ordinary shares of the Company at HK$0.71 per share (subject to adjustment) at any time on or after 1 March 2021 up to the close of business on the 30th day prior to the maturity date; and

(b) to be matured on 30 November 2021 (the "Maturity Date") and unless previously converted or cancelled, after 1 June 2021, the bondholders shall have the option to request for the redemption by the issuer of the bonds by serving onto the issuer a prior written notice of not less than two weeks from the intended date of early redemption of the bonds.

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

The new Convertible Bonds bore 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.

Creation Best International Limited ("Creation Best") is the investor of the new Convertible Bonds under the subscription agreement dated 1 December 2020. On 1 June 2021, Creation Best transferred the new Convertible Bonds to Dao He Investment Limited ("Dao He"). Mr. Fang Hui ("Mr. Fang") is the ultimate beneficial owner of Creation Best and Dao He. Since 29 April 2021, Mr. Fang has been appointed as executive Director.

On the Maturity Date, Creation Best and Dao He did not exercise its conversion rights, nor the bond was redeemed as well. Pursuant to the subscription agreement, the conversion right attaching to this bond is revived and will continue to be exercisable up to, and including, the close of business on the date upon which the full amount of the moneys payable in respect of such bond has been duly received by the investor. The default interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on which full payment is made to the investor.

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

As at 30 June 2022, the new Convertible Bonds have been reclassified to amounts due to related party amounting to approximately RMB85.8 million.

Details of the new Convertible Bonds are disclosed in the Company's announcements dated 1 December 2020 and 28 December 2020.

BORROWINGS AND CHARGES OF ASSETS

As at 30 June 2022, the Group's borrowings were approximately RMB38.5 million (30 June 2021: RMB53.0 million), which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an interest range of 4.35% to 5.5% per annum (30 June 2021: all denominated in RMB, and bore an interest range of 5.1% to 8.4% per annum).

As at 30 June 2022, the Group's new Convertible Bonds was nil (30 June 2021: RMB81.3 million) which had matured on 30 November 2021. The new Convertible Bonds bore an interest rate of 12.0% per annum (with an additional default interest rate of 5% per annum on the overdue sum).

As at 30 June 2022, 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 RMB58.6 million, RMB98.1 million and RMB73.8 million respectively (30 June 2021: approximately RMB59.5 million, RMB104.0 million and RMB75.4 million respectively).

GEARING RATIO

The gearing ratios as at 30 June 2022 and 2021 were approximately 8.9% and 7.2%, respectively. The increase in gearing ratio was mainly attributable to a decrease in the Group's equity from approximately RMB682.8 million as at 30 June 2021 to approximately RMB396.1 million as at 30 June 2022. Based on the gearing ratio as at 30 June 2022, the Group still maintained a good financial position.

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

TRADE AND OTHER RECEIVABLES

Trade and bills receivables decreased by approximately RMB288.2 million from approximately RMB477.6 million as at 30 June 2021 to approximately RMB189.4 million as at 30 June 2022, primarily due to increase in provision for impairment of trade and other receivables and decrease in revenue for the year ended 30 June 2022. The provision for impairment of trade receivables and other receivables increased by approximately RMB79.3 million to approximately RMB175.5 million and increased by approximately RMB153.1 million to approximately RMB181.1 million, respectively, for the year ended 30 June 2022 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 2022; and (ii) did not hold any significant investment as at 30 June 2022.

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 2022 and up to the date of this report.

CAPITAL EXPENDITURE

For the year ended 30 June 2022, the Group's capital expenditure amounted to approximately RMB5.8 million (2021: RMB7.9 million).

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had no material capital commitments (30 June 2021: Nil).

CONTINGENT LIABILITIES

Save as disclosed elsewhere in this annual report, the Group had no material contingent liabilities as at 30 June 2022 (30 June 2021: 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 2022. 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 2022, the Group had 269 employees (30 June 2021: 301 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2022 were approximately RMB80.8 million, as comparable to approximately RMB54.4 million for the year ended 30 June 2021. 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

Looking forward to 2023, the main direction of stable macroeconomic growth will remain unchanged. On the demand side, the second half of each year is generally the traditional peak season for paper making industry. Affected by the increase in overseas market demand and the recovery of domestic demand after the alleviation of the pandemic, the demand for machine-made paper will increase. On the cost side, the cost of pulp, chemicals, energy and transportation remained at a high level, driving the price of paper to stabilise with room for price increase.

In March 2022, the National Development and Reform Commission and other departments jointly issued the "Notice on the Implementation Guidelines for Energy-saving and Carbon-Reduction Transformation and Upgrading in Key Areas of High-energy-consuming Industries (2022 Edition)" (《高耗能行業重點領域節能降碳改造升級實施指南(2022年版)》), which clarified the goal of energy-saving and carbon-reduction of non-ferrous industry in the "14th Five-Year", and played an important guiding role in improving the utilization efficiency of energy resources in the industry and reducing carbon emissions. The Group is confident in the potential of the metal scrap recycling business and will continue to seek business partners globally and strive to become one of the major players in the recycling industry.

The Group will continue to increase its investment in the intelligentization and digitalization of equipment, further establish its firm presence in international markets by its capability and reputation, and build the brand of the Group in the international market. As both opportunities and challenges exist, the Group will bravely overcome the difficulties in the industry, actively expand the market, continue to strengthen the cooperation ability and optimise the operation efficiency, so as to achieve the high quality and sustainable development of the Company. In the future, the Group's business direction of "intelligent manufacturing, clean production and project contracting" will remain unchanged.

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 2022:

	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 2022 RMB'000	Unused Net Proceeds as at 30 June 2022 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	2,454	2,546	On or before 31 December 2022
Administrative and management expenses						
— Salary adjustment for key employees	–	3,000	3,000	–	3,000	On or before 31 December 2022
— Hiring of additional employees	–	1,500	1,500	–	1,500	On or before 31 December 2022
— Legal and professional advisers' expenses	–	3,000	3,000	–	3,000	On or before 31 December 2022
— Other general corporate purposes	–	1,300	1,300	1,300	–	–
	48,083	–	48,083	38,037	10,046	

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 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 utilisation 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 2022 (the "Reporting Period" or "2022").

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

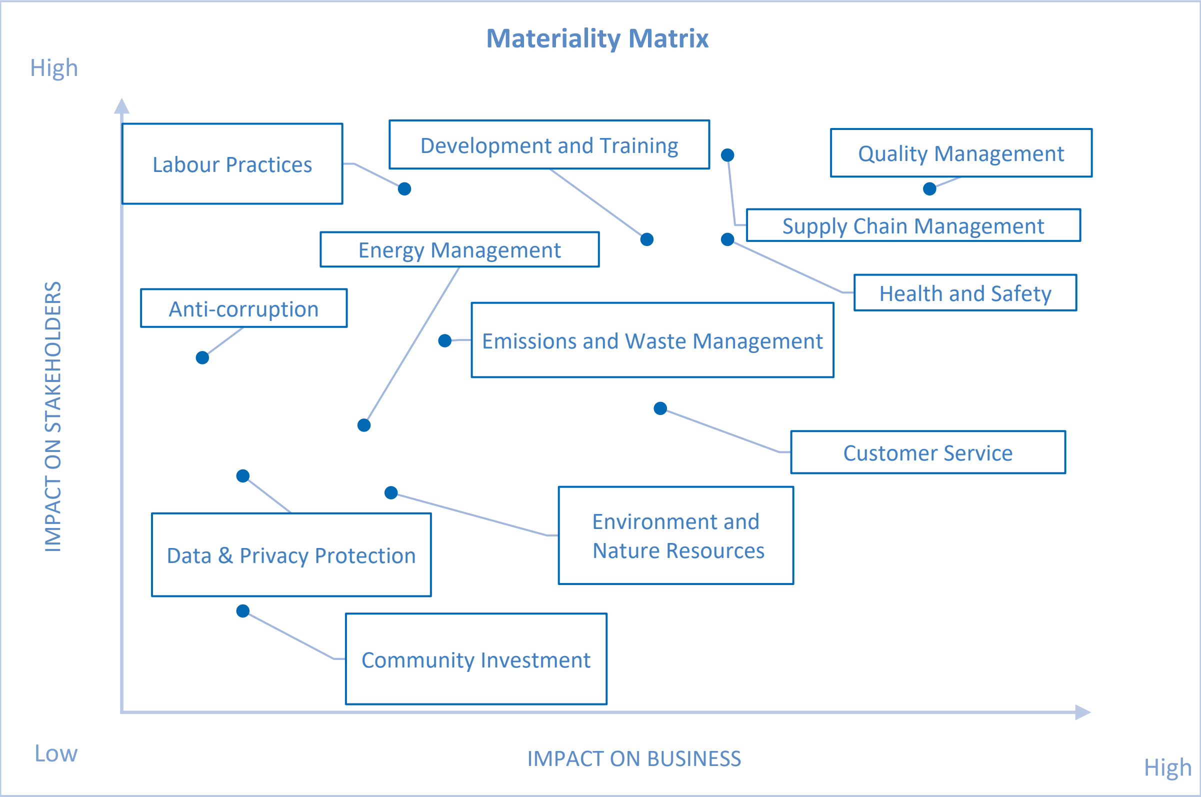
The Group recognises the responsibility and accountability of all our stakeholders. To understand and address their key concerns, the Group has maintained close communication with its key stakeholders. The Group takes stakeholders' expectations into consideration in formulating its businesses and ESG strategies by utilising 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 ("NO_x"), sulphur oxides ("SO_x") and particulate matter ("PM").

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

Types of Exhaust Gas	Unit	FY2022
Nitrogen oxides (NO_x)	kg	12.57
Sulphur oxides (SO_x)	kg	0.12
Particulate matter (PM)	kg	0.94

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	FY2022
Direct GHG emissions (Scope 1)	tCO_2e	30.02
— Unleaded petrol consumption		
— Natural gas consumption		
Energy indirect GHG emissions (Scope 2)	tCO_2e	304.39
— Electricity consumption		
Total GHG emissions	tCO_2e	334.41
Total GHG emissions intensity[2]	tCO_2e/million Revenue	1.02

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 RMB329 million (2021: RMB497 million). The data is also used for calculating other intensity indicators.

Due to the impact of the COVID-19 pandemic, offices have been locked down and some employees have been arranged to work from home during the Reporting Period. The use of fuels and electricity dropped significantly compared to the prior year.

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	FY2022
Total hazardous wastes	tonnes	0.23
Intensity	tonnes/million revenue	0.0007

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	FY2022
Total non-hazardous wastes	tonnes	0.44
Intensity	tonnes/million revenue	0.0013

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	FY2022
Total direct energy consumption	kWh	120,354
— Unleaded petrol	kWh	78,518
— Natural gas	kWh	41,836
Total indirect energy consumption	kWh	388,070
— Purchased electricity	kWh	388,070
Total energy consumption	kWh	508,424
Total energy consumption intensity	kWh/million revenue	1,545

As explained in A1. Emissions, the use of electricity in the office and petrol for vehicles have decreased sharply. The total energy consumption dropped from 677,860 kWh to 508,424 kWh, which represented a 25% decline compared with the prior year.

Reduction of Energy Consumption

Consumption of electricity is accounted as the major source of indirect energy and indirect GHG emissions (Scope 2). 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	FY2022
Total water consumption	m^3	7,296
Intensity	m^3/million revenue	22

The total water consumption dropped from 9,250 m^3 to 7,296 m^3, which represented a 21% 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.

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, non-compliance 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 2022, the Group's employee breakdown was as below:

Indicators	FY2022	FY2021
Total number of employees	267	301
By Gender		
Male	193	227
Female	74	74
By Age		
Below 30	46	62
30–50	164	181
Above 50	57	58
By region		
Hong Kong	2	2
PRC	265	299
By Employment Type		
Full-time	267	301
Part-time	0	0

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

Indicators	FY2022	
	No.	%
Total employee turnover	40	14.08%
By gender		
Male	32	15.24%
Female	8	10.81%
By age group		
Below 30	14	25.93%
30–50	10	5.80%
Above 50	16	27.83%
By region		
Hong Kong	0	0.00%
Mainland China	40	14.18%

* 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**	**FY2022**	FY2021	FY2020
Fatalities due to work	Cases	**0**	0	0

Indicators	**Unit**	**FY2022**
Lost days due to work injury	Days	0
Work Injury Rate	%	0

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 (浙江省經濟和資訊化廳).

This listing refers 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.

高新技术企业
证书

企业名称：浙江华章科技有限公司
证书编号：GR202033004584
发证日期：2020年12月1日
有效期：三年
批准机关：

浙江省科学技术厅
浙江省财政厅
国家税务总局浙江省税务局

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 2,149 hours of training to our employees. The table below shows the employee training data* breakdown by gender and employee category:

Indicators	**FY2022**	
	Training hours	%
Average hours of training per employee and percentage of employees who received training	8.05	51.31%
By gender		
Male	8.38	53.37%
Female	7.18	45.95%
By employee category		
Senior management	11.31	65.52%
Middle management	11.71	53.66%
General staff	6.81	48.73%

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

B4. Labour Standards

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	1
China	334
Others	3

B6. 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

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

C 0197931

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 ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions — Air Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity.	Emissions — GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	Emissions — Hazardous Waste
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Non-hazardous Waste
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	Emissions 2030 Environmental Targets
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emissions — Waste Management

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Energy Management
KPI A2.2	Water consumption in total and intensity.	Use of Resources — Water Management
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources — Energy Management 2030 Environmental Targets
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Resources — Water Management 2030 Environmental Targets
KPI A2.5	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources — Use of Packaging Materials
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A4：Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change — Physical Risks, Transition Risks
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the Reporting Period.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety — Occupational Health and Safety Management Systems Health and Safety — Safety Training and Inspection
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category.	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.1	Description of steps taken to eliminate such practices when discovered.	Labour Standards

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management — Supplier Management System
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management — Green Sourcing
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management — Green Sourcing
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility — Quality Management
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Product Responsibility — Customer Service

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility — Protection of Intellectual Property Rights
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility — Quality Management
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility — Protection of Customer Information and Privacy
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Anti-corruption — Whistle-blowing Mechanism
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption — Anti-corruption Training

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment

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 2022.

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 2022 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 96 to 99 of this annual report.

DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2021 (2020: nil).

The Board does not recommend the payment of a final dividend for the year ended 30 June 2022 (2021: nil).

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 30 June 2022 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 2022, 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 RMB251.7 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 2022 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 2022, 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 52 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 2022 annual general meeting (the "AGM") of the Company was held on 30 December 2022. Due to the delay in the publication of the audited consolidated financial statements of the Company and the reports of the directors and of the independent auditor for the year ended 30 June 2022, the resolution to consider and approve the aforesaid documents will be transacted in the adjourned AGM of the Company. The adjourned AGM of the Company will be held on 7 March 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 2 March 2023 (Thursday) to 7 March 2023 (Tuesday), both days inclusive, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the adjourned AGM. In order to be eligible to attend and vote at the adjourned 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 1 March 2023 (Wednesday) 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 2022 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 2022.

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 2022, 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 placed as interest bearing deposits with licensed banks in Hong Kong and the PRC as at 30 June 2022 and this whole amount of net proceeds has been used for settlement of partial redemption of the new 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 2022 represented approximately 18.4% (30 June 2021: 24.6%) and approximately 40.3% (30 June 2021: 44.0%), 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 2022 represented approximately 11.3% (30 June 2021: 13.6%) and approximately 30.5% (30 June 2021: 38.4%), 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. Wang Ai Yan (Chief Executive Officer)
(retired from the Board on 24 November 2021, re-appointed with effect from 7 December 2021 and resigned on 1 December 2022)
Mr. Chen Hongwei (appointed with effect from 1 April 2022)
Mr. Fang Hui
Mr. Gan Jun (appointed on 7 December 2021 and resigned with effect from 1 April 2022)
Mr. Zhu Gen Rong (removed with effect from 10 February 2022)

Non-Executive Director

Mr. Shi Chenghu

Independent Non-Executive Directors

Mr. Heng, Keith Kai Neng
Mr. Kong Chi Mo (resigned with effect from 17 December 2021)
Mr. Yao Yang Yang
Ms. Zhang Dong Fang (appointed with effect from 7 December 2021)

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. Chen Hongwei, Mr. Shi Chenghu, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang had retired and, being eligible, had offered themselves for re-election at the 2022 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 2022.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Mr. Fang Hui and Mr. Chen Hongwei have 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 1 April 2022, respectively, and will continue thereafter until terminated in accordance with the terms of the 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 2022 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 ending 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	6,485,972

For the year ended 30 June 2022, 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$7.8 million, which was within the annual cap of HK$18 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 2022, 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 2022 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 2022 or at any time during the year ended 30 June 2022.

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 2021 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 2022, 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.

No option was granted under the 2013 Share Option Scheme during the year ended 30 June 2022. During the year ended 30 June 2022, 19,000,000 share options under the 2013 Share Option Scheme with an exercise price of HK$4.04 per share were lapsed. As at 30 June 2022, 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 88,554,137 shares, representing 8.32% 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.

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; and (iii) the nominal value of a share.

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.

During the year ended 30 June 2022, 85,940,000 share options (the "Share Options") were granted under the New Share Option Scheme on 31 May 2022 (the "Date of Grant"). As at 30 June 2022, 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 85,940,000 (representing approximately 8.08% of the Company's shares (the "Shares") in issue as at 30 June 2022). The exercise price of the Share Options granted under the New Share Option Scheme is HK$0.51 per share.

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 2022 were as follows:

				Number of share options					
Name or category of participants	Date of Grant (Notes c and d)	Exercise price	Vesting & exercise period	At 1 July 2021	Granted during the year	Exercised during the year	Lapsed/ expired during the year	Cancelled/ forfeited during the year	At 30 June 2022
Directors									
Mr. Wang Ai Yan (Note a)	31 May 2022	HK$0.51	Note c	–	1,000,000	–	–	–	1,000,000
Mr. Chen Hongwei	31 May 2022	HK$0.51	Note c	–	500,000	–	–	–	500,000
Mr. Fang Hui (Note b)	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	–	–	–	32,540,000
Employees in aggregate	15 January 2019	HK$4.04	Note d	19,000,000	–	–	19,000,000	–	–
In aggregate				19,000,000	85,940,000	–	19,000,000	–	85,940,000

Notes:

(a) Being a substantial Shareholder of the Company.

(b) The grant of 50,000,000 share options (the "Proposed Grant") is 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 will 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 Company's 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) The aggregate number of options granted to the five highest paid individuals (including one director and four employees) during the year is 3,100,000 Share Options.

If all such Share Options were exercised, there would be a dilution effect on the shareholdings of Shareholders of approximately 7.47% as at 30 June 2022.

The estimated value of the Share Options granted under the New Share Option Scheme during the year ended 30 June 2022, calculated using the binomial lattice model as at the Date of Grant of the 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 RMB2,264,882 (2021: reversal of RMB1,807,855) for the year ended 30 June 2022 in relation to share options granted by the Company under both the 2013 Share Option Scheme and New Share Option Scheme.

INFORMATION ABOUT A SHAREHOLDER

The Company was informed by Florescent Holdings Limited (the "Florescent"), a shareholder of the Company, that a petitioner (the "Petitioner") filed a winding up petition dated 28 December 2020 (the "Petition") against Florescent in the High Court of the Hong Kong Special Administrative Region. Based on a public search conducted at the High Court, the Company noted that the Petitioner had, on 12 April 2022, filed a notice of appeal against the judgment and order of the High Court made on 8 March 2022 to dismiss the Petition. As at the date of this report, no hearing date of the appeal has been scheduled. Details of which are disclosed in the Company's announcements dated 10 January 2021, 17 December 2021, 13 March 2022 and 27 April 2022. The Company will continue to closely follow the subsequent development and influence of the Petition and comply with the relevant disclosure requirements under the Listing Rules and the Securities and Future Ordinance (the "SFO") in a timely manner.

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 for a period of one year until January 2023 as ordered thereunder. 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 2022, 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. Wang Ai Yan (resigned on 1 December 2022)	Interest of a controlled corporation	295,422,000 (Note 1)	27.76%
	Interest of person acting in concert	2,044,000 (Note 2)	0.19%
	Beneficial owner	368,000	0.03%
	Beneficial owner	1,000,000 (Note 3)	0.09%
Mr. Chen Hongwei	Beneficial owner	182,000	0.02%
	Beneficial owner	500,000 (Note 3)	0.05%
Mr. Fang Hui	Interest of a controlled corporation	153,846,153 (Note 4)	14.46%
	Beneficial owner	7,440,000	0.70%
	Beneficial owner	50,000,000 (Notes 3 and 5)	4.70%
Mr. Shi Chenghu	Beneficial owner	89,452,000	8.41%
	Beneficial owner	1,000,000 (Note 3)	0.09%
Mr. Heng, Keith Kai Neng	Beneficial owner	300,000 (Note 3)	0.03%
Mr. Yao Yang Yang	Beneficial owner	300,000 (Note 3)	0.03%
Ms. Zhang Dong Fang	Beneficial owner	300,000 (Note 3)	0.03%

Notes:

1. The 295,422,000 Shares are registered in the name of Florescent Holdings Limited ("Florescent Holdings"), a company owned as to 94.48% by Lian Shun Limited ("Lian Shun"), which in turn is owned as to 17.10% by Mr. Wang Ai Yan ("Mr. Wang"), as to 50.56% by Mr. Zhu Gen Rong ("Mr. Zhu"), as to 14.8% by Mr. Liu Chuan Jiang and as to 17.54% by Mr. Jin Hao. Under the SFO, Mr. Wang is deemed to be interested in the 295,422,000 Shares held by Florescent Holdings.

2. Mr. Wang is regarded as one of the parties acting in concert with Mr. Zhu under the Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code"). Under the SFO, Mr. Wang is deemed to be interested in the 2,044,000 Shares held under the personal name of Mr. Zhu.

3. 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.

4. 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.

5. Mr. Fang is the beneficial owner of 50,000,000 Share Options which are subject to the Shareholders' approval at the EGM. The Board had resolved not to proceed with the proposed grant of these 50,000,000 Share Options on 23 August 2022 which decision was approved by Mr. Fang.

* The percentage has been calculated based on the total number of shares of the Company in issue as at 30 June 2022 (i.e. 1,064,089,378 Shares) and rounded to two decimal places.

Save as disclosed above, as at 30 June 2022, 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 2022, 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*
Florescent Holdings Limited	Beneficial owner	295,422,000	27.76%
Lian Shun Limited	Interest of a controlled corporation	295,422,000 (Note 1)	27.76%
Mr. Zhu Gen Rong	Interest of a controlled corporation/ Beneficial owner, person acting in concert	297,834,000 (Note 2)	27.99%
Mr. Liu Chuan Jiang	Interest of a controlled corporation/ person acting in concert	297,834,000 (Note 3)	27.99%
Ms. Zhu Ling Yun	Person acting in concert	297,834,000 (Note 4)	27.99%
Dao He Investment Limited	Beneficial owner	153,846,153 (Note 5)	14.46%
Mr. Li Chao Wang	Interest of a controlled corporation	59,817,294 (Note 6)	5.62%

Name of substantial shareholders	Capacity/Nature of interest	Number of Shares and/or underlying Shares held	Approximate percentage of shareholdings*
Rosy Ease Limited	Interest of a controlled corporation	59,817,294 (Note 6)	5.62%
Swift Fortune Holdings Limited	Beneficial owner	59,817,294 (Note 6)	5.62%
Gain Channel Limited	Interest of a controlled corporation	59,817,294 (Note 6)	5.62%
Ms. Song Min	Interest of spouse	59,817,294 (Note 7)	5.62%
Wealthy Land Investments Group Limited	Having a security interest in shares	411,872,000	38.71%

Notes:

1. The 295,422,000 Shares are registered in the name of Florescent Holdings, a company owned as to 94.48% by Lian Shun. Under the SFO, Lian Shun is deemed to be interested in all the Shares held by Florescent Holdings.

2. Florescent Holdings is owned as to 94.48% by Lian Shun, which in turn is owned as to 50.56% by Mr. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the 295,422,000 Shares held by Florescent Holdings.

   Mr. Zhu is interested in 2,044,000 Shares as beneficial owner.

   Under the acting-in-concert arrangement, Mr. Zhu is deemed to be interested in the 368,000 Shares which Mr. Wang is interested in as beneficial owner.

3. Florescent Holdings is owned as to 94.48% by Lian Shun, which in turn is owned as to 14.80% by Mr. Liu Chuan Jiang ("Mr. Liu"). Under the SFO, Mr. Liu is regarded as one of the parties acting in concert with Mr. Zhu and Mr. Wang under the Takeovers Code and is therefore deemed to be interested in the Shares held by each of Mr. Zhu and Mr. Wang and is deemed to be interested in the 295,422,000 Shares held by Florescent Holdings.

4. Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu Ling Yun are deemed to be interested in the Shares held by each of the other parties under the SFO due to the acting-in-concert arrangement.

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

6. 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.

7. 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.

* The percentage has been calculated based on the total number of shares of the Company in issue as at 30 June 2022 (i.e. 1,064,089,378 Shares) and rounded to two decimal places.

Save as disclosed above, as at 30 June 2022, 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 2022 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 2022.

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

(1) PricewaterhouseCoopers resigned as the auditor of the Company on 18 July 2022 and Zhonghui Anda CPA Limited ("Zhonghui Anda") was appointed as the new 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.

(2) Upon review of the long outstanding balance of the receivables of the Group, the management of Zhejiang Huazhang identified and informed the Board that there have been a number of abnormal payments and receipts between Zhejiang Huazhang and a number of companies which are not subsidiaries of the Group (the "Subject Transactions"). Furthermore, during the review of the receivables of Zhejiang Huazhang and preparation of the annual results of the Group for the year ended 30 June 2022, the management of the Company noted the amount due from a material debtor, namely Baoshan Xintaisheng Paper Industry Co., Ltd.* (保山鑫泰盛紙業有限公司) ("Baoshan Paper"), was approximately RMB201.8 million as at 30 June 2022 and the proposed impairment loss was approximately RMB129.8 million. To conduct an independent investigation into the Subject Transactions, an independent investigation committee ("Independent Investigation Committee") initially comprising Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang, all are independent non-executive directors, has been established in August 2022. The Independent Investigation Committee has appointed RSM Corporate Advisory (Hong Kong) Limited as the independent forensic accountant of the Company to conduct appropriate independent forensic accounting review on the Subject Transactions and the transactions entered with Baoshan Paper up to 30 June 2022. Details of which are provided in the announcements of the Company dated 11 August 2022 and 26 October 2022.

(3) Mr. Wang Ai Yan ("Mr. Wang") has tendered his resignation as an executive Director and the chief executive officer of the Company with effect from 1 December 2022. Following Mr. Wang's resignation, he will also cease to hold any other positions within the Group.

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

AUDITORS

The auditor of the Company, KTC Partners CPA Limited, will retire, and being eligible, offer themselves for re-appointment at the forthcoming adjourned AGM. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming adjourned AGM. The consolidated financial statements for the year ended 30 June 2022 have been audited by KTC Partners CPA Limited. Change in auditors of the Company in the preceding three years has been disclosed in the section headed "Events After the Reporting Period" of this report.

FURTHER INFORMATION ABOUT THE DISCLAIMER OF OPINION SET OUT IN THE INDEPENDENT AUDITOR'S REPORT FOR YEAR ENDED 30 JUNE 2022

KTC Partners CPA Limited (the "Auditors"), 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 it did not express an opinion on the consolidated financial statements of the Group for the year ended 30 June 2022 (the "2022 Financial Statements") because the Auditors were not provided with sufficient evidence on the following disclaimers:

(i) the rationale and the validity of the Subject Transactions and therefore the amounts due from the associate and the trade and other receivables as of 30 June 2022 and 30 June 2021 (the "Disclaimer 1"); and

(ii) the share of results of Jiafu Paper (the Company's former associate) for year ended 30 June 2021 and year ended 30 June 2022, and the impairment loss of the associate and the net carrying amounts of the interest in the associate as at 30 June 2021 (the "Disclaimer 2").

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

The Company would like to provide further information about the two disclaimers to its shareholders.

Further information about Disclaimer 1

The management, having considered the lack of rationale, proper authority and supporting agreements or documents for the Subject Transactions, the Group's previous attempts to recover the receivables from the three counterparties to the Subject Transactions, and the loss of contact of Mr. Zhu Genrong (the former chairman and executive director of the Company and director of Zhejiang Huazhang) and Ms. Zhu Lingyun (the former financial controller of Zhejiang Huazhang), is of the view that the trade and other receivables arose from the Subject Transactions would highly unlikely be recovered, and the Group should make provision for impairment losses of trade and other receivables of RMB95,772,971 in the consolidated profit and loss statement for the year ended 30 June 2022. The management accepts the Auditors' disclaimer of opinion on the provision for impairment losses of trade and other receivables from the three counterparties to the Subject Transactions of RMB95,772,971 for the year ended 30 June 2022.

Further information about Disclaimer 2

桐鄉加福造紙設備有限公司 (in English, for identification purpose only, Tongxiang Jiafu Paper Equipment Co., Ltd.) ("Jiafu Paper") was an associate company of the Company established in Tongxiang City of Zhejiang Province on 25 March 2020. Zhejiang Huazhang injected RMB5,000,000 into Jiafu Paper in June 2020 and owned 33.33% of its entire equity interest. Based on its business registration records, the scope of business of Jiafu Paper included the manufacture of equipment for making pulp and paper. Jiafu Paper was a supplier of Zhejiang Huazhang from whom Zhejiang Huazhang purchased parts for the manufacture of its equipment and machine.

On 29 December 2022, the Group sold its 33.33% equity interest in Jiafu Paper to an independent third party at a consideration of RMB50,000. Based on the consideration of RMB50,000, an actual impairment loss of investment in Jiafu Paper of RMB4,897,538 was recognised in the consolidated profit and loss statement of the Group for the year ended 30 June 2022.

The Auditors had advised that they were unable to obtain sufficient appropriate evidence to satisfy themselves as to whether (i) the share of results of Jiafu Paper (an associate of the Company) and the impairment loss of Jiafu Paper were recognised accurately in the consolidated profit or loss of the Group for the two years ended 30 June 2022 and 2021; and (ii) the net carrying amounts of the interest in Jiafu Paper as at 30 June 2021 were free from material misstatements because the Auditors were not provided with access to the management personnel and books and records of Jiafu Paper for them to determine whether the share of results of Jiafu Paper and the impairment loss of Jiafu Paper were properly accounted for.

The management, having understood that the Auditors were unable to obtain sufficient financial information of Jiafu Paper to form a view on the financial position of Jiafu Paper, accepts the Auditors' disclaimer of opinion on the impairment loss of investment in Jiafu Paper of RMB4,897,538 for the year ended 30 June 2022.

The view of the audit committee

The Company's audit committee has reviewed and agreed with the management's position regarding Disclaimer 1 and Disclaimer 2.

Action plan for Disclaimer 1 and Disclaimer 2

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

(1) The total outstanding amount in relation to the Subject Transactions were quantified (being RMB95,772,971) and full impairment of RMB95,772,971 was recognised for the year ended 30 June 2022.

(2) The Forensic Investigator had identified certain deficiencies in the Group's internal control systems and disclosed the same in its review reports. In this respect, the Company has engaged a professional internal control firm (namely, Zhonghui Anda Risk Services Limited) to review the risk management and internal control systems of the Group 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 transactions under the forensic accounting review by the Forensic Investigator.

(3) Both Mr. Zhu Genrong and Ms. Zhu Lingyun who approved the entering into of the Subject Transactions without proper authority and the payments to the three counterparties to the Subject Transactions without going through the proper internal payment procedures have been removed from the Group and no longer hold any position in the Group.

As Jiafu Paper had already been sold by the Group, the Company is of the view that it has addressed Disclaimer 2.

Taking into account of the action plan against Disclaimer 1, the Auditors, having considered that (i) the Subject Transactions were isolated incidents which were conducted without proper authority under the management of Mr. Zhu Genrong; (ii) the total outstanding amount in relation to the Subject Transactions were quantified (being RMB95,772,971); and (iii) full impairment of RMB95,772,971 has been made in respect of the total outstanding amount from the Subject Transactions during the year ended 30 June 2022, expects that the audit qualification on the Subject Transactions would not appear in the annual results of the Group for the year ending 30 June 2023, and the annual results of the Group for the year ending 30 June 2023 would be qualified on the opening balances of the outstanding amount from the Subject Transactions and the effect on comparability of corresponding figures in respect of impairment loss on the outstanding amount from the Subject Transactions only. The Company, having considered the basis of the Auditors' view and also the fact that the Group has improved its internal control systems to ensure no incidents similar to the Subject Transactions would take place, concurs with the Auditors' view that the annual results of the Group for the year ending 30 June 2023 would be qualified in respect of the opening balances and the comparative figures for the preceding financial year only.

Considering the sale of Jiafu Paper by the Company in December 2022, both the Company and the Auditors are of the view that Disclaimer 2 has been addressed and will not appear in the annual results of the Group for the year ending 30 June 2023, except for qualification on the effect on comparative figures in respect of share of results of the associate and the impairment loss of the associate.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in its shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 3 October 2022 and will remain suspended until the Company fulfils the resumption guidance as disclosed in its announcement dated 28 November 2022.

On behalf of the Board
Fang Hui
Executive Director

Hong Kong
30 December 2022

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value. Continuous efforts are made to review and enhance the Group's risk management, internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board reported that the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 30 June 2022, 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 ("Mr. Zhu") 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, and the role and function of the Chairman have been performed by all the executive Directors collectively. Mr. Wang Ai Yan, executive Director (resigned on 1 December 2022), is the Chief Executive Officer of the Company during the year ended 30 June 2022.

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 after the removal of Mr. Zhu.

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 his other business commitment, Mr. Zhu, the former chairman of the Board, did not attend the annual general meeting held on 24 November 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the year ended 30 June 2022 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. Board should ensure that changes to its composition can be managed without undue disruption. 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. Wang Ai Yan (Chief Executive Officer) (resigned with effect from 1 December 2022)
Mr. Chen Hongwei (appointed with effect from 1 April 2022)
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 (appointed with effect from 7 December 2021)

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.

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 14 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 2022, 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.

Directors' attendance at meetings of the Board and general meetings and their participation in continuous professional development during the year ended 30 June 2022 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	Extraordinary general meeting Attended/Held	Participation in continuous professional development
Mr. Wang Ai Yan (Chief Executive Officer) (Note 1)	11/11	1/1	1/1	✓
Mr. Chen Hongwei (Note 2)	3/3	N/A (Note 7)	N/A (Note 7)	✓
Mr. Fang Hui	14/14	1/1	1/1	✓
Mr. Gan Jun (Note 3)	7/7	N/A (Note 7)	1/1	✓
Mr. Zhu Gen Rong (Note 4)	2/7	0/1	0/1	✓
Mr. Shi Chenghu	14/14	1/1	1/1	✓
Mr. Heng, Keith Kai Neng	14/14	1/1	1/1	✓
Mr. Kong Chi Mo (Note 5)	4/4	1/1	N/A (Note 7)	✓
Mr. Yao Yang Yang	14/14	1/1	1/1	✓
Ms. Zhang Dong Fang (Note 6)	10/10	N/A (Note 7)	0/1	✓

Notes:

1. Retired from the Board on 24 November 2021, re-appointed on 7 December 2021 and resigned on 1 December 2022.

2. Appointed with effect from 1 April 2022.

3. Appointed on 7 December 2021 and resigned with effect from 1 April 2022.

4. Removed with effect from 10 February 2022.

5. Resigned with effect from 17 December 2021.

6. Appointed with effect from 7 December 2021.

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

Mr. Wang Ai Yan, executive Director, was the Chief Executive Officer of the Company (resigned on 1 December 2022) during the year ended 30 June 2022. The Chief Executive Officer's responsibility is to monitor the daily operation and management of the Company.

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 2022. In addition, the Audit Committee has reviewed external auditor's remuneration.

Four Audit Committee meetings were held during the year ended 30 June 2022. 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)	4/4
Mr. Kong Chi Mo (resigned with effect from 17 December 2021)	1/1
Mr. Yao Yang Yang	4/4
Ms. Zhang Dong Fang (appointed with effect from 7 December 2021)	3/3

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.

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 four meetings. 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)	4/4
Mr. Kong Chi Mo (resigned with effect from 17 December 2021)	2/2
Mr. Yao Yang Yang	4/4
Ms. Zhang Dong Fang (appointed with effect from 17 December 2021)	2/2

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 three meetings 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)	3/3
Mr. Fang Hui	3/3
Mr. Heng, Keith Kai Neng	3/3
Mr. Kong Chi Mo (resigned with effect from 17 December 2021)	2/2
Ms. Zhang Dong Fang (appointed with effect from 17 December 2021)	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.

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 during the year achieving a female representation in the Board. The Board is also characterised by significant diversity, whether considered in terms of professional background and skills.

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 to review the risk management and internal control systems of the Group 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. It is expected that the independent internal control review and implementation of the remedial measures to improve the internal control systems of the Group will be completed by the end of January 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 2022. 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 2022.

AUDITOR'S REMUNERATION

During the year ended 30 June 2022, the fees paid/payable to the Company's auditors, KTC Partners CPA Limited, are set out as follows:

Nature of services	**Fees paid/ payable** HK$
Audit services	1,700,000
Non-audit services	–
	1,700,000

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 2022.

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 or the proposal constitutes a special resolution of the Company in EGM.

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

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.hzeg.com.

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 2022.

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)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 96 to 200, which comprise the consolidated statement of financial position as at 30 June 2022, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for disclaimer of opinion

1. Abnormal transactions and balances

As disclosed in note 7(i) to the consolidated financial statements, during the first half of 2022, when reviewing the balance 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 are (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"). In response to the discovery of the Subject Transactions, the Company has established an Independent Investigation Committee (the "IIC"), comprising all the independent non-executive directors of the Company, on 5 August 2022. The IIC has engaged an independent forensic accountant (the "Forensic Investigator") to conduct an independent forensic accounting review on the Subject Transactions.

DISCLAIMER OF OPINION *(Continued)*

Basis for disclaimer of opinion *(Continued)*

1. Abnormal transactions and balances *(Continued)*

The Forensic Investigator issued its forensic accounting review report on 26 October 2022 (the "Forensic Report"). As stated in the Forensic Report, as of 30 June 2022, the net balances due from Jiafu Paper and Yuxin Electric were RMB39,541,029 and RMB28,656,484 respectively. However, there were three transactions amounting to a total of RMB20,447,000 which were remitted by Hangzhou Taige Automatic Co., Ltd. (杭州泰格動力自動化有限公司) ("Hangzhou Taige") but being booked to the current account with Yuxin Electric. The Forensic Investigator made adjustments to the net balance due from Yuxin Electric for these three transactions with Hangzhou Taige and hence such balance as of 30 June 2022 was restated as RMB49,103,484. As of 30 June 2022, the net balance due from Fibertech recorded in the current accounts with Zhejiang Huazhang was RMB7,128,458. After the 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, Jiafu Paper, Yuxin Electric and Fibertech, 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 Jiafu Paper, Yuxin Electric and Fibertech exceeding a reasonable limit. The funding arrangements between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech 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").

Having considered the Forensic Report, the IIC noted that the Subject Transactions were mainly instructed by Mr. Zhu and Ms. Zhu and were primarily caused by: (i) Mr. Zhu and Ms. Zhu having instructed transactions with Jiafu Paper and Yuxin Electric without sufficient business justification; and (ii) Mr. Zhu and Ms. Zhu having bypassed the Company's internal payment approval procedures and instructed the finance personnel of Zhejiang Huazhang to execute transactions with Jiafu Paper, Yuxin Electric and Fibertech.

As disclosed in note 21 and 33(c)(ii) to the consolidated financial statements, as of 30 June 2022 and 30 June 2021, the gross carrying amount of the amounts due from Jiafu Paper were RMB39,541,029 and RMB20,166,157 respectively, which were classified as other receivables/prepayment (the "Amounts due from the Associate") in the consolidated statement of financial position of the Group. The total gross carrying amount of the trade and other receivables due from Yuxin Electric and Fibertech (the "Trade and Other Receivables") as of 30 June 2022 and 30 June 2021 were RMB56,231,942 and RMB16,525,604, respectively.

DISCLAIMER OF OPINION *(Continued)*

Basis for disclaimer of opinion *(Continued)*

1. Abnormal transactions and balances *(Continued)*

As disclosed in note 7(i) to the consolidated financial statements, since the directors of the Group are of the view that the Amounts due from the Associate and the Trade and Other receivables due from Yuxin Electric and Fibertech cannot be recovered, the Group has 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, including the Forensic Investigator was unable to contact and conduct interviews with Mr. Zhu and Ms. Zhu, the substantial shareholders, the respective legal representatives of Jiafu Paper, and the beneficial owner and legal representative of Yuxin Electric. 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 Associate, the Trade and Other Receivables as of 30 June 2022 and 30 June 2021 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 Associate and the Trade and Other Receivables as of 30 June 2022 and 30 June 2021 are fairly stated.

Any adjustment that might have been found necessary to the consolidated statement of financial position as of 30 June 2022 and 1 July 2021 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 related disclosures in the notes to the consolidated financial statements.

DISCLAIMER OF OPINION *(Continued)*

Basis for disclaimer of opinion *(Continued)*

2. Share of loss of an associate and impairment loss on an associate

As disclosed in note 13 to the consolidated financial statements, as of 30 June 2022 and 30 June 2021, the carrying amount of the Group's interest in the associate, Jiafu Paper, before impairment amounted to RMB4,947,538. In addition, 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 the end of the reporting period, and share of nil profit or loss from the associate in the consolidated profit or loss for the year ended 30 June 2022.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether: (i) the share of results of the associate and the impairment loss of the associate referred were recognised accurately in the consolidated profit or loss of the Group for the years ended 30 June 2022 and 2021; and (ii) the net carrying amounts of the interest in the associate as at 30 June 2021 were free from material misstatements because we were not provided with access to the management personnel and books and records of the associate for us to determine whether the share of results of the associate and the impairment loss of the associate were properly accounted for.

Any adjustment that might have been found necessary to the consolidated statement of financial position as of 1 July 2021 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 related disclosures in the notes to the financial statements for the year ended 30 June 2022.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 30 June 2021 were audited by another auditor who expressed an unmodified opinion on these statements on 30 September 2021.

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

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirement 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 responsibility is to conduct an audit of the consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor’s report 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

KTC Partners CPA Limited
Certified Public Accountants (Practising)

Chow Yiu Wah, Joseph
Practising Certificate Number: P04686

Hong Kong, 30 December 2022

Consolidated Statement of Profit or Loss

For the year ended 30 June 2022

	Notes	2022 RMB	2021 RMB
Revenue	5	**323,868,801**	496,906,070
Cost of sales		**(290,714,162)**	(391,278,370)
Gross profit		**33,154,639**	105,627,700
Other income and gains, net	6	**18,313,703**	23,409,817
Selling and distribution expenses		**(12,768,134)**	(9,481,146)
Administrative expenses		**(77,019,358)**	(51,588,442)
Research and development expenses		**(45,880,831)**	(27,360,497)
Net impairment (losses)/gains on financial and contract assets	7	**(234,740,801)**	4,850,835
Operating (loss)/profit		**(318,940,782)**	45,458,267
Finance income	8	**4,299,262**	623,198
Finance costs	8	**(19,733,888)**	(22,921,063)
Finance costs, net		**(15,434,626)**	(22,297,865)
Impairment loss on goodwill	18	**(10,032,101)**	–
Impairment loss on property, plant and equipment	14	**(1,890,000)**	–
Impairment loss on investment in an associate	13	**(4,897,538)**	–
Share of net loss of associates accounted for using the equity method	13	**–**	(52,462)
(Loss)/profit before income tax	9	**(351,195,047)**	23,107,940
Income tax expense	10	**(15,543,792)**	(6,592,011)
(Loss)/profit for the year		**(366,738,839)**	16,515,929
(Loss)/profit attributable to:			
The shareholders of the Company		**(363,753,165)**	17,984,484
Non-controlling interests		**(2,985,674)**	(1,468,555)
		(366,738,839)	16,515,929
(Loss)/earning per share attributable to the shareholders of the Company for the year (expressed in RMB cents per share)			
Basic (loss)/earning per share	12	**(38.65)**	2.45
Diluted (loss)/earning per share	12	**(38.65)**	2.45

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	Notes	2022 RMB	2021 RMB
(Loss)/profit for the year		**(366,738,839)**	16,515,929
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**2,999,038**	9,514,873
Other comprehensive income for the year, net of tax		**2,999,038**	9,514,873
Total comprehensive (loss)/income for the year		**(363,739,801)**	26,030,802
Total comprehensive (loss)/income for the year is attributable to:			
The shareholders of the Company		**(360,754,127)**	27,499,357
Non-controlling interests		**(2,985,674)**	(1,468,555)
		(363,739,801)	26,030,802

The notes on pages 103 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	2022 RMB	2021 RMB
ASSETS			
Non-current assets			
Property, plant and equipment	14	**70,773,929**	73,441,278
Other right-of-use assets	15	**4,622,858**	5,830,519
Investment properties	16	**98,066,629**	104,021,068
Prepaid land lease payments	15, 17(i)	**73,752,172**	75,375,942
Goodwill	18	**29,902,783**	39,934,884
Other intangible assets	17(ii)	**8,213,256**	10,668,801
Deferred tax assets	25	**870,371**	16,260,156
Investments in an associate	13	**50,000**	4,947,538
Financial assets at fair value through profit or loss	19	**4,807,255**	5,447,433
Trade and other receivables	21(i)	**38,542,965**	23,744,860
Prepayments	21(iii)	**156,722**	169,782
		329,758,940	359,842,261
Current assets			
Inventories	20	**138,104,557**	156,144,094
Trade and other receivables	21(i)	**193,787,833**	550,390,302
Prepayments	21(iii)	**95,145,050**	89,226,697
Financial assets at fair value through other comprehensive income	21(iv)	**43,086,801**	43,493,570
Pledged deposits	22	**28,844,290**	23,922,992
Restricted deposits	22	**52,312,844**	–
Contract assets	21(ii)	**19,716,995**	16,325,135
Cash and cash equivalents	22	**141,048,866**	145,299,486
		712,047,236	1,024,802,276
Total assets		**1,041,806,176**	1,384,644,537
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	25	**5,153,893**	5,477,481
Deferred income	26	**21,487,500**	22,837,500
Lease liabilities	15	**3,389,334**	4,430,761
Trade and other payables	23	**–**	2,101,412
		30,030,727	34,847,154

Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	2022 RMB	2021 RMB
Current liabilities			
Trade and other payables	23	**406,325,565**	343,430,172
Contract liabilities	5	**163,933,039**	181,819,504
Interest-bearing loans	24	**38,500,000**	53,046,324
Income tax payable		**5,866,781**	6,287,003
Lease liabilities	15	**1,086,798**	1,086,252
Convertible bonds	27	**–**	81,314,234
		615,712,183	666,983,489
Total liabilities		**645,742,910**	701,830,643
Net assets		**396,063,266**	682,813,894
EQUITY			
Share capital	28	**8,907,761**	7,471,631
Share premium	28	**663,145,447**	589,857,286
Equity component of convertible bonds	27	**–**	6,199,604
Other reserves	29	**122,088,285**	105,804,845
Accumulated losses		**(393,155,457)**	(24,582,376)
Capital and reserves attributable to the shareholders of the Company		**400,986,036**	684,750,990
Non-controlling interests		**(4,922,770)**	(1,937,096)
Total equity		**396,063,266**	682,813,894

The notes on pages 103 to 200 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 96 to 200 were approved by the Board of Directors on 30 December 2022 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 2022

	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
		Attributable to the shareholders of the Company							
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)**	**–**	**–**	**–**
		1,436,130	**73,288,161**	**(6,199,604)**	**13,284,402**	**(4,819,916)**	**76,989,173**	**–**	**76,989,173**
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**
Balance at 1 July 2020		6,203,955	509,708,723	35,161,248	61,516,759	(41,147,040)	571,443,645	(468,541)	570,975,104
Profit/(loss) for the year		–	–	–	–	17,984,484	17,984,484	(1,468,555)	16,515,929
Other comprehensive income		–	–	–	9,514,873	–	9,514,873	–	9,514,873
Total comprehensive income/(loss) for the year		–	–	–	9,514,873	17,984,484	27,499,357	(1,468,555)	26,030,802
Extinguishment of convertible bonds	27, 29	–	–	(35,161,248)	35,161,248	–	–	–	–
Issue of shares	28	1,276,308	81,683,692	–	–	–	82,960,000	–	82,960,000
Issue of new convertible bonds	27	–	–	6,199,604	–	–	6,199,604	–	6,199,604
Shares bought back	28	(8,632)	(1,535,129)	–	–	–	(1,543,761)	–	(1,543,761)
Employee share options	29	–	–	–	(1,807,855)	–	(1,807,855)	–	(1,807,855)
Profit appropriation to statutory reserves	29	–	–	–	1,419,820	(1,419,820)	–	–	–
		1,267,676	80,148,563	(28,961,644)	34,773,213	(1,419,820)	85,807,988	–	85,807,988
Balance at 30 June 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

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Notes	2022 RMB	2021 RMB
Operating activities			
(Loss)/profit before income tax		**(351,195,047)**	23,107,940
Adjustments for:			
Interest income	8	**(3,119,318)**	(623,198)
Interest expense	8	**19,733,888**	18,877,885
Depreciation of property, plant and equipment	14	**6,259,842**	6,708,733
Depreciation of other right-of-use assets	15	**1,293,648**	1,497,222
Depreciation of investment properties	16	**5,954,439**	5,954,439
Amortisation of prepaid land lease payments	17(i)	**1,623,790**	1,711,785
Amortisation of other intangible assets	17(ii)	**2,565,280**	2,598,663
Amortisation of deferred income	26	**(1,350,000)**	(1,350,000)
Collection of written-off debtors		**–**	1,319,461
Net impairment losses/(gains) on financial and contract assets	7	**234,740,801**	(4,850,835)
Write-down of inventories	20	**4,648,712**	7,669,602
Share of results of an associate	13	**–**	52,462
Fair value losses/(gains) on financial assets	19	**640,178**	(447,433)
Amortisation of employee share option scheme	29	**2,264,882**	(1,807,855)
Loss on disposals of property, plant and equipment		**151,177**	9,988
Gain on disposals of other right-of-use assets		**–**	(256,901)
Impairment of investment in an associate		**4,897,538**	–
Impairment of goodwill		**10,032,101**	–
Impairment of property, plant and equipment		**1,890,000**	–
Operating cash flows before movements in working capital		**(58,968,089)**	60,171,958
Decrease/(increase) in inventories	20	**13,390,825**	(50,134,620)
(Increase)/decrease in prepayments and other receivables		**(105,425,055)**	42,545,543
Decrease in trade and bills receivables		**208,951,367**	90,239,384
Decrease in financial assets at fair value through other comprehensive income		**406,769**	6,556,170
(Increase)/decrease in pledged and restricted deposits relating to operating activities	22	**(57,234,142)**	4,679,737
(Decrease)/increase in trade and other payables		**(28,574,618)**	4,908,043
Decrease in contract assets		**(5,759,902)**	(5,244,658)
Decrease in contract liabilities		**(17,886,465)**	(24,574,216)
Cash (used in)/generated from operations		**(51,099,310)**	129,147,341
Income tax paid		**(897,817)**	(10,184,216)
Net cash (outflow)/inflow from operating activities		**(51,997,127)**	118,963,125

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Notes	2022 RMB	2021 RMB
Cash flows from investing activities			
Purchase of property, plant and equipment		**(5,027,032)**	(2,071,173)
Proceeds from disposals of property, plant and equipment		**23,958**	1,358
Purchase of other intangible assets		**(109,735)**	(603,185)
Investments in an associate	13	**–**	(5,000,000)
Acquisitions of financial assets at fair value through profit or loss	19	**–**	(5,000,000)
Interest received		**3,119,318**	623,198
Net cash outflow from investing activities		**(1,993,491)**	(12,049,802)
Cash flows from financing activities			
Proceeds from issue of shares	28	**74,724,291**	82,960,000
Shares bought back	28	**–**	(1,543,761)
Proceeds from interest-bearing loans	24	**24,500,000**	52,760,000
Repayment of interest-bearing loans		**(39,046,324)**	(107,000,000)
Repayment of interest-free loan from a related party		**–**	(5,480,640)
Repayments of interest-free loans from third parties		**(500,000)**	(4,470,000)
Interest paid		**(10,110,006)**	(16,684,366)
Principal element of lease payments		**(1,420,425)**	(1,490,021)
Net cash inflow/(outflow) from financing activities		**48,147,536**	(948,788)
Net (decrease)/increase in cash and cash equivalents		**(5,843,082)**	105,964,535
Cash and cash equivalents at beginning of the year	22	**145,299,486**	40,394,804
Effect of exchange rate changes on cash and cash equivalents		**1,592,462**	(1,059,853)
Cash and cash equivalents at end of the year	22	**141,048,866**	145,299,486

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 Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares listed on the Stock Exchange have been suspended from trading since 3 October 2022.

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

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

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

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

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 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021

In addition, the Group has applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

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 Amendment to HKFRS 16 COVID-19-Related Rent Concessions beyond 30 June 2021

The Group has applied the amendment in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of HKFRS 16 *Leases* ("HKFRS 16") by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The application has had no impact to the opening accumulated deficits at 1 July 2021.

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 HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* ("HKFRS 7").

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year.

Impacts on application of the agenda decision of the Committee — Cost necessary to sell inventories (HKAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

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	Insurance Contracts and the related Amendments[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[1]

1 Effective for annual periods beginning on or after 1 January 2022.
2 Effective for annual periods beginning on or after 1 January 2023.
3 Effective for annual periods beginning on or after a date to be determined.

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.

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 HKFRS 3 *Reference to the Conceptual Framework*

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

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 2022, the application of the amendments will not result in reclassification of the Group's liabilities as at 30 June 2022.

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 statements, 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 annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 30 June 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB4,622,858 and RMB4,476,132 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

Amendments to HKAS 16 *Property, Plant and Equipment — Proceeds before Intended Use*

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*.

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)*

2.2 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.

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 and joint ventures 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 and joint ventures 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 recognized 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.

2.13 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.17 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

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.

2.23 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:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Share-based payments *(Continued)*

(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.

2.24 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 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 income in the consolidated statement of profit or loss.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition *(Continued)*

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition *(Continued)*

(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.

2.27 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Leases *(Continued)*

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.

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

Except for COVID-19-Related Rent Concessions in which the Group applied practical expedient, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Leases *(Continued)*

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).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Leases *(Continued)*

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 interest rate risk 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 recognized 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 2022 would have been approximately RMB1,344,669 better/worse (2021: RMB962,688), 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 2022 would have been approximately RMB978,492 better/worse (2021: RMB927,805), for various financial assets and liabilities denominated in HKD.

(ii) Cash flow and fair value interest rate risk

The Group's 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 2022 and 2021, 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, 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 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 2022 or 30 June 2021 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 2022 and 30 June 2021 was determined as follows for trade receivables and contract assets:

30 June 2022	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							
Gross carrying amount	10,717,636	17,518,452	7,988,156	18,601,071	90,665,626	181,085,523	326,576,464
Expected loss rate	13%	39%	36%	36%	33%	13%–100%	
Loss allowance	1,348,512	6,928,068	2,905,942	6,592,294	30,261,320	127,504,115	175,540,251
Contract assets							
Gross carrying amount	22,593,177	–	–	–	–	–	22,593,177
Expected loss rate	13%						
Loss allowance	2,876,182	–	–	–	–	–	2,876,182

30 June 2021	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							
Gross carrying amount	215,009,057	77,014,715	9,852,866	9,546,056	57,586,011	155,755,243	524,763,948
Expected loss rate	0%–0.5%	0.5%–9.2%	0.5%–12.6%	0.5%–100.0%	0.5%–100.0%	0.5%–100.0%	
Loss allowance	1,075,045	4,208,611	457,481	664,547	36,369,381	53,444,872	96,219,937
Contract assets							
Gross carrying amount	16,833,275	–	–	–	–	–	16,833,275
Expected loss rate	0.5%–8.3%						
Loss allowance	508,140	–	–	–	–	–	508,140

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:

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	196,630,333
		(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	128,468,925
		(note iii)	Lifetime ECL	95,594,013
Contract assets	21(ii)	(note ii)	12-month ECL	22,593,177

2021	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	145,299,486
Pledged deposits	22	N/A	12-month ECL	23,922,992
Trade receivables	21(i)	(note i)	Lifetime ECL	524,763,948
Financial asset at fair value through other comprehensive income	21(iv)	N/A	12-month ECL	43,493,570
Other receivables	21(i)	(note ii)	12-month ECL	124,544,639
Contract assets	21(ii)	(note ii)	12-month ECL	16,833,275

Notes:

(i) For trade and other receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

(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 2022 and 2021, these balances are either not past due or doesn't have fixed repayment.

(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 2022	**Less than 1 year RMB**	**Between 1 and 2 years RMB**	**Between 2 and 5 years RMB**	**Over 5 years RMB**	**Total RMB**
Interest-bearing loans	**39,747,680**	**–**	**–**	**–**	**39,747,680**
Trade and other payables	**406,325,565**	**–**	**–**	**–**	**406,325,565**
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**

As at 30 June 2021	Less than 1 year RMB	Between 1 and 2 years RMB	Between 2 and 5 years RMB	Over 5 years RMB	Total RMB
Convertible bonds	88,200,480	–	–	–	88,200,480
Interest-bearing loans	54,746,539	–	–	–	54,746,539
Trade and other payables	299,278,533	–	–	–	299,278,533
Lease liabilities	1,374,946	1,273,237	3,697,919	–	6,346,102
	443,600,498	1,273,237	3,697,919	–	448,571,654

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, convertible bonds, 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 2022 and 2021 were as follows:

	2022 **RMB**	2021 RMB
Total debt	**56,056,932**	153,458,371
Total equity	**396,063,266**	682,813,894
Total capital	**452,120,198**	836,272,265
Gearing ratio	**12.4%**	18.4%

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 2022 and 2021.

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**

At 30 June 2021	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Assets				
Financial assets at FVOCI:				
— Bills receivables	–	43,493,570	–	43,493,570
Financial assets at FVPL:				
— Unlisted equity investments	–	–	5,447,433	5,447,433

(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 this instrument.

(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, the Black-Scholes model, 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 2022 and 2021:

	Financial assets at FVPL Unlisted equity investments RMB
Balance at 1 July 2020	–
Acquisitions	5,000,000
Gains recognised in profit or loss	447,433
Balance at 30 June 2021	5,447,433
Loss recognised in profit or loss	(640,178)
Balance at 30 June 2022	4,807,255

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 (2021: Black-Scholes model, risk-free rate, expected volatility)	Expected exit date and probability	The earlier the exit date, the lower the fair value; the higher the probability, the higher the fair value

As at 31 March 2022, the redemption is contingent upon the performance threshold, considering the uncertainties of financial performance of the unlisted equity investments and associated payoff in future, the Board considers that the change in valuation method provides more reliable information about the fair values of the unlisted equity investments as at 31 March 2022.

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 2022 and 2021.

The carrying amounts of the Group's other financial assets (including trade and other receivables, pledged deposits and cash and cash equivalents) and financial liabilities (including trade and other payables, convertible bonds 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 30 June 2022 and 2021, the recoverable amount of CGU 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.

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 over time, 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 — automation systems and headboxes;
- Project contracting services — design, procurement and installation of automation systems;
- Environmental products — wastewater treatment products; and
- Supporting services — system upgrades.

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

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

Segment liabilities include all liabilities of the Group except convertible bonds, income tax 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 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	62,343,707	323,868,801
Timing of revenue recognition					
At a point in time	164,916,303	–	6,004,043	62,343,707	233,264,053
Over time	–	83,849,990	6,754,758	–	90,604,748
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 (Notes 14)	1,187,895	20,633	682,028	4,369,286	–	6,259,842
Depreciation of other right-of-use assets (Notes 15)	–	–	–	–	1,293,648	1,293,648
Depreciation of investment properties (Notes 16)	–	–	–	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)/gain on financial and contract assets	57,075,316	113,354,496	6,677,872	57,633,117	–	234,740,801
Impairment loss on investment in an associate (Note 13)	–	–	–	–	4,897,538	4,897,538
Impairment loss on goodwill (Note 18)	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 (Notes 17(i))	81,563	–	108,216	1,336,421	97,590	1,623,790
Amortisation of other intangible assets (Notes 17(ii))	2,555,212	–	–	10,068	–	2,565,280

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2021:

	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	244,040,682	182,521,867	19,886,736	50,456,785	496,906,070
Timing of revenue recognition					
At a point in time	244,040,682	–	3,164,938	50,456,785	297,662,405
Over time	–	182,521,867	16,721,798	–	199,243,665
Segment cost of sales	(196,369,075)	(139,034,873)	(17,007,587)	(38,866,835)	(391,278,370)
Segment gross profit	47,671,607	43,486,994	2,879,149	11,589,950	105,627,700
Segment results	22,105,187	36,633,605	(6,219,022)	(7,463,416)	45,056,354
Common administrative expenses					(23,007,904)
Other income and gains, net (Note 6)					23,409,817
Share of net loss of associates (Note 13)					(52,462)
Finance costs, net (Note 8)					(22,297,865)
Profit before income tax					23,107,940
Income tax expense (Note 10)					(6,592,011)
Profit for the year					16,515,929

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	141,942	–	23,246	1,115,540	6,595,823	7,876,551
Depreciation of property, plant and equipment (Notes 14)	979,974	55,613	1,164,856	4,508,290	–	6,708,733
Depreciation of other right-of-use assets (Notes 15)	–	–	–	–	1,497,222	1,497,222
Depreciation of investment properties (Notes 16)	–	–	–	5,643,697	310,742	5,954,439
Amortisation of prepaid land lease payments (Notes 17(i))	106,538	–	141,354	1,336,421	127,472	1,711,785
Amortisation of other intangible assets (Notes 17(ii))	2,587,935	–	–	10,728	–	2,598,663

Notes:

There were no inter-segment sales during the years.

5 SEGMENT INFORMATION *(Continued)*

Revenue from one (2021: one) customer, derived in the project contracting services segment, accounted for more than 10% of the Group's total revenue for the year, represented approximately 18% of the total Group's revenue for the year ended 30 June 2022 (2021: 25%), which are shown as follows:

	2022 **RMB**	2021 RMB
Customer A	**59,672,556**	N/A[1]
Customer B	**N/A[1]**	122,047,449

[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.

	2022 **RMB**	2021 RMB
PRC	**316,962,165**	372,270,985
Vietnam	**6,906,636**	122,047,449
Others	**–**	2,587,636
	323,868,801	496,906,070

As at 30 June 2022 and 2021, all of the non-current assets of the Group were located in the People's Republic of China.

Segment assets	**2022** **RMB**	2021 RMB
Project contracting services	**181,538,627**	447,870,231
Supporting services	**306,357,498**	358,128,717
Industrial products	**283,782,893**	297,048,596
Environmental products	**37,524,376**	85,056,488
Total segment assets	**809,203,394**	1,188,104,032
Unallocated:		
Cash and cash equivalents (Note 22)	**141,048,866**	145,299,486
Restricted deposits (Note 22)	**52,312,844**	–
Pledged deposits (Note 22)	**28,844,290**	23,922,992
Deferred tax assets (Note 25)	**870,371**	16,260,156
Other right-of-use assets (Note 15)	**4,622,858**	5,830,519
Investment properties	**4,746,831**	5,057,570
Prepayments — non-current portion (Note 21(iii))	**156,722**	169,782
Total assets	**1,041,806,176**	1,384,644,537

5 SEGMENT INFORMATION *(Continued)*

Segment liabilities	**2022** **RMB**	2021 RMB
Industrial products	**269,995,355**	267,007,692
Project contracting services	**122,996,889**	203,447,045
Supporting services	**88,398,364**	55,736,486
Environmental products	**16,859,944**	20,963,636
Total segment liabilities	**498,250,552**	547,154,859
Unallocated:		
Deferred tax liabilities	**5,153,893**	5,477,481
Interest-bearing loans	**38,500,000**	53,046,324
Convertible bonds (Note 27)	**–**	81,314,234
Other payables	**93,495,552**	3,033,729
Income tax payable	**5,866,781**	6,287,003
Lease liabilities (Note 15)	**4,476,132**	5,517,013
Total liabilities	**645,742,910**	701,830,643

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

	2022 **RMB**	2021 RMB
Contract assets (Note 21(ii)) (i):		
Contract assets relating to sales of goods	**15,976,667**	11,297,306
Contract assets relating to project contracting services	**6,616,510**	5,535,969
Less: provision for impairment	**(2,876,182)**	(508,140)
	19,716,995	16,325,135
Contract liabilities (i) (ii):		
Contract liabilities relating to sales of goods	**108,971,758**	139,900,672
Contract liabilities relating to project contracting services	**54,961,281**	41,918,832
	163,933,039	181,819,504

5 SEGMENT INFORMATION *(Continued)*

(i) Significant changes in contract assets and liabilities

The increase in contract assets was mainly due to Covid lockdowns in China which delayed the acceptance check of works. The decrease in contract liabilities was mainly due to recognition of revenue from sales of goods.

(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:

	2022	2021
	RMB	RMB
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	**80,075,783**	147,311,978

6 OTHER INCOME AND GAINS, NET

	2022	2021
	RMB	RMB
Interest income recognised from project contracting services	**12,311,414**	10,885,693
Government grants	**4,557,886**	6,113,650
Interest income from customer delaying on payment	**–**	2,001,418
Tax refund	**7,545**	1,770,784
Rental income	**638,005**	1,115,723
Net fair value (losses)/gains on financial assets at FVPL (Note 19)	**(640,178)**	447,433
Interest income from loan to a customer	**–**	81,686
Others	**1,439,031**	993,430
	18,313,703	23,409,817

7 NET IMPAIRMENT (LOSSES)/GAINS ON FINANCIAL AND CONTRACT ASSETS

	2022 RMB	2021 RMB
Provision for impairment losses of trade and other receivables 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)/gains on other financial and contract assets	**(9,200,657)**	4,850,835
	(234,740,801)	4,850,835

Notes:

(i) During the first half of 2022, when reviewing the balance 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 is an associate of the Company.

The Subject Transactions existed funding arrangement transactions of significant amount 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 are of the view that the trade and other receivables arose from the Subject Transactions cannot 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. 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 has been past due more than 2 years and were 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 are 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 has recognised full provision for impairment loss of RMB129,767,173 in the consolidated profit or loss for the year ended 30 June 2022.

8 FINANCE COSTS, NET

	2022 RMB	2021 RMB
Finance costs		
— Interest on convertible bonds (Note 27)	**(6,891,977)**	(13,308,299)
— Interest on other payables	**(7,400,170)**	–
— Interest on loans (Note 24)	**(5,148,702)**	(5,161,210)
— Net foreign exchange losses	**–**	(4,043,178)
— Interest paid/payable for lease liabilities (Note 15)	**(293,039)**	(372,640)
— Others	**–**	(35,736)
	(19,733,888)	(22,921,063)
Finance income		
— Interest income	**3,119,318**	623,198
— Net foreign exchange gains	**1,179,944**	–
	4,299,262	623,198
Finance costs, net	**(15,434,626)**	(22,297,865)

9 (LOSS)/PROFIT BEFORE INCOME TAX

The Group's (loss)/profit before income tax is arrived after charging the following:

	2022 RMB	2021 RMB
Amortisation of prepaid land lease payments (Note 17(i))	**1,623,790**	1,711,785
Amortisation of other intangible asset (Note 17(ii))	**2,565,280**	2,598,663
Auditor's remuneration	**2,831,348**	2,150,000
Depreciation of property, plant and equipment (Note 14)	**6,259,842**	6,708,733
Depreciation of other right-of-use assets (Note 15(ii))	**1,293,648**	1,497,222
Depreciation of investment properties (Note 16)	**5,954,439**	5,954,439
Employment benefit expenses (Note 11)	**80,800,288**	54,392,477
Expense relating to short-term leases (Note 15(ii))	**808,185**	1,028,273
Loss on disposals of property, plant and equipment	**151,177**	–
Legal and professional fees	**4,718,262**	5,889,612
Provision for inventories (Note 20)	**4,648,712**	7,669,602

Note:

Employment benefit expenses amounting to RMB1,474,771 (2021: RMB3,422,615) are included in cost of sales; amounting to RMB37,140,927 (2021: RMB23,640,838) are included in administrative expenses; amounting to RMB7,380,078 (2021: RMB5,097,177) are included in selling and distribution expenses, and approximately RMB34,804,512 (2021: RMB22,201,847) are included in research and development expenses.

10 INCOME TAX EXPENSE

	2022 RMB	2021 RMB
Current income tax		
PRC enterprise income tax (iii)	**477,595**	6,446,107
Hong Kong profits tax (ii)	**–**	2,720,633
Deferred income tax	**15,066,197**	(2,574,729)
	15,543,792	6,592,011

(i) Cayman Islands profits tax

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

(ii) 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.

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

EIT is provided on the assessable income of entities within the Group incorporated in the PRC. Pursuant to the PRC Enterprise Income Tax Law (the "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 2020 till 2022. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2022 (2021: 15%).

10 INCOME TAX EXPENSE *(Continued)*

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

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)/profit before tax can be reconciled as follows:

	2022 **RMB**	2021 RMB
(Loss)/profit before income tax	**(351,195,047)**	23,107,940
Tax calculated at the statutory tax rate of 25%	**(87,798,762)**	5,776,985
Tax effects of:		
Different tax rate effect	**23,874,557**	(769,667)
Income not subject to tax	**(1,998,778)**	(271,360)
Expenses not deductible for income tax purpose	**28,236,774**	180,301
Research and development tax credit	**–**	(2,307,931)
Tax losses and temporary differences for which no deferred tax asset was recognised	**38,966,831**	2,920,781
Utilisation of previously unrecognised tax losses	**–**	(1,164,402)
Reversal of previously recognised deferred tax assets	**15,181,677**	866,050
Adjustments for current tax of prior years	**(918,507)**	1,361,254
Income tax expense for the year	**15,543,792**	6,592,011

11 EMPLOYEE BENEFIT EXPENSES

	2022 **RMB**	2021 RMB
Employee benefit expenses (including directors' emoluments)		
Wages and salaries	**48,064,023**	41,836,811
Bonuses	**17,524,147**	5,892,706
Social security costs	**7,119,426**	5,384,747
Pension costs — defined contribution plans	**3,271,537**	1,342,848
Share options (Note 29)	**2,264,882**	(1,807,855)
Other benefits	**2,556,273**	1,713,220
	80,800,288	54,362,477

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 2022 include one (2021: four) directors whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining four (2021: one) individuals for the year ended 30 June 2022 is as follows:

	2022 RMB	2021 RMB
Salaries, allowances and benefits in kind	**1,649,585**	613,354
Bonuses	**7,061,632**	51,113
Share options	**117,782**	(15,666)
Other benefits	**288,276**	16,611
	9,117,275	665,412

The emoluments fell within the following bands:

	2022	2021
Emolument bands		
Within HK$1,000,000 (equivalent to approximately RMB828,158)	**–**	1
HK$1,500,001 to HK$2,000,000 (equivalent to approximately RMB1,242,239 to RMB1,656,317)	**1**	–
HK$2,000,001 to HK$2,500,000 (equivalent to approximately RMB1,656,318 to RMB2,070,396)	**1**	–
HK$2,500,001 to HK$3,000,000 (equivalent to approximately RMB2,070,397 to RMB2,484,475)	**1**	–
HK$4,000,001 to HK$4,500,000 (equivalent to approximately RMB3,312,634 to RMB3,726,713)	**1**	–

12 (LOSS)/EARNING PER SHARE

The calculation of the basic (loss)/earning per share amount is based on the (loss)/profit for the year attributable to the shareholders of the Company and the weighted average number of ordinary shares of 941,160,490 (2021: 733,206,978) which represents the shares in issue during the year.

The Company has one (2021: two) categories of potentially dilutive potential ordinary shares: share options (2022 share options and convertible bonds). The diluted (loss)/earning per share is same as the basic (loss)/earning per share as any potential ordinary shares would have anti-dilutive effect for the years ended 30 June 2022 and 2021.

	2022 RMB	2021 RMB
Basic		
(Loss)/earning		
(Loss)/profit attributable to the shareholders of the Company	**(363,753,165)**	17,984,484
Number of shares		
Weighted average number of ordinary shares in issue during the year	**941,160,490**	733,206,978
Basic (loss)/earning per share (RMB cents)	**(38.65)**	2.45
Diluted		
(Loss)/earning		
(Loss)/profit attributable to the shareholders of the Company	**(363,753,165)**	17,984,484
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	**941,160,490**	733,206,978
Diluted (loss)/earning per share (RMB cents)	**(38.65)**	2.45

During the year ended 30 June 2022 and 2021, the computation of diluted (loss)/earning per share does not include the Company's outstanding share options because the effect was anti-dilutive. Therefore, the diluted (loss)/earning per share of the Company is the same as the basic (loss)/earning per share.

13 INTERESTS IN AN ASSOCIATE

The Group has interests in an associate that is accounted for using the equity method during the year ended 30 June 2022 and 2021.

	2022 RMB	2021 RMB
At the beginning of the year	**4,947,538**	–
Additions:		
— Additional investments in an associate	**–**	5,000,000
Share of net loss of associates	**–**	(52,462)
Impairment loss recognised	**(4,897,538)**	–
At the end of the year	**50,000**	4,947,538

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	
			2022 %	2021 %	2022 RMB	2021 RMB
Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu")	PRC/Limited Company	Equity method	**33.33**	33.33	**50,000**	4,947,538

The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

The Group is 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 year ended 30 June 2022. For the same reason, no financial information for the associate is disclosed in (a) below in respect of the current financial year. 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 the end of the reporting period, and share of profit or loss from the associate of nil in the consolidated profit or loss for the year ended 30 June 2022.

13 INTERESTS IN AN ASSOCIATE *(Continued)*

(a) Summarised financial information for the associate

The tables below provide summarised financial information for the associate that is material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associate for the year ended 30 June 2021. They have been amended to reflect adjustments made when using the equity method, including fair value adjustments and modifications of differences in accounting policies adopted.

Summarised statement of financial position	2021 RMB
Current assets	
— Cash and cash equivalents	91,376
— Other current assets	15,777,791
	15,869,167
Current liabilities	1,026,554
Net assets	14,842,613
Reconciliation to carrying amounts:	
Opening net assets at the incorporation date (18 December 2021)	15,000,000
Loss for the year	(157,387)
Closing net assets	14,842,613
The Group's share in %	33.33%
The Group's share	4,947,538
Carrying amount	4,947,538
Revenue	2,127,711
Loss for the year	(157,387)
The Group's share	(52,462)

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB	Machinery and vehicles RMB	Furniture, fittings and equipment RMB	Total RMB
Year ended 30 June 2022				
Opening net book amount as at 1 July 2021	**60,607,404**	**11,256,426**	**1,577,448**	**73,441,278**
Additions	**3,465,875**	**1,348,401**	**843,352**	**5,657,628**
Disposals	**–**	**(52,771)**	**(122,364)**	**(175,135)**
Depreciation charge (Note 9)	**(3,966,427)**	**(1,881,782)**	**(411,633)**	**(6,259,842)**
Impairment loss recognised	**–**	**(1,890,000)**	**–**	**(1,890,000)**
Closing net book amount as at 30 June 2022	**60,106,852**	**8,780,274**	**1,886,803**	**70,773,929**
Year ended 30 June 2021				
Opening net book amount as at 1 July 2020	64,490,539	13,328,875	1,664,244	79,483,658
Additions	381,956	–	295,587	677,543
Disposals	–	–	(11,190)	(11,190)
Depreciation charge (Note 9)	(4,265,091)	(2,072,449)	(371,193)	(6,708,733)
Closing net book amount as at 30 June 2021	60,607,404	11,256,426	1,577,448	73,441,278

For the years ended 30 June 2022 and 2021, the amounts of depreciation expenses charged to cost of sales, selling and distribution expenses, administrative expenses and research and development expenses are as follows:

	2022 RMB	2021 RMB
Administrative expenses	**4,992,491**	3,415,416
Cost of sales	**996,118**	3,165,445
Research and development expenses	**151,651**	121,008
Selling and distribution expenses	**119,582**	6,864
	6,259,842	6,708,733
Impairment loss charged to administrative expenses	**1,890,000**	–

As at 30 June 2022, buildings with an aggregate carrying amount of RMB58,615,710 (2021: RMB59,508,867) were pledged as collateral for the Group's banking facilities (Note 24).

15 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2022 RMB	2021 RMB
Right-of-use assets		
Properties	**4,622,858**	5,830,519
Prepaid land lease payments (Note 17(i))	**73,752,172**	75,375,942
	78,375,030	81,206,461
Lease liabilities		
Within one year	**1,086,798**	1,086,252
Within a period of more than one year but not more than two years	**1,140,482**	1,041,427
Within a period of more than two years but not more than five years	**2,248,852**	3,389,334
Less: Amount due for settlement within 12 months shown under current liabilities	**(1,086,798)**	(1,086,252)
Amount due for settlement after 12 months shown under non-current liabilities	**3,389,334**	4,430,761

The Group has lease contracts for various items of property used in its operations. Lump sum payments were made upfront to acquire land from the owners with lease 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 5 years.

Additions to the right-of-use assets during the year ended 30 June 2022 were RMB86,505 (2021: RMB6,595,823).

15 LEASES *(Continued)*

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2022 RMB	2021 RMB
Depreciation charge of right-of-use assets		
Properties	**(1,293,648)**	(1,497,222)
Prepaid land lease payments (Note 17(i))	**(1,623,790)**	(1,711,785)
	(2,917,438)	(3,209,007)
Interest expense (Note 8)	**(293,039)**	(372,640)
Expense relating to short-term leases (Note 9)	**(808,185)**	(1,017,300)
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses) (Note 9)	**–**	(10,973)

The total cash outflow (including short-term lease) for leases during the year ended 30 June 2022 was RMB2,228,610 (2021: RMB2,890,934).

16 INVESTMENT PROPERTIES

	Properties RMB	Prepaid land lease payments RMB	Total RMB
Year ended 30 June 2022			
Opening net book amount as at 1 July 2021	**101,370,291**	**2,650,777**	**104,021,068**
Depreciation charge (Note 9)	**(5,859,768)**	**(94,671)**	**(5,954,439)**
Closing net book amount as at 30 June 2022	**95,510,523**	**2,556,106**	**98,066,629**
Year ended 30 June 2021			
Opening net book amount as at 1 July 2020	107,230,059	2,745,448	109,975,507
Depreciation charge (Note 9)	(5,859,768)	(94,671)	(5,954,439)
Closing net book amount as at 30 June 2021	101,370,291	2,650,777	104,021,068

16 INVESTMENT PROPERTIES *(Continued)*

Amount recognised in profit or loss for investment properties included:

	2022	2021
	RMB	RMB
Rental income	**6,718,549**	7,134,768
Depreciation of investment properties	**(5,954,439)**	(5,954,439)
	764,110	1,180,329

The Group engages external, independent and qualified valuers to determine the fair value of the Group's investment properties at the end of every financial year. As at 30 June 2022, the fair value of the investment property, together with its connected prepaid land lease payments, was approximately RMB223,000,000 (30 June 2021: RMB253,000,000), determined based on the valuations performed by Vincorn Consulting and Appraisal Limited, using market approach, taking into account different multiples such as analysis of recent market evidence of similar properties, where relevant. There has been no change from the valuation technique used in the prior year.

As at 30 June 2022, investment properties with an aggregate carrying amount of RMB98,066,629 (30 June 2021: RMB104,021,068) 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 2022	**Fair value at Level 3 hierarchy 2022**	**Carrying amount 2021**	**Fair value at Level 3 hierarchy 2021**
	RMB	RMB	RMB	RMB
Industrial complex in the Mainland China	93,319,799	210,000,000	98,963,497	239,000,000
Commercial unit in the Mainland China	4,746,830	13,000,000	5,057,571	14,000,000
	98,066,629	223,000,000	104,021,068	253,000,000

17 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

(i) Prepaid land lease payments

	2022 RMB	2021 RMB
Opening net book amount at 1 July	**75,375,942**	77,087,727
Amortisation charge (Note 9)	**(1,623,790)**	(1,711,785)
Closing net book amount at 30 June	**73,752,172**	75,375,942

Amortisation expenses of RMB1,622,680 (2021: RMB1,710,675) and RMB1,110 (2021: RMB1,110) have been charged to administrative expenses and research and development expenses respectively for the year ended 30 June 2022.

As at 30 June 2022, prepaid land lease payments with an aggregate carrying amount of RMB73,752,172 (30 June 2021: RMB75,375,942) were pledged as collateral for the Group's banking facilities (Note 24).

(ii) Other intangible assets

	Patents RMB	Software RMB	Total RMB
Year ended 30 June 2022			
Opening net book amount as at 1 July 2021	**8,703,362**	**1,965,439**	**10,668,801**
Additions	**–**	**109,735**	**109,735**
Amortisation charge (Note 9)	**(2,047,850)**	**(517,430)**	**(2,565,280)**
Closing net book amount as at 30 June 2022	**6,655,512**	**1,557,744**	**8,213,256**
Year ended 30 June 2021			
Opening net book amount as at 1 July 2020	10,751,212	1,913,067	12,664,279
Additions	–	603,185	603,185
Amortisation charge (Note 9)	(2,047,850)	(550,813)	(2,598,663)
Closing net book amount as at 30 June 2021	8,703,362	1,965,439	10,668,801

Amortisation expenses of RMB2,565,280 (2021: RMB2,598,663) have been charged to administrative expenses for the year ended 30 June 2022.

18 GOODWILL

	Headbox business RMB	Logistics and warehousing services RMB	Others RMB	Total RMB
Year ended 30 June 2022				
Opening net book 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 book amount as at 30 June 2022	**29,306,413**	**–**	**596,370**	**29,902,783**
Year ended 30 June 2021				
Opening net book amount as at 1 July 2020	36,155,379	3,183,135	596,370	39,934,884
Closing net book amount as at 30 June 2021	36,155,379	3,183,135	596,370	39,934,884

Goodwill of the Group mainly arose from the acquisition of Haorong and MCN (together, the "MCN Group") 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.

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 test.

The following table sets out the key assumptions for the CGUs that have significant goodwill allocated to them:

30 June 2022	**Headbox business**
Sales (% annual growth rate)	**2.5%–3.0%**
Budgeted gross margin (%)	**23.5%**
Long term growth rate (%)	**2.5%**
Pre-tax discount rate (%)	**19.2%**

18 GOODWILL *(Continued)*

30 June 2021	Headbox business
Sales (% annual growth rate)	2%–3%
Budgeted gross margin (%)	28%–34%
Long term growth rate (%)	2.5%
Pre-tax discount rate (%)	19.4%

These assumptions have been used for the analysis of CGUs within the operating segment.

Sales is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future price rises in rubber, a key raw material, which management does not expect to be able to pass on to customers through price increases.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGUs.

Based on the valuation report prepared by independent professional valuers, Valplus Consulting Limited ("Valplus"), the recoverable amounts of the headbox business CGU and logistics and warehousing services CGU are RMB36,663,000 (2021: RMB123,083,925), and RMB23,259,790 (2021: RMB217,375,356) respectively based on value-in-use calculations. Impairment losses of RMB6,848,966 (2021: RMB Nil) and RMB3,183,135 (2021: RMB Nil) were recognised for the year in respect of the goodwill included in the headbox business CGU and logistics and warehousing services CGU respectively.

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 is also affected by macroeconomic performance that is 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 will be decreased and significant impairment loss on goodwill was recognised for the year ended 30 June 2022.

As at 30 June 2021, no impairment charge arose in the aforesaid CGUs.

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:

	2022 RMB	2021 RMB
Non-current assets		
— Unlisted equity investments	**4,807,255**	5,447,433

(ii) Amounts recognised in profit or loss

During the year, the following (losses)/gains were recognised in profit or loss:

	2022 RMB	2021 RMB
Fair value (loss)/gain on equity investments at FVPL recognised in other income and gains, net (note 6)	**(640,178)**	447,433

(iii) Risk exposure and fair value measurements

Information about the fair value measurement is set out in note 3.3.

20 INVENTORIES

	2022 RMB	2021 RMB
Raw materials	**58,074,676**	96,065,714
Work in progress	**24,988,754**	11,985,907
Finished goods	**79,368,182**	67,770,816
	162,431,612	175,822,437
Less: provision	**(24,327,055)**	(19,678,343)
	138,104,557	156,144,094

As at 30 June 2022, raw materials and finished goods with aggregate cost of RMB17,683,149 and RMB12,144,460 respectively were considered as obsolete (30 June 2021: RMB16,003,233 and RMB8,412,821 respectively) and a provision of RMB12,182,595 and RMB12,144,460 respectively (30 June 2021: RMB11,265,522 and RMB8,412,821 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

	2022 RMB	2021 RMB
Warranty receivables (a)	**10,692,396**	14,405,121
Other trade receivables (b)	**315,884,068**	510,358,827
	326,576,464	524,763,948
Less: provision for impairment of trade receivables (d)	**(175,540,251)**	(96,219,937)
Trade receivables — net	**151,036,213**	428,544,011
Bills receivables	**38,333,671**	49,097,554
Trade and bills receivables	**189,369,884**	477,641,565
Payment on behalf of an independent third party	**85,128,228**	87,287,538
Other receivables due from related parties (Note 33(c)(ii))	**39,541,029**	11,297,003
Deductible input value added tax	**100,298**	9,624,065
Loan to a customer	**2,555,227**	5,312,236
Other receivables — guarantee	**6,213,510**	4,158,422
Others (Note)	**90,524,646**	6,865,375
	224,062,938	124,544,639
Less: provision for impairment of other receivables (e)	**(181,102,024)**	(28,051,042)
Other receivables — net	**42,960,914**	96,493,597
Total trade and other receivables	**232,330,798**	574,135,162
Less: trade and other receivables — non-current portion	**(38,542,965)**	(23,744,860)
	193,787,833	550,390,302

Note:

Included amounts due from Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric") and Zhejiang Hua Zhang Fibertech Co., Ltd. ("Fibertech") as of 30 June 2022 were RMB7,128,458 and RMB49,103,484 respectively.

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

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

	2022	2021
	RMB	RMB
Warranty receivables		
Up to 3 months	**–**	–
6 months to 1 year	**192,500**	–
1 year to 2 years	**54,000**	3,678,837
Over 2 years	**10,445,896**	10,726,284
	10,692,396	14,405,121

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

	2022	2021
	RMB	RMB
Other trade receivables		
Up to 3 months	**28,293,237**	115,150,537
3 months to 6 months	**7,988,156**	9,839,748
6 months to 1 year	**18,216,071**	3,197,708
1 year to 2 years	**90,557,626**	195,188,791
Over 2 years	**170,828,978**	186,982,043
	315,884,068	510,358,827

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

	2022	2021
	RMB	RMB
Other trade receivables		
Not due	**10,717,636**	215,009,057
Up to 3 months past due	**17,518,452**	77,014,715
3 months to 6 months past due	**7,988,156**	9,852,866
6 months to 1 year past due	**18,408,571**	9,546,056
1 year to 2 years past due	**90,611,626**	53,907,174
Over 2 years past due	**170,639,627**	145,028,959
	315,884,068	510,358,827

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

	2022	2021
	RMB	RMB
At beginning of the year	**96,219,937**	101,333,200
Impairment losses/(gains) recognised	**79,320,314**	(4,200,464)
Amounts written off as uncollectible	**–**	(912,799)
At the end of the year	**175,540,251**	96,219,937

As at 30 June 2022, provisions amounting to RMB119,810,153 (30 June 2021: RMB79,154,496) were made on certain trade receivables given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these trade receivables.

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

	2022 RMB	2021 RMB
At beginning of the year	28,051,042	27,336,709
Impairment losses recognised	153,050,982	714,333
At the end of the year	181,102,024	28,051,042

As at 30 June 2022, provisions amounting to RMB177,636,555 (30 June 2021: RMB24,585,572) were made on certain other receivables respectively given that certain debtors were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these other receivables.

Due to the short-term nature of the current portion of the receivables, their carrying amounts approximate their fair value as at the end of the reporting period.

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

	2022 RMB	2021 RMB
RMB	205,915,002	550,092,427
HK$	12,794,566	4,103,914
USD	13,621,230	19,938,821
	232,330,798	574,135,162

21 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS *(Continued)*

(ii) Contract assets

	2022 RMB	2021 RMB
Contract assets	**22,593,177**	16,833,275
Less: provision for impairment of contract assets (a)	**(2,876,182)**	(508,140)
	19,716,995	16,325,135

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

	2022 RMB	2021 RMB
At beginning of the year	**508,140**	553,383
Impairment losses recognised/(reversed)	**2,368,042**	(45,243)
At the end of the year	**2,876,182**	508,140

As at 30 June 2022 and 2021, the carrying amounts of contract assets are denominated in the following currencies:

	2022 RMB	2021 RMB
RMB	**17,056,667**	11,446,442
USD	**5,536,510**	5,386,833
	22,593,177	16,833,275

(iii) Prepayments

	2022 RMB	2021 RMB
Prepayments for procurement (Note)	**94,893,020**	89,012,131
Others	**408,752**	384,348
Total prepayments	**95,301,772**	89,396,479
Less: prepayments — non-current portion	**(156,722)**	(169,782)
	95,145,050	89,226,697

Note:

Included amounts due from Yuxin Electric and Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu") as of 30 June 2021 were RMB16,525,604 and RMB20,166,157 respectively.

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

	2022	2021
	RMB	RMB
Cash at bank and on hand	**222,206,000**	169,222,478
Less: pledged deposits	**(28,844,290)**	(23,922,992)
Less: restricted deposits (note ii)	**(52,312,844)**	–
	141,048,866	145,299,486

(i) The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable.

(ii) At 30 June 2022, as disclosed in note 37 to the consolidated financial statements, certain of the Group's bank accounts amounting to 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 (2021: nil).

(iii) The carrying amount of cash and cash equivalents, pledged and restricted deposits are denominated in the following currencies:

	2022	2021
	RMB	RMB
RMB (Note)	**147,509,121**	147,079,954
HK$	**66,644,977**	15,416,446
USD	**8,002,458**	6,027,019
Euro	**20,972**	665,069
AED	**28,472**	33,990
	222,206,000	169,222,478

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

	2022 RMB	2021 RMB
Trade payables	**176,293,302**	166,489,237
Bills payable	**19,077,191**	52,868,655
Sub-total	**195,370,493**	219,357,892
Other taxes payables – value added tax	**46,528,370**	42,233,017
Deposits for project contracting services	**6,553,958**	35,295,556
Interest-free loan from independent third parties	**13,080,800**	13,580,800
Amount due to suppliers on a customer's behalf	**13,419,622**	13,419,622
Provision for legal claims (a)	**12,659,277**	7,447,420
Accruals	**4,229,571**	5,980,742
Employee benefit payables	**642,087**	3,496,196
Other deposits	**627,803**	581,402
Provision for warranty expenses	**523,838**	523,838
Payables for property, plant and equipment	**708,312**	77,716
Amounts due to related parties (Note 33(c)(i))	**85,786,822**	5,920
Interest payable for loans	**45,833**	–
Interest payable for convertible bonds	**2,550,040**	–
Others (b)	**23,598,739**	3,531,463
Sub-total	**210,955,072**	126,173,692
Total trade and other payables	**406,325,565**	345,531,584
Less: trade and other payables — non-current portion		
— Employee benefit payables	**–**	(2,101,412)
	406,325,565	343,430,172

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

(b) Included amount due to Hangzhou Taige Automatic Co. Ltd was RMB20,447,000 as of 30 June 2022 (2021: Nil).

23 TRADE AND OTHER PAYABLES *(Continued)*

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

	2022 RMB	2021 RMB
Up to 3 months	**100,962,553**	88,015,427
3 months to 6 months	**7,148,031**	9,185,944
6 months to 1 year	**18,561,739**	16,991,364
1 year to 2 years	**19,953,725**	31,631,302
Over 2 years	**29,667,254**	20,665,200
	176,293,302	166,489,237

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

	2022 RMB	2021 RMB
RMB	**307,049,366**	343,891,371
HK$	**99,009,377**	964,267
USD	**266,822**	675,946
	406,325,565	345,531,584

24 INTEREST-BEARING LOANS

	2022 RMB	2021 RMB
Bank borrowings (a)	**38,500,000**	50,000,000
Loan from a related party (Note 33(c)(i))	**–**	1,435,020
Loan from independent third parties	**–**	1,408,904
Loan from a non-controlling shareholder	**–**	202,400
	38,500,000	53,046,324

24 INTEREST-BEARING LOANS *(Continued)*

Movement of interest-bearing loans is analysed as follows:

	Loan from a non-controlling shareholder RMB	Loan from banks RMB	Loan from independent third parties RMB	Loan from a related party RMB	Total RMB
For the year ended 30 June 2022					
Opening net book 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	**–**	**(45,833)**	**–**	**–**	**(45,833)**
Closing net book amount as at 30 June 2022	**–**	**38,500,000**	**–**	**–**	**38,500,000**
For the year ended 30 June 2021					
Opening net book amount as at 1 July 2020	208,500	107,000,000	–	–	107,208,500
Additions	–	50,000,000	1,360,000	1,400,000	52,760,000
Interest expenses (Note 8)	2,400	4,852,435	271,355	35,020	5,161,210
Repayments	(8,500)	(111,852,435)	(222,451)	–	(112,083,386)
Closing net book amount as at 30 June 2021	202,400	50,000,000	1,408,904	1,435,020	53,046,324

(i) As at 30 June 2022 and 2021, the Group's interest-bearing loans were all denominated in RMB.

As at 30 June 2022, the Group's loans of RMB38,500,000 from banks bore interest at an average rate of 4.87% per annum (30 June 2021: 5.11%) and all of them were borrowed by using banking facilities.

As at 30 June 2021, the loan from a non-controlling shareholder bore interest at a rate of 7.2% per annum.

As at 30 June 2021, the loan from a related party (Note 33(c)(i)) bore interest at a rate of 8.4% per annum.

24 INTEREST-BEARING LOANS *(Continued)*

As at 30 June 2022 and 2021, the Group's loans were payable as follows:

	2022 RMB	2021 RMB
Within one year	**38,500,000**	50,000,000
On demand	**–**	3,046,324
	38,500,000	53,046,324

As at 30 June 2022 and 2021, the Group had the following unutilised banking facilities:

	2022 RMB	2021 RMB
Authorised banking facilities — expiring within one year	**245,994,888**	227,934,494
Less: utilised banking facilities	**(28,500,000)**	(69,421,394)
	217,494,888	158,513,100

As at 30 June 2022, the banking facilities granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB58,615,710, RMB98,066,629 and RMB73,752,172, respectively (30 June 2021: RMB59,508,867, RMB104,021,068 and RMB75,375,942, 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 2022, 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 2022 and 2021, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	2022 RMB	2021 RMB
Total deferred tax assets prior to offsetting	**870,371**	16,327,271
Set-off of deferred tax assets pursuant to set-off	**–**	(67,115)
Deferred tax assets	**870,371**	16,260,156
— to be recovered within 12 months	**870,371**	16,260,156
Total deferred tax liabilities prior to offsetting	**5,153,893**	5,544,596
Set-off of deferred tax liabilities pursuant to set-off	**–**	(67,115)
Deferred tax liabilities	**5,153,893**	5,477,481
— to be recovered after more than 12 months	**4,837,916**	4,840,666
— to be recovered within 12 months	**315,977**	636,815
	5,153,893	5,477,481

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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 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**
At 1 July 2020	–	6,099,571	11,168	6,110,739
Charged/(credited) to the consolidated statement of profit or loss	67,115	(636,815)	3,557	(566,143)
At 30 June 2021	67,115	5,462,756	14,725	5,544,596

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 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**
At 1 July 2020	86,770	11,549,544	2,532,553	–	149,818	14,318,685
Credited/(charged) to the consolidated statement of profit or loss	(8,193)	1,009,839	(961,806)	1,968,746	–	2,008,586
At 30 June 2021	78,577	12,559,383	1,570,747	1,968,746	149,818	16,327,271

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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 2022, the Group did not recognise deferred tax assets of RMB86,499,827 (2021: RMB13,009,658) in respect of tax losses amounting to RMB378,603,651 (2021: RMB117,705,992) that can be carried forward to offset against future taxable income due to uncertainty of realisation.

As at 30 June 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 RMB65,439,112 in Hong Kong have no expiration date (As at 30 June 2021: accumulated tax losses amounting to RMB25,423,508, RMB46,508,008 and RMB8,943,275 in the PRC will expire in 2024, 2025 and 2026 respectively and accumulated tax losses amounting to RMB55,172,757 in Hong Kong have no expiration date).

26 DEFERRED INCOME

	2022 **RMB**	2021 RMB
Government grant:		
At beginning of the year	**22,837,500**	24,187,500
Amortised as income	**(1,350,000)**	(1,350,000)
At end of the year	**21,487,500**	22,837,500

27 CONVERTIBLE BONDS

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

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

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

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

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

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

27 CONVERTIBLE BONDS *(Continued)*

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

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

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

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

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

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

27 CONVERTIBLE BONDS *(Continued)*

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

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

27 CONVERTIBLE BONDS *(Continued)*

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

	Liability component of Convertible Bonds RMB	**Equity component of Convertible Bonds** RMB	**Total** 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 (Note 30)	**(81,792,000)**	**(6,199,604)**	**(87,991,604)**
Currency translation differences	**(1,407,074)**	**–**	**(1,407,074)**
At 30 June 2022	**–**	**–**	**–**
At 1 July 2020	91,245,279	35,161,248	126,406,527
Extinguishment of the old Convertible Bonds (Note 29)	(85,041,000)	(35,161,248)	(120,202,248)
Issue of the new Convertible Bonds	78,841,396	6,199,604	85,041,000
Interest expense (Note 8)	13,308,299	–	13,308,299
Interest paid and payable	(8,944,740)	–	(8,944,740)
Currency translation differences	(8,095,000)	–	(8,095,000)
At 30 June 2021	81,314,234	6,199,604	87,513,838

28 SHARE CAPITAL AND PREMIUM

	2022 RMB	2021 RMB
Issued and fully paid:		
1,064,089,378 (30 June 2021: 886,741,378) ordinary shares	**8,907,761**	7,471,631

	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 (i)	**177,348,000**	**1,436,130**	**73,288,161**	**74,724,291**
At 30 June 2022	**1,064,089,378**	**8,907,761**	**663,145,447**	**672,053,208**
At 1 July 2020	**733,857,225**	**6,203,955**	**509,708,723**	**515,912,678**
Issue of shares (ii)	**153,846,153**	**1,276,308**	**81,683,692**	**82,960,000**
Shares repurchased (iii)	**(962,000)**	**(8,632)**	**(1,535,129)**	**(1,543,761)**
At 30 June 2021	**886,741,378**	**7,471,631**	**589,857,286**	**597,328,917**

(i) On 11 March 2022, the Company issued 177,348,000 ordinary shares at HK$0.53 each, the net proceeds will be used for the partial redemption of the Bonds.

(ii) On 10 May 2021, the Company issued 153,846,153 ordinary shares at HK$0.65 each to use the net proceeds to fund part of its investment in the waste recycling plants.

(iii) In July, September and October 2020, the Company repurchased 698,000, 206,000 and 58,000 ordinary shares respectively through purchases on Hong Kong Exchange and Clearing limited. All the repurchased ordinary shares had been cancelled as at 30 June 2021. The total amount paid to repurchase these ordinary shares was RMB1,543,761 and had deducted from the share capital and share premium of the equity.

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 RMB	Merger reserve RMB	Statutory reserves (i) RMB	Translation reserves RMB	Employee Share Option Scheme (ii) RMB	Fair value reserve RMB	Total RMB
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**
At 1 July 2020	2,335,540	33,028,254	30,211,367	5,304,584	1,807,855	(11,170,841)	61,516,759
Translation differences	–	–	–	9,514,873	–	–	9,514,873
Appropriation to statutory reserves (i)	–	–	1,419,820	–	–	–	1,419,820
Share options (ii)	–	–	–	–	(1,807,855)	–	(1,807,855)
Extinguishment of convertible bonds	–	–	–	–	–	35,161,248	35,161,248
At 30 June 2021	2,335,540	33,028,254	31,631,187	14,819,457	–	23,990,407	105,804,845

29 OTHER RESERVES *(Continued)*

(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.

(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.

29 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme *(Continued)*

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.

Details of the share options granted and outstanding during the year were:

			Number of share options							
Name or category of participants	Date of Grant (Notes c and d)	Exercise price	At 1 July 2021	Granted during the year	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	50,150,000	85,940,000		

29 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme *(Continued)*

Details of the share options granted and outstanding during the prior year were:

			Number of share options							
Name or category of participants	Date of Grant (Note d)	Exercise price	At 1 July 2020	Granted during the year	Exercised during the year	Lapsed/ expired during the year	Cancelled/ forfeited during the year	At 30 June 2021	Vesting & exercise period	Closing price per share immediately before the date of grant
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	–	–	–	–	19,000,000		

29 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme *(Continued)*

Notes:

(a) Being a substantial Shareholder of the Company.

(b) The grant of 50,000,000 share options (the "Proposed Grant") is 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 will 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.

30 RECONCILIATION OF FINANCING ACTIVITIES

Net debt reconciliations

	2022 RMB	2021 RMB
Cash and cash equivalents (Note 22)	**141,048,866**	145,299,486
Borrowings (Note 24)	**(38,500,000)**	(53,046,324)
Lease liabilities (Note 15)	**(4,476,132)**	(5,517,013)
Interest-free loan from third parties (Note 23)	**(13,080,800)**	(13,580,800)
Net debt	**84,991,934**	73,155,349
Cash and cash equivalents (Note 22)	**141,048,866**	145,299,486
Gross debt (Note 15, 23, 24)	**(56,056,932)**	(72,144,137)
Net debt	**84,991,934**	73,155,349

	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)

30 RECONCILIATION OF FINANCING ACTIVITIES *(Continued)*

Net debt reconciliations *(Continued)*

	Liabilities from financing activities				
	Interest-bearing loans RMB	Loan from a related party RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	Total RMB
Net debt as at 1 July 2020	(107,208,500)	(5,480,640)	(5,239,774)	(18,050,800)	(135,979,714)
Cash outflow	112,083,386	5,480,640	1,862,661	4,470,000	123,896,687
Cash inflow	(52,760,000)	–	–	–	(52,760,000)
Other non-cash changes					
— Recognition of other right-of-use assets	–	–	(1,767,260)	–	(1,767,260)
— Accrual of interest	(5,161,210)	–	–	–	(5,161,210)
— Increase in future finance charges on leases	–	–	(372,640)	–	(372,640)
Net debt as at 30 June 2021	(53,046,324)	–	(5,517,013)	(13,580,800)	(72,144,137)

Non-cash financing activities disclosed in other notes are:

— maturity of convertible bonds transferred to other payables (Note 27).

31 DIVIDENDS

No dividends was paid during the year ended 30 June 2022 and 2021.

The Board does not recommend to declare any dividend for the year ended 30 June 2022 (2021: nil).

32 COMMITMENTS

As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2022 and 2021 are summarised as follows:

	2022 RMB	2021 RMB
No later than 1 year	**7,278,526**	7,269,877
Later than 1 year and no later than 5 years	**3,447,156**	11,032,972
	10,725,682	18,302,849

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 2022 and 30 June 2021 and balances arising from related party transactions as at 30 June 2022 and 30 June 2021.

(a) Name and relationship with related parties

Name of related parties	Relationships
Mr. Zhu Gen Rong ("Mr. Zhu") (i)	One of the controlling shareholders, chairman of the Company, executive director
Mr. Wang Ai Yan ("Mr. Wang") (i)	One of the controlling shareholders, chief executive officer, executive director
Mr. Liu Chuan Jiang ("Mr. Liu") (i)	One of the controlling shareholders
Mr. Fang Hui	Executive director of the Company
Mr. Shi Chenghu	Non-executive director of the Company
Mr. Zhu Gen yi	Brother of Mr. Zhu
Mr. Jin Hao	Director of Zhejiang Huazhang
Mr. Hu Cheng Rong	Legal representative of Wukong
Dao He Investment Limited ("Dao He")	A non-controlling shareholder of the Group
Taizhou Hengshengtianyue Metal Co., Ltd. ("Taizhou Metal")	Controlled by close family members of Mr. Fang Hui
Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu")	An 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 2022 and 2021.

(b) Transactions with related parties

	2022 RMB	2021 RMB
Sales of metal scraps to Taizhou Metal	**6,485,972**	14,632,704

	2022 RMB	2021 RMB
Key management compensation		
— Salaries	**4,864,159**	3,983,192
— Bonuses	**640,800**	530,785
— Other benefits	**185,737**	101,551
— Share options	**241,377**	(48,555)
	5,932,073	4,566,973

33 RELATED-PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

(i) Due to related parties

	2022 RMB	2021 RMB
Loan from related parties		
— Mr. Hu Cheng Rong (Note 24)	–	1,435,020
Others (Note 23)		
— Mr. Liu	–	4,420
— Mr. Jin Hao	–	1,500
— Dao He	85,786,822	–
	85,786,822	5,920

The loan from Mr. Hu Cheng Rong, the legal representative of Wukong, was borrowed in March and June 2021 with an interest rate of 8.4% per annum and is payable on demand.

(ii) Due from related parties

	2022 RMB	2021 RMB
Other receivables from related parties		
— Taizhou Metal (Note 21)	–	11,297,003
— Jiafu	39,541,029	–
Prepayment to related parties		
— Jiafu	–	20,166,157

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	2022 RMB	2021 RMB
ASSETS		
Non-current assets		
Investments in subsidiaries (Note)	**283,942,413**	487,290,112
Current assets		
Other receivables	**36,873**	35,876
Prepayments	**153,273**	129,839
Amounts due from subsidiaries (Note)	**31,763,711**	178,825,577
Cash and cash equivalents	**59,371,293**	94,442
	91,325,150	179,085,734
Total assets	**375,267,563**	666,375,846
LIABILITIES		
Current liabilities		
Other payables (Note)	**90,963,543**	6,577,904
Convertible bonds	**–**	81,314,234
	90,963,543	87,892,138
Total liabilities	**90,963,543**	87,892,138
EQUITY		
Share capital	**8,907,761**	7,471,631
Reserves (a)	**275,396,259**	571,012,077
Total equity	**284,304,020**	578,483,708
Total equity and liabilities	**375,267,563**	666,375,846

The statement of financial position of the Company was approved by the Board on 30 December 2022 and was signed on its behalf by:

Fang Hui	**Chen Hongwei**
Director	Director

Note:

The comparative figure has been reclassified in order to conform with current year's presentation.

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 2020	509,459,198	35,161,248	1,807,855	29,369,687	(11,170,841)	(61,985,289)	502,641,858
Issue of shares	81,683,692	–	–	–	–	–	81,683,692
Shares bought back	(1,535,129)	–	–	–	–	–	(1,535,129)
Extinguishment of convertible bond	–	(35,161,248)	–	–	35,161,248	–	–
Issue of convertible bond	–	6,199,604	–	–	–	–	6,199,604
Loss for the year	–	–	–	–	–	(14,990,416)	(14,990,416)
Translation different	–	–	–	(1,179,677)	–	–	(1,179,677)
Employee share options	–	–	(1,807,855)	–	–	–	(1,807,855)
Balance as at 30 June 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 different	**–**	**–**	**–**	**(11,811,471)**	**–**	**–**	**(11,811,471)**
Balance as at 30 June 2022	**662,895,922**	**–**	**2,264,882**	**16,378,539**	**30,190,011**	**(429,870,843)**	**284,304,020**

35 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 30 June 2022 and 2021 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 2022 %	Ownership interest held by the Group 2021 %	Ownership interest held by non-controlling interests 2022 %	Ownership interest held by non-controlling interests 2021 %
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 2022 %	Ownership interest held by the Group 2021 %	Ownership interest held by non-controlling interests 2022 %	Ownership interest held by non-controlling interests 2021 %
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	–	–
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	100	–	–

* Zhejiang Huazhang is registered as a wholly-foreign-owned enterprise under PRC law.

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 2022 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	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 (iii)	993,790	–	–	–	993,790
Mr. Gan Jun (v)	372,671	–	11,180	–	383,851
Mr. Chen Hongwei (vi)	416,329	–	–	35,497	451,826
Non-executive directors					
Mr. Shi Chenghu (vii)	165,632	–	–	70,993	236,625
Independent non-executive directors					
Mr. Kong Chi Mo (ix)	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 (viii)	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)*

The remuneration of each director and the chief executive of the Company for the year ended 30 June 2021 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	Bonuses RMB	Other benefits RMB	Share options RMB	Total remuneration RMB
Chairman					
Mr. Zhu Gen Rong (i)	852,451	160,000	19,184	–	1,031,635
Executive directors					
Mr. Wang Ai Yan (Chief Executive Officer) (ii)	804,451	135,000	22,409	–	961,860
Mr. Fang Hui (iii)	170,376	–	–	–	170,376
Mr. Jin Hao (iv)	600,000	50,000	17,710	(32,889)	634,821
Mr. Liu Chuan Jiang (iv)	480,000	110,000	17,695	–	607,695
Non-executive directors					
Mr. Shi Chenghu (vii)	30,107	–	–	–	30,107
Independent non-executive directors					
Mr. Kong Chi Mo (ix)	102,226	–	–	–	102,226
Mr. Yao Yang Yang	25,556	–	–	–	25,556
Mr. Heng, Keith Kai Neng	102,226	–	–	–	102,226
	3,167,393	455,000	76,998	(32,889)	3,666,502

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 effective 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. Fang Hui was appointed as executive director of the Company with effect from 29 April 2021.

(iv) Mr. Jin Hao and Mr. Liu Chuan Jiang has resigned from executive director of the Company with effect from 7 May 2021 and remained as senior management of the Group.

(v) Mr. Gan Jun was appointed on 7 December 2021 and resigned on 1 April 2022 as executive director of the Company.

(vi) Mr. Chen Hongwei was appointed as executive director of the Company with effect from 1 April 2022.

(vii) Mr. Shi Chenghu was appointed as non-executive director of the Company with effect from 27 April 2021.

(viii) Ms. Zhang Dong Fang was appointed as independent non-executive director of the Company with effect from 7 December 2021.

(ix) Mr. Kong Chi Mo has resigned from executive director of the Company with effect from 17 December 2021.

For the year ended 30 June 2022, none of the directors waived or agreed to waive any remuneration (2021: none of the directors waived or agreed to waive any remuneration).

36 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Director' termination benefits

There were no termination benefits paid to any director for the year ended 30 June 2022 and 2021.

(c) Consideration provided to third parties for making available directors' services

During the year ended 30 June 2022 and 2021, the Group provided no consideration to third parties for making available director's services.

(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 for a period of one year until January 2023 as ordered thereunder. Details of the legal proceedings were set out in the Company's announcements dated 21 January 2022 and 9 September 2022.

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.

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*

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.

* *For identification purpose only*

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.

Management Discussion and Analysis

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

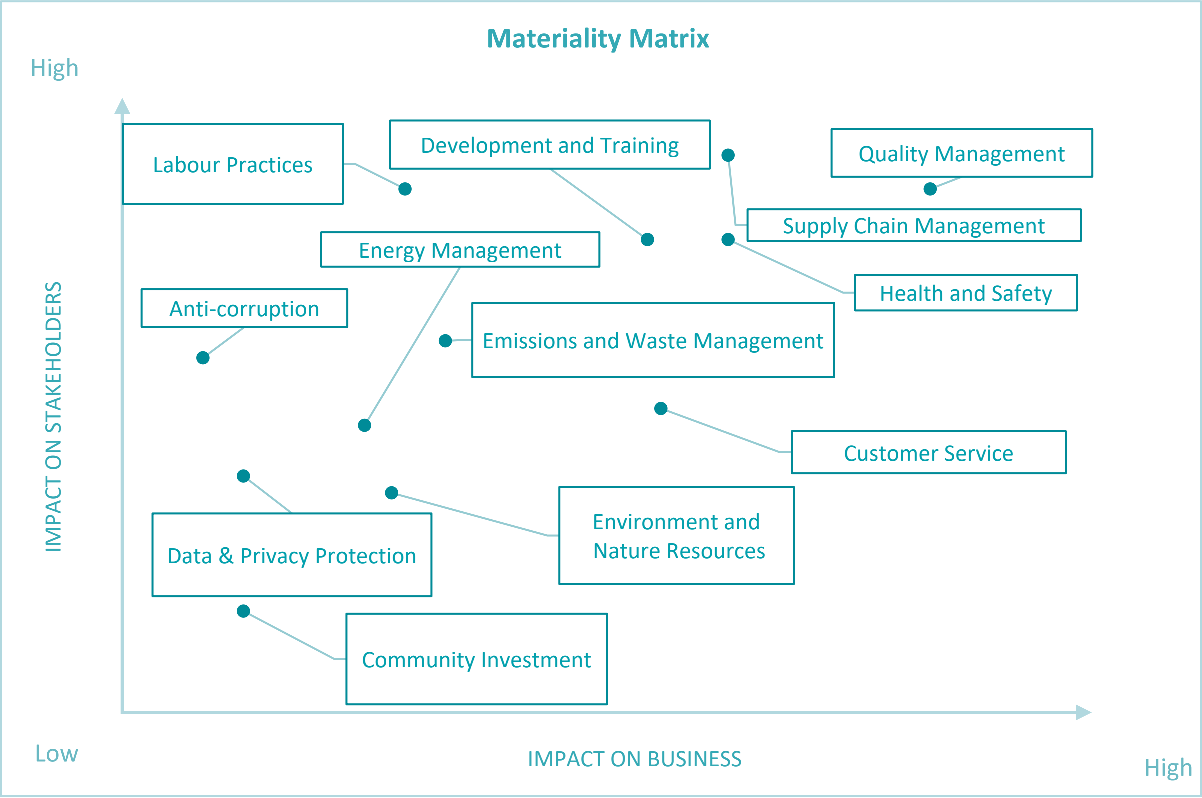
The Group recognises the responsibility and accountability of all our stakeholders. To understand and address their key concerns, the Group has maintained close communication with its key stakeholders. The Group takes stakeholders' expectations into consideration in formulating its businesses and ESG 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

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

C 0197931

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:

Name or category of participants	Date of Grant (Notes c)	Exercise price	Vesting & exercise period	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
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.	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.
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.	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.
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.	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** **RMB**	2022 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** **RMB**	2022 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 RMB	2022 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	2022
	RMB	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	2022
	RMB	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 **RMB**	2022 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 RMB	2022 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 RMB	2022 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 RMB	2022 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	2022
	RMB	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 RMB	2022 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 RMB	2022 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	2022
	RMB	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	2022
	RMB	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 RMB	Loan from banks RMB	Loan from independent third parties RMB	Loan from a related party RMB	Total 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	2022
	RMB	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**	**Share premium**	**Total**
		RMB	RMB	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 %	2022 %	Ownership interest held by non-controlling interests 2023 %	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.