HUAZHANG TECHNOLOGY HOLDING LIMITED
華章科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1673)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2024

FINANCIAL HIGHLIGHTS

	For the year ended 30 June		
	2024	2023	**change**
	RMB	*RMB*	**%**
Revenue	**448,044,777**	528,921,014	**-15.3**
Gross profit	**79,719,708**	83,163,610	**-4.1**
Gross profit margin	***17.8%***	*15.7%*	
Loss for the year	**(18,597,269)**	(52,831,060)	**-64.8**
Loss margin	***-4.2%***	*–10.0%*	
Loss attributable to the shareholders of the Company	**(18,729,124)**	(51,248,791)	**-63.5**
Loss per share attributable to the shareholders of the Company for the year (RMB cents per share)		(Restated)	
— Basic loss per share	**(1.60)**	(4.41)	
— Diluted loss per share	**(1.60)**	(4.41)	

The Board does not recommend the payment of a final dividend for the year ended 30 June 2024 (2023: nil).

The board (the "Board") of directors (the "Directors") of Huazhang Technology Holding Limited (the "Company") hereby announces the consolidated financial results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2024, together with the comparative figures for the year ended 30 June 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards as below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2024

	Notes	2024 RMB	2023 RMB
Revenue	3	**448,044,777**	528,921,014
Cost of sales		**(368,325,069)**	(445,757,404)
Gross profit		**79,719,708**	83,163,610
Other income and gains, net	4	**21,569,767**	13,161,604
Selling and distribution expenses		**(9,717,572)**	(9,666,951)
Administrative expenses		**(75,982,779)**	(79,964,429)
Research and development expenses		**(25,680,569)**	(28,571,835)
Net impairment losses on financial and contract assets	5	**(8,137,196)**	(16,366,419)
Operating loss		**(18,228,641)**	(38,244,420)
Finance income	6	**2,943,254**	6,613,505
Finance costs	6	**(4,059,137)**	(8,485,664)
Finance costs, net		**(1,115,883)**	(1,872,159)
Impairment loss on property, plant and equipment		**–**	(2,859,484)
Impairment loss on investment properties		**–**	(8,576,102)
Loss before income tax	7	**(19,344,524)**	(51,552,165)
Income tax credit/(expense)	8	**747,255**	(1,278,895)
Loss for the year		**(18,597,269)**	(52,831,060)
(Loss)/profit attributable to:			
The shareholders of the Company		**(18,729,124)**	(51,248,791)
Non-controlling interests		**131,855**	(1,582,269)
		(18,597,269)	(52,831,060)
Loss per share attributable to the shareholders of the Company for the year (expressed in RMB cents per share)			(Restated)
Basic loss per share	9	**(1.60)**	(4.41)
Diluted loss per share	9	**(1.60)**	(4.41)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2024

	2024	2023
	RMB	*RMB*
Loss for the year	**(18,597,269)**	(52,831,060)
Other comprehensive (loss)/income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(5,465,503)**	4,649,465
Other comprehensive (loss)/income for the year, net of tax	**(5,465,503)**	4,649,465
Total comprehensive loss for the year	**(24,062,772)**	(48,181,595)
Total comprehensive (loss)/profit for the year is attributable to:		
The shareholders of the Company	**(24,194,627)**	(46,599,326)
Non-controlling interests	**131,855**	(1,582,269)
	(24,062,772)	(48,181,595)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2024

	Notes	2024 RMB	2023 RMB
ASSETS			
Non-current assets			
Property, plant and equipment		**54,480,494**	62,548,161
Other right-of-use assets		**3,308,587**	6,193,168
Investment properties		**78,082,033**	83,536,088
Prepaid land lease payments		**70,329,672**	72,040,922
Other intangible assets		**3,410,806**	5,610,299
Goodwill	*11*	**29,902,783**	29,902,783
Financial assets at fair value through profit or loss		**–**	6,196,647
Trade and other receivables	*12(i)*	**4,177,784**	–
Prepayments	*12(iii)*	**130,602**	143,662
Deferred tax assets		**1,675,488**	842,536
		245,498,249	267,014,266
Current assets			
Inventories		**176,049,957**	153,647,680
Trade and other receivables	*12(i)*	**157,260,749**	175,290,217
Contract assets	*12(ii)*	**67,063,075**	102,243,112
Prepayments	*12(iii)*	**62,004,742**	95,212,255
Financial assets at fair value through other comprehensive income	*12(iv)*	**52,115,288**	33,342,049
Financial assets at fair value through profit or loss		**246,314**	–
Bank fixed deposits		**60,012,000**	–
Pledged deposits		**28,647,539**	63,050,840
Restricted deposits		**37,599,411**	38,523,211
Cash and cash equivalents		**96,450,667**	43,983,025
		737,449,742	705,292,389
Total assets		**982,947,991**	972,306,655

	Notes	2024 RMB	2023 RMB
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**3,991,199**	4,779,177
Deferred income		**18,787,500**	20,137,500
Lease liabilities		**1,625,401**	3,236,971
		24,404,100	28,153,648
Current liabilities			
Trade and other payables	*13*	**300,081,917**	390,255,878
Contract liabilities		**152,879,736**	123,064,299
Interest-bearing loans		**73,367,184**	68,990,000
Income tax payable		**5,726,048**	7,334,046
Lease liabilities		**1,611,570**	2,908,538
		533,666,455	592,552,761
Total liabilities		**558,070,555**	620,706,409
Net assets		**424,877,436**	351,600,246
EQUITY			
Share capital	*14*	**13,824,333**	8,907,761
Share premium	*14*	**754,015,624**	663,145,447
Other reserves		**125,793,063**	130,456,325
Accumulated losses		**(462,382,400)**	(444,404,248)
Capital and reserves attributable to the shareholders of the Company		**431,250,620**	358,105,285
Non-controlling interests		**(6,373,184)**	(6,505,039)
Total equity		**424,877,436**	351,600,246

NOTES

FOR THE YEAR ENDED 30 JUNE 2024

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 beneficial owner of the Company is Fang Hui, who is also an executive director of the Company. 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 MATERIAL ACCOUNTING POLICY INFORMATION

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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and include applicable disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and HKCO.

(b) Going concern assessment

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

(c) New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1 July 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and 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 HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* 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 has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 2 to the consolidated financial statements. In accordance with the guidance set out in the amendments, accounting policy information that is standardised information, or information that only duplicates or summarises the requirements of the HKFRSs, is considered immaterial accounting policy information and is no longer disclosed in the notes to the consolidated financial statements so as not to obscure the material accounting policy information disclosed in the notes to the consolidated financial statements.

(d) 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:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
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	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]
HKFRS 18	Presentation and Disclosure in Financial Statements[4]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2024.
3 Effective for annual periods beginning on or after 1 January 2025.
4 Effective for annual periods beginning on or after 1 January 2027.

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.

HKFRS 18 Presentation and Disclosures in Financial Statements

HKFRS 18 sets out requirements on presentation and disclosures in financial statements and it will replace HKAS 1 Presentation of Financial Statements. The new HKFRS 18 introduces new requirements to present specified categories and defined subtotals in the consolidated statement of profit or loss and other comprehensive income; provide disclosures on management-defined performance measures in the notes to the consolidated financial statements and improve aggregation and disaggregation of information to be disclosed in the consolidated financial statements. Minor amendments to HKAS 7 Statement of Cash Flows and HKAS 33 Earnings per Share are also made. HKFRS 18 will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. The application of the new standard is not expected to have material impact on the financial position of the Group but is expected to affect the presentation of the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows and disclosures in the future consolidated financial statements. The Group will continue to assess the impact of HKFRS 18 on the Group's consolidated financial statements.

3 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 and machine running services, warehouse and logistic services, supply chain services, rental income 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, finance costs, net and income tax (credit)/expense are excluded from such measurement.

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

Segment liabilities include all liabilities of the Group except, deferred tax liabilities, interest-bearing loans, certain other payables, income tax payable and lease liabilities as these liabilities are managed on a group basis.

The segment results for the year ended 30 June 2024:

	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					
Sales of industrial products	**288,329,929**	**–**	**–**	**–**	**288,329,929**
Provision of project contracting services	**–**	**102,612,145**	**–**	**–**	**102,612,145**
Provision of after sales and machine running services	**–**	**–**	**–**	**45,199,207**	**45,199,207**
Provision of sludge treatment products	**–**	**–**	**5,635,900**	**–**	**5,635,900**
Revenue from other sources					
Rental income from investment properties	**–**	**–**	**–**	**6,267,596**	**6,267,596**
Total segment revenue	**288,329,929**	**102,612,145**	**5,635,900**	**51,466,803**	**448,044,777**
Timing of revenue recognition					
At a point in time	**288,329,929**	**–**	**–**	**45,199,207**	**333,529,136**
Over time	**–**	**102,612,145**	**5,635,900**	**6,267,596**	**114,515,641**
Total segment revenue	**288,329,929**	**102,612,145**	**5,635,900**	**51,466,803**	**448,044,777**
Segment cost of sales	**(237,962,273)**	**(87,268,183)**	**(2,559,662)**	**(40,534,951)**	**(368,325,069)**
Segment gross profit	**50,367,656**	**15,343,962**	**3,076,238**	**10,931,852**	**79,719,708**
Segment results	**9,592,891**	**(1,276,164)**	**758,424**	**(11,324,916)**	**(2,249,765)**
Common administrative expenses					**(35,750,595)**
Other income and gains, net					**19,771,719**
Finance costs, net *(Note 6)*					**(1,115,883)**
Loss before income tax					**(19,344,524)**
Income tax credit					**747,255**
Loss for the year					**(18,597,269)**

Other segment information:

	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Unallocated *RMB*	Total *RMB*
Capital expenditure	**78,736**	**–**	**–**	**776,262**	**–**	**854,998**
Depreciation of property, plant and equipment	**1,320,885**	**22,068**	**953,676**	**4,113,911**	**–**	**6,410,540**
Depreciation of other right-of-use assets	**–**	**–**	**–**	**–**	**2,877,196**	**2,877,196**
Depreciation of investment properties	**–**	**–**	**–**	**5,143,314**	**310,741**	**5,454,055**
Loss on disposal and write off of property, plant and equipment	**8,427**	**20**	**9,212**	**2,149,330**	**–**	**2,166,989**
Net impairment loss on financial and contract assets	**5,534,623**	**1,850,895**	**(433,713)**	**1,185,391**	**–**	**8,137,196**
Amortisation of prepaid land lease payments	**106,387**	**–**	**141,153**	**1,336,419**	**127,291**	**1,711,250**
Amortisation of other intangible assets	**2,517,799**	**–**	**–**	**10,728**	**–**	**2,528,527**
Allowance for inventories	**1,513,142**	**898,012**	**–**	**395,562**	**–**	**2,806,716**
Fair value loss on investments in futures at FVTPL	**–**	**–**	**–**	**–**	**72,416**	**72,416**
Gain on disposal of investments in futures at FVTPL	**–**	**–**	**–**	**–**	**1,325,431**	**1,325,431**
Loss on disposal of equity investment at FVTPL	**–**	**–**	**–**	**–**	**1,196,647**	**1,196,647**
Forfeit of contract liabilities	**(1,458,662)**	**(865,679)**	**–**	**(381,320)**	**–**	**(2,705,661)**

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					
Sales of industrial products	289,550,869	–	–	–	289,550,869
Provision of project contracting services	–	178,454,466	–	–	178,454,466
Provision of after sales and machine running services	–	–	–	43,995,278	43,995,278
Provision of sludge treatment products	–	–	10,110,117	–	10,110,117
Revenue from other sources					
Rental income from investment properties	–	–	–	6,810,284	6,810,284
Total segment revenue	289,550,869	178,454,466	10,110,117	50,805,562	528,921,014
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	6,810,284	185,485,515
Total segment revenue	289,550,869	178,454,466	10,110,117	50,805,562	528,921,014
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					13,161,604
Finance costs, net *(Note 6)*					(1,872,159)
Loss before income tax					(51,552,165)
Income tax expense					(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 other right-of-use assets	–	–	–	–	2,689,433	2,689,433
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	–	–	–	2,859,484	–	2,859,484
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

Notes:

There were no inter-segment sales during the years.

Revenue from one (2023: two) customers, accounted for more than 10% of the Group's total revenue for the year, which are shown as follows:

	2024 ***RMB***	2023 *RMB*
Customer A from project contracting services segment	**65,313,695**	N/A[1]
Customer B from project contracting services segment	**N/A[1]**	99,344,402
Customer C from industrial products segment	**N/A[1]**	53,539,823

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.

	2024	2023
	RMB	*RMB*
PRC	**446,937,247**	527,801,471
Others	**1,107,530**	1,119,543
	448,044,777	528,921,014

As at 30 June 2024 and 2023, all of the non-current assets of the Group were located in the People's Republic of China.

Segment assets	**2024**	2023
	RMB	*RMB*
Industrial products	**365,203,685**	330,511,003
Project contracting services	**143,770,517**	210,461,872
Environmental products	**9,885,299**	34,041,858
Supporting services	**231,892,533**	240,119,392
Total segment assets	**750,752,034**	815,134,125
Unallocated:		
Cash and cash equivalents	**96,450,667**	43,983,025
Restricted deposits	**37,599,411**	38,523,211
Pledged deposits	**28,647,539**	63,050,840
Bank fixed deposits	**60,012,000**	–
Deferred tax assets	**1,675,488**	842,536
Other right-of-use assets	**3,308,587**	6,193,168
Investment properties	**4,125,349**	4,436,088
Financial assets at FVTPL	**246,314**	–
Prepayments — non-current portion *(Note 12(iii))*	**130,602**	143,662
Total assets	**982,947,991**	972,306,655

Segment liabilities	**2024**	2023
	RMB	*RMB*
Industrial products	**249,669,032**	255,257,412
Project contracting services	**119,920,227**	151,668,186
Environmental products	**9,258,555**	19,566,425
Supporting services	**91,195,875**	103,260,486
Total segment liabilities	**470,043,689**	529,752,509
Unallocated:		
Deferred tax liabilities	**3,991,199**	4,779,177
Interest-bearing loans	**73,367,184**	68,990,000
Other payables	**1,705,464**	3,705,168
Income tax payable	**5,726,048**	7,334,046
Lease liabilities	**3,236,971**	6,145,509
Total liabilities	**558,070,555**	620,706,409

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

	2024	2023
	RMB	*RMB*
Contract assets *(Note 12(ii)) (i)(ii)*:		
Retention receivables	**29,033,525**	31,137,525
Contract assets relating to sales of goods for projects	**34,579,605**	72,227,038
Contract assets relating to project contracting services	**16,746,922**	13,030,969
Less: provision for impairment of contract assets	**(13,296,977)**	(14,152,420)
	67,063,075	102,243,112
Contract liabilities *(i) (iii)*:		
Contract liabilities relating to sales of goods for projects	**126,621,439**	93,511,162
Contract liabilities relating to project contracting services	**26,258,297**	29,553,137
	152,879,736	123,064,299

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.

(i) Significant changes in contract assets and liabilities

The decrease in contract assets was mainly due to some projects have reached for billing to recognise trade receivables. The increase in contract liabilities was mainly due to sign the new contracts during the year.

(ii) Contract assets transferred to trade receivables

The following table shows how much the contract assets transferred to trade receivables in current reporting period relates to carried-forward contract assets:

	2024	2023
	RMB	*RMB*
Transferred to trade receivables that was included in contract assets balance at the beginning of the period	**47,901,829**	9,894,053

(iii) 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:

	2024	2023
	RMB	*RMB*
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	**73,488,926**	81,213,540

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:

	2024	2023
	RMB	*RMB*
Within one year	**271,408,828**	360,723,024
More than one year	**129,888,858**	89,155,433
	401,297,686	449,878,457

4 OTHER INCOME AND GAINS, NET

	2024	2023
	RMB	*RMB*
Interest income recognised from project contracting services	**232,221**	1,698,856
Government grants *(note i)*	**2,508,665**	8,480,808
Tax refund	**–**	1,389,210
Rental income from property, plant and equipment	**1,027,155**	830,947
Fair value gains on equity investments at FVTPL	**–**	1,389,392
Fair value loss on investments in futures at FVTPL	**(72,416)**	–
Gain on disposal of investments in futures at FVTPL	**1,325,431**	–
Loss on disposal of equity investments at FVTPL	**(1,196,647)**	–
Over provision/(provision) for claims, net *(note ii)*	**16,609,004**	(3,151,894)
Loss on disposal and write off of property, plant and equipment	**(2,166,989)**	–
Forfeit of contract liabilities *(note iii)*	**2,705,661**	–
Write back of trade and other payables	**–**	2,168,183
Others	**597,682**	356,102
	21,569,767	13,161,604

Notes:

(i) During the year ended 30 June 2023, the Group recognised government grants amounted RMB135,746 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. During the year ended 30 June 2024, all grants mainly related to subsidies granted to certain subsidiaries in respect of their operations in the PRC from government bodies which are either unconditional grants or grants with conditions having been satisfied.

(ii) As disclosed in note 15, Zhejiang Huazhang received a judgment from the court dated 28 June 2024 for the retrial of the first instance case. The judgment awarded claims amounting to approximately RMB32,994,295 to be paid by Zhejiang Huazhang to the plaintiff. Based on this judgment, an overprovision of RMB16,844,650 was derecognised during the year ended 30 June 2024.

(iii) During the year, certain customers cancelled contracts and the related deposits received, totalling RMB2,705,661, were forfeited and recognised as other income (2023: nil).

5 NET IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	2024	2023
	RMB	*RMB*
Reversal of/(recognition of) expected credit losses on:		
— trade receivables	**(3,800,715)**	(4,881,155)
— other receivables	**(5,191,924)**	(1,210,537)
— contract assets	**855,443**	(10,274,727)
	(8,137,196)	(16,366,419)

6 FINANCE COSTS, NET

	2024	2023
	RMB	*RMB*
Finance income		
— Interest income	**2,943,254**	3,903,230
— Net foreign exchange gain	**–**	2,710,275
	2,943,254	6,613,505
Finance costs		
— Net foreign exchange loss	**(438,462)**	–
— Interest on bank overdraft	**(7,104)**	–
— Interest on other payables	**–**	(4,257,710)
— Interest on loans	**(3,280,568)**	(3,859,370)
— Interest paid/payable for lease liabilities	**(333,003)**	(368,584)
	(4,059,137)	(8,485,664)
Finance costs, net	**(1,115,883)**	(1,872,159)

7 LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived after charging the following:

	2024	2023
	RMB	*RMB*
Allowance for inventories	**2,806,716**	952,728
Amortisation of prepaid land lease payments	**1,711,250**	1,711,250
Amortisation of other intangible asset	**2,528,527**	2,629,212
Auditor's remuneration	**2,168,880**	2,427,483
Cost of inventories		
— Sales of goods for projects	**261,874,531**	262,471,021
— Project contracting services	**89,043,514**	170,622,756
	350,918,045	433,093,777
Depreciation of property, plant and equipment included in:		
— Cost of sales	**2,777,306**	155,798
— Administrative expenses	**3,432,137**	6,344,401
— Selling and distribution expenses	**98,276**	24,663
— Research and development expenses	**102,821**	143,269
	6,410,540	6,668,131
Depreciation of other right-of-use assets included in:		
— Administrative expenses	**2,877,196**	2,689,433
Depreciation of investment properties included in:		
— Cost of sales	**5,143,316**	5,643,698
— Administrative expenses	**310,739**	310,741
	5,454,055	5,954,439
Employment benefit expenses included in:		
— Cost of sales	**4,401,864**	3,618,277
— Administrative expenses	**32,763,580**	38,224,988
— Selling and distribution expenses	**3,747,945**	6,972,095
— Research and development expenses	**21,614,315**	23,820,979
	62,527,704	72,636,339
Expense relating to short-term leases	**133,257**	734,583
Legal and professional fees	**9,460,592**	16,464,404

8 INCOME TAX (CREDIT)/EXPENSE

	2024	2023
	RMB	*RMB*
PRC enterprise income tax *(ii)*		
Current income tax	**604,734**	1,625,776
Underprovision in prior year	**268,941**	–
Deferred income tax	**(1,620,930)**	(346,881)
	(747,255)	1,278,895

(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 and extended in December 2023 for a further three years. The applicable EIT rate of Zhejiang Huazhang is 15% from December 2023 till November 2026 (2023: December 2020 to November 2023). Thus the applicable income tax rate for Zhejiang Huazhang was 15% (2023: 15%) for the year ended 30 June 2024.

The applicable EIT rate of Hangzhou Haorong Technology Co., Ltd ("Haorong") is 25% according to the EIT Law. Under the relevant regulations of the EIT Law, Haorong had the qualification of Small and micro-profit enterprises in the 2024 and 2023, which is effective from 2023 to 2027. The applicable EIT rate of Haorong is 5% (2023: 25%). Thus the applicable income tax rate for Haorong was 5% (2023: 25%) for the year ended 30 June 2024.

(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 (2023: nil).

9 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 1,170,498,316 (2023: 1,162,897,677 (restated)) which represents the shares in issue during the year.

The Company has one (2023: one) category of potentially dilutive potential ordinary shares: share options (2023: share options). The diluted loss per share is same as the basic loss per share as these potential ordinary shares have anti-dilutive effect for the years ended 30 June 2024 and 2023.

	2024	2023
	RMB	*RMB*
		(Restated)
Basic and diluted		
Loss		
Loss attributable to the shareholders of the Company	**(18,729,124)**	(51,248,791)
Number of shares		
Weighted average number of ordinary shares in issue during the year *(Note)*	**1,170,498,316**	1,162,897,677
Basic and diluted loss per share (RMB cents)	**(1.60)**	(4.41)

Note: The weighted average number of ordinary shares for the years ended 30 June 2024 and 2023 have been retrospectively adjusted for the bonus element of the open offer of the Company's shares in 2024.

10 DIVIDEND

No dividends were paid during the year ended 30 June 2024 and 2023.

The Board does not recommend to declare any dividend for the year ended 30 June 2024 (2023: nil).

11 GOODWILL

	Headbox business	**Logistics and warehousing services**	**Others**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Net carrying amount as at 1 July 2022, 30 July 2023 and 2024	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 group of CGUs in the 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 group of CGUs 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.

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

	Headbox business	
	2024	2023
Sales (% annual growth rate)	**2.0%**	2.2%
Budgeted gross margin (%)	**19.6%**	19.6%
Long term growth rate (%)	**2.0%**	2.2%
Pre-tax discount rate (%)	**16.74%**	20.1%

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 years ended 30 June 2024 and 2023, based on the valuation report prepared by an independent professional valuer, Vincorn Consulting and Appraisal Limited ("Vincorn"), the recoverable amount of the headbox business CGU, determined based on value-in-use, 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.

12 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

(i) Trade and other receivables

	2024	2023
	RMB	*RMB*
Trade receivables	**278,300,573**	292,770,950
Less: provision for impairment of trade receivables *(c)*	**(183,367,508)**	(179,566,793)
Trade receivables — net *(a) & (b)*	**94,933,065**	113,204,157
Bills receivables	**36,158,340**	39,906,657
	131,091,405	153,110,814
Consideration receivable for sale of equity investment at FVTPL	**4,774,614**	–
Deductible input value added tax	**913,438**	28,983
Loan to a customer	**703,948**	3,601,624
Other receivables — guarantee	**1,220,243**	188,300
Others *(Note a)*	**22,734,885**	18,360,496
Other receivables	**30,347,128**	22,179,403
Total trade and other receivables	**161,438,533**	175,290,217
Less: trade and other receivables non-current portion *(Note b)*	**(4,177,784)**	–
	157,260,749	175,290,217

Notes:

(a) As at 30 June 2024, included in others are the gross carrying amounts of RMB49,103,484 (2023: RMB49,103,484), RMB39,541,029 (2023: RMB39,541,029) and RMB6,999,500 (2023: RMB6,999,500) 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") which owned by former chairman and executive director of the Group and the detail is reported to announcement on 26 October 2022, and provision for impairment of RMB49,103,484 (2023: RMB49,103,484), RMB39,541,029 (2023: RMB39,541,029), and RMB6,999,500 (2023: RMB6,999,500) respectively.

(b) As at 30 June 2024, the consideration receivable for the sale of equity investment at FVTPL to the majoring shareholder of the investment is unsecured, interest-free. It includes a gross carrying amount of RMB600,000 (with a provision for impairment of RMB3,170) receivable within one year, and a remaining gross carrying amount of RMB4,200,000 (with a provision for impairment of RMB22,216) receivable within two to four years.

(a) The ageing analysis of the net amount of trade receivables based on the date of the invoice is as follows:

	2024 *RMB*	2023 *RMB*
Up to 3 months	**60,542,529**	78,399,641
3 months to 6 months	**4,589,665**	7,664,258
6 months to 1 year	**23,369,079**	4,675,122
1 year to 2 years	**1,213,549**	9,632,173
Over 2 years	**5,218,243**	12,832,963
	94,933,065	113,204,157

(b) The ageing analysis of the net amount of trade receivables based on the due date is as follows:

	2024 *RMB*	2023 *RMB*
Not due	**41,693,013**	67,080,616
Up to 3 months past due	**19,076,043**	11,252,267
3 months to 6 months past due	**4,328,912**	7,629,402
6 months to 1 year past due	**23,324,844**	4,791,913
1 year to 2 years past due	**1,320,912**	9,646,279
Over 2 years past due	**5,189,341**	12,803,680
	94,933,065	113,204,157

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

	2024 *RMB*	2023 *RMB*
At beginning of the year	**179,566,793**	174,667,301
Impairment loss recognised, net	**3,800,715**	4,881,155
Exchange difference	**–**	18,337
At the end of the year	**183,367,508**	179,566,793

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

	2024 *RMB*	2023 *RMB*
At beginning of the year	**182,315,965**	181,102,024
Impairment loss recognised, net	**5,191,924**	1,210,537
Exchange difference	**(2)**	3,404
At the end of the year	**187,507,887**	182,315,965

As at 30 June 2024, balances of RMB183,658,576 (2023: RMB177,712,503) were assessed as credit-impaired and full provision was recognised.

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:

	2024	2023
	RMB	*RMB*
RMB	**154,973,704**	153,438,736
HK$	**909,252**	7,208,330
USD	**5,555,577**	14,643,151
	161,438,533	175,290,217

(ii) Contract assets

	2024	2023
	RMB	*RMB*
Retention receivables *(a)*	**29,033,525**	31,137,525
Contract assets relating to sales of goods for projects	**34,579,605**	72,227,038
Contract assets relating to project contracting services	**16,746,922**	13,030,969
	80,360,052	116,395,532
Less: provision for impairment of contract assets *(b)*	**(13,296,977)**	(14,152,420)
	67,063,075	102,243,112

(a) 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:

	2024	2023
	RMB	*RMB*
At beginning of the year	**14,152,420**	3,749,132
(Reversal of impairment)/impairment losses recognised, net	**(855,443)**	10,274,727
Exchange difference	**–**	128,561
At the end of the year	**13,296,977**	14,152,420

As at 30 June 2024 and 2023, the net amounts of contract assets are denominated in the following currencies:

	2024	2023
	RMB	*RMB*
RMB	**66,685,126**	98,675,437
USD	**377,949**	3,567,675
	67,063,075	102,243,112

(c) Contract assets relating to sales of goods for projects and project contracting services are expected to be recovered within 12 months.

(iii) Prepayments

	2024	2023
	RMB	*RMB*
Prepayments for procurements	**58,497,187**	94,789,330
Others	**3,638,157**	566,587
Total prepayments	**62,135,344**	95,355,917
Less: prepayments — non-current portion	**(130,602)**	(143,662)
	62,004,742	95,212,255

(iv) Financial assets at fair value through other comprehensive income

The Group manages its bills receivables 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.

13 TRADE AND OTHER PAYABLES

	2024	2023
	RMB	*RMB*
Trade payables	**166,907,010**	204,050,587
Bills payable	**32,646,273**	59,541,901
	199,553,283	263,592,488
Other taxes payables — value added tax	**26,414,207**	40,123,900
Deposits for project contracting services	**6,000,000**	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**	13,177,942
Provision for legal claims *(note a)*	**9,045,762**	14,799,444
Accruals	**2,880,255**	5,263,774
Employee benefit payables	**5,679,290**	5,451,620
Other deposits	**588,039**	600,568
Provision for warranty expenses	**523,838**	523,838
Payables for property, plant and equipment	**335,180**	325,418
Interest payable for loans	**–**	591,666
Others *(note b)*	**22,803,321**	26,170,462
	100,528,634	126,663,390
Total trade and other payables	**300,081,917**	390,255,878

Note:

(a) As at 30 June 2024, provision for legal claims amounted to RMB7,299,949 (2023: 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 2024, the Group recognised a provision for legal claim of RMB1,745,813 made by the supplier (2023: RMB2,140,167).

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.

(b) As at 30 June 2024, included the amount of RMB20,447,000 (2023: RMB20,447,000) from Hangzhou Taige Automatic Ltd, a company held by a close family member of Mr. Zhu Gen Rong, a former executive director, chairman and substantial shareholder of the Company. The detail is reported in the announcement of the Company on 26 October 2022.

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

	2024	2023
	RMB	*RMB*
Up to 3 months	**48,412,492**	90,752,703
3 months to 6 months	**38,405,304**	38,541,414
6 months to 1 year	**13,829,390**	9,427,424
1 year to 2 years	**25,613,435**	30,921,474
Over 2 years	**40,646,389**	34,407,572
	166,907,010	204,050,587

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

	2024	2023
	RMB	*RMB*
RMB	**297,705,917**	386,162,211
HK$	**2,376,000**	4,093,667
	300,081,917	390,255,878

14 SHARE CAPITAL AND SHARE PREMIUM

	RMB
Issued and full paid:	
At 1 July 2022 and 30 June 2023	8,907,761
Issuance of shares upon open offer	4,916,572
At 30 June 2024	13,824,333

	Number of issued shares	Share capital *RMB*	Share premium *RMB*	Total *RMB*
At 1 July 2022, 30 June 2023 and 1 July 2023	1,064,089,378	8,907,761	663,145,447	672,053,208
Issue of shares upon open offer *(note)*	532,044,689	4,916,572	90,870,177	95,786,749
At 30 June 2024	1,596,134,067	13,824,333	754,015,624	767,839,957

Note: On 18 April 2024, the Company issued an aggregate of 532,044,689 new ordinary shares (which included 133,298,891 taken open offer shares and 398,745,798 untaken open offer shares by way of placement) at the open offer price of HK$0.20. Proceeds from the open offer net of transaction costs of approximately HK$1,500,000 (equivalent to approximately RMB1,374,929) amounted to approximately HK$104,500,000 (equivalent to approximately RMB95,786,749) which was used for (i) repayment of certain bank loans; (ii) expansion of the Group's industrial automation and other related businesses and the supporting services; and (iii) general working capital of the Group. Details of the open offer were contained in the Company's announcements dated 17 April 2024, the Company's prospectus dated 15 March 2024 and the Company's circular dated 12 January 2024.

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.

15 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) ("Plaintiff") 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 initial Judgement. However, the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts remains in effect.

On 20 December 2023, the Court accepted the Plantiff's request to continue to freeze certain bank accounts of Zhejiang Huazhang to the amount of approximately RMB37.6 million for an additional year.

On 28 June 2024, Zhejiang Huazhang received a judgement from the courts for the retrial of the first instance case in which the courts awarded the Plaintiff compensation for breach of contract in the amount of RMB32,994,295 which had already been recognised in the consolidated financial statements. A retrial of the second instance case or appeal commenced on 5 September 2024 and a judgement is yet to be finalized.

Management expects these funds 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.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Over the past few years, the paper-making industry has been deeply impacted by various factors such as global economic fluctuations, tightening environmental policies, digital transformation, fluctuating raw material prices and weak demand in downstream markets. These factors have posed significant challenges and risks to the industry. From a macroeconomic perspective, according to data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) increased by 5% year-on-year in the first half of 2024, continuing to maintain a positive recovery momentum.

For the paper-making industry, the first half of 2024 was still in the cyclical adjustment stage. However, against the backdrop of a sustained economic upturn, structural recovery of downstream demand, coupled with the support of upstream costs, has led to a rebound in prosperity of the paper-making industry in the first half of the year, indicating signs of recovery. According to data from the National Bureau of Statistics, in the first half of 2024, the national machine-made paper and cardboard production was 76.613 million tons, representing a year-on-year increase of 11.8%. Enterprises in the paper-making and paper products industry above a designated scale achieved a total operating income of RMB699.21 billion, representing a year-on-year increase of 6.0%; and a total profit of RMB22.79 billion, representing a year-on-year increase of 104.9%.

Since 2023, China's paper-making industry has experienced a transformation from bottoming out to stabilizing and improving. The root of this change lies in the recovery of consumption brought about by the recovery of economic fundamentals. In July 2024, it was pointed out at the meeting of the Political Bureau of the Central Committee for the first time that "boosting consumption to expand domestic demand". It is expected that relevant measures will be gradually implemented and show their effects in the second half of the year. For the paper-making industry, the second half of the year is usually the traditional peak season, with domestic consumption becoming more active. Demand for the industry is expected to rise further, driven in particular by the benefits of the peak seasons of National Day, Mid-Autumn Festival and other festivals.

As a crucial foundation of the paper-making industry, paper-making equipment is advancing towards technological innovation and environmentally sustainable practices. China's paper-making equipment industry has made significant progress in technological innovation and product quality, with most paper-making production lines reaching international or domestic advanced levels. With the increasing emphasis on environmental protection, more paper-making companies are focusing on reducing environmental pollution and resource wastage. Consequently, environmentally friendly production machinery, such as energy-saving equipment and recycling technologies, will be widely adopted. Furthermore, with the continuous advancement of automation technology, the paper-making equipment industry is moving towards automation and intelligence.

In recent years, due to advancements in production technology, excellent product performance and steady growth in downstream market demand, China's non-woven fabric industry has experienced a steady development. At present, China has become the largest producer and consumer of non-woven fabrics in the world. The diverse production technologies of non-woven fabrics have led to their widespread application in various downstream sectors, mainly including medical and hygiene, personal hygiene products, cleaning and wiping materials, packaging, filtration, automotive interiors and other industries. Among these applications, the medical and hygiene sector holds a dominant position in the use of non-woven fabrics. With consumers seeking high-quality lifestyles, the market demand for disposable non-woven products, such as baby diapers, adult incontinence products and feminine hygiene products, continues to grow, increasing the market penetration rate. Such consumption upgrading trends are expected to become the primary driving force for the future development of the non-woven fabric industry.

BUSINESS REVIEW

For the year ended 30 June 2024, the Group's revenue and gross profit decreased by approximately 15.3% to RMB448.0 million and approximately 4.1% to RMB79.7 million, respectively, as compared to the corresponding period last year. For the year ended 30 June 2024, the Group recorded a loss of approximately RMB18.6 million, representing a decrease in losses of approximately RMB34.2 million as compared to the corresponding period last year.

Paper Making Related Business

Contracts

For the year ended 30 June 2024, the Group worked together and achieved orders with high-quality products and professional services. The new contract amount of the Group has decreased by approximately 14.5% to approximately RMB391.3 million, and the outstanding contract amount was approximately RMB401.3 million.

During the year under review, with its leading product technology and capabilities in intelligent, digital and specialized services, the Group has signed a series of influential orders with customers, including joining hands with Yadu Paper (雅都紙業) for the third time to sign the master driving control system, master driving electric motor and the MCS system contract for 6800/1000 Two-Folded Fourdrinier Machine (T Paper) (6800/1000二疊網長網紙機(T紙)); providing Pingfeng Paper (萍鋒紙業) with the master driving control system and Distributed Control System (DCS) of 5260/950 Corrugated Paper (5260/950瓦楞紙) production line; formally signing contracts with Zhaolong Paper (兆隆紙業) for the driving control system, the master driving electric motor and MCS system of 5480/850 High-strength Corrugated Paper Machine (5480/850高強瓦楞紙機); providing Jiangxi Zhenguan Environmental Protection (江西振冠環保) with the master driving control system, Distributed Control System (DCS), intelligent MCC system, low-voltage MCC project for wastewater treatment system, high-voltage cabinets, transformers and electrical automation equipment services of the 3300/600 Multi-functional Paper (3300/600多功能紙) production line; signing with Fengsheng Paper (鳳生紙業) for the special paper driving project of 150,000 tons refined kraft paper (15萬噸精製牛皮紙特種紙傳動項目); winning the bid for food-grade packaging materials and its supporting project of the 5600/900 cardboard machine line (5600/900卡紙線項目) of Jintianhe Paper (金天和紙業); signing a general contract with Taiyang Paper (太陽紙業) for PM464860/600 special paper machine (PM464860/600特種紙機).

Mutual benefit and win-win to empower the paper-making industry

During the year under review, the Group continued to strategically cooperate with top domestic and international suppliers to provide customers with more cost-effective products; fully leveraging the strengths of all parties to improve the degree of automation, digitization and intelligence in the industry, driving industry upgrades and empowering high-quality development in the paper-making industry.

During the year under review, the Group 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)"; became one of the first companies in China to obtain Rockwell's highest level of certification — Platinum System Integrator; participated in the Siemens Digital Industry Group Partner Conference (西門子數字化工業集團合作夥伴大會); signed cooperation agreements with Danfoss, SKF and other companies; engaged in exchanges and collaborations with Schneider, Innomotics, Hengda Motor and CT China (CT中國) to provide the paper-making industry with more cost-effective and cost-reducing solutions; continued deepening cooperation intentions with first-class brand manufacturers of different categories such as racks, dryers, rollers, reducers, hydraulics, lubrication, paper primers and spraying.

Elevating technology to achieve breakthroughs in domestic equipment to new heights

In response to the increasing demand for technicality in the paper-making industry equipment, the Group has continued to increase investment in research and development, so as to solidify its market-leading position and assist customers in achieving cost reduction and efficiency enhancement. During the year under review, the Group achieved a breakthrough in the PM61 corrugated paper project of Jilin Shanying (吉林山鷹) by successfully reaching a speed of 1000m/min. The corrugated paper machine production line of the Shanying project was also the first 6600mm complete machine under contract in China. Since its inception, Hangzhou MCN Paper Tech Co., Ltd. ("Hangzhou MCN"), a wholly-owned subsidiary of the Company, has consistently focused on the continuous research and development of domestic equipment such as the headboxes, continuously reaching new heights in domestic equipment breakthroughs. During the year under review, Hangzhou MCN provided two 9150mm/1200m hydraulic headboxes for the PM15 boxboard paper project of Wuzhou Special Paper, marking another breakthrough in domestic hydraulic headboxes by Hangzhou MCN after the 7640mm/1200m milestone.

During the year under review, the Group has obtained a number of high-value scientific and technological achievements. As a "High and New Technology Enterprise", the Group received award support from the "Provincial Key Industrial Internet Platform" (省重點工業互聯網平台) project. "The First (Set) Product Engineering Research Project in Zhejiang Province" passed the acceptance inspection. "Headboxes for High-Speed Special Paper Machines" (特種紙高速造紙機用流漿箱) was selected into the second batch of "made-in-Zhejiang" standard identification list. "Conical Refiners" were certified by the Standard for made-in-Zhejiang. Tongxiang City Key Science and Technology Project (桐鄉市重點科技計劃項目) was successfully established. The standard certification of intellectual property rights has been passed.

The Group continued to invest substantial resources in product research and development, and strive for breakthroughs in the paper-making equipment market in China. For the year ended 30 June 2024, the Group's research and development expenses amounted to approximately RMB25.7 million with 23 new patent applications. As at 30 June 2024, the Group has registered a total of 339 patents (including 113 invention patents, 117 utility model patents and 55 software copyrights).

Transforming and upgrading to enhance management efficiency

Through the efforts and united collaboration of the team over the past two years, the Group has gradually achieved the first transformation and upgrade, and looks forward to quickly initiating the second transformation and upgrade, with an aim to provide customers with more effective high-quality development and operational solutions in a shorter time, and thus saving on implementation costs by breaking internal departmental barriers, making self-breakthroughs and empowering the industry externally.

During the year under review, the Provincial Key Industrial Internet Platform project passed the acceptance inspection. The management of Tongxiang Intelligent Manufacturing Factory (桐鄉智能製造工廠) was further standardized. The Group promoted the launch of the project management software, namely Qiguanbao (企管寶), to facilitate the construction of a digital platform. The Group passed the internal and external audits of the information security system, the annual factory inspection of "CQC Certified Products", and the annual supervision and inspections of QES three systems. The Group completed the compilation of the Company's full-product manual and organized relevant training and learning. The Group established an intelligent manufacturing technology center to focus on R&D and engineer training and held the second Huazhang Cup Education Award (華章杯崇學育人獎) to actively fulfill its corporate social responsibility.

Meanwhile, the Group made concerted efforts to address the outstanding historical issues. On 10 August 2023, the Group successfully resumed trading on the Hong Kong Stock Exchange. The Group completed an open offer of shares, establishing a new shareholding structure and board of directors. The Group will continue to improve its internal management system and strengthen risk management, so as to cope with the ever-changing market changes and enable the Group to operate more efficiently.

Breakthroughs in non-woven fabrics and tobacco industries

During the year under review, the Group continued to actively explore the non-woven fabrics and tobacco industries. In recent years, Hangzhou MCN's entry into the field of non-woven fabric hydroforming has relied on the superb technologies and mature techniques accumulated over the years, which could provide our customers with a full set of world-leading engineering solutions. During the year under review, Hangzhou MCN successfully launched two general contracted non-woven fabric projects, being the flushable wet wipe project of Sateri Tongling* (賽得利銅陵) and the first production line of Xiezhuo (Wuhan) Medical Products Co., Ltd.* (Xiezhuo Medical). The key equipment that Hangzhou MCN has provided to Sateri Tongling for its flushable wet wipes project was the inclined wire former (斜網成型器). After the project is put into operation, the best quality flushable wet wipes (wet toilet paper) will be produced. The production line of Xiezhuo Medical* (協卓醫療) is the first production line for flushable products that Hangzhou MCN has provided to customers as a general contract, and also the first demonstration for the full set solutions that Hangzhou MCN provides jointly with top suppliers in the non-woven industry.

The Group is a significant partner in the tobacco sheet industry. During the year under review, the reconstituted tobacco leaves production line project of Hunan Golden Leaf (湖南金葉) was successfully launched, marking another electromechanical equipment integration general contracting project of the Group in the tobacco system. The Group also participated in the Haiyan sheet new line project under Shanghai Tobacco Group (上海煙草集團海煙薄片新線項目), serving as an excellent supplier for Haiyan tobacco sheets and overseeing the overall control system integration and information system construction for such project.

Renewable Resources Related Business

The Group has been committed to the development of green business, in particular, to set up waste recycling treatment plants outside of China since 2019 to capture the opportunities of expanding global waste recycling treatment. During the year, the Group is still looking for suitable opportunities overseas and negotiating with overseas governments and business partners to secure the best investment terms. Currently, the renewable resource recycling business team of the Group has more than 20 years of industry experience. The core members of the team have participated in the creation and management of the recycled metal recycling and processing company listed on the Hong Kong stock market. In the future, considering the market potential of global scrap metal recycling treatment, the Group will allocate further resources to environmental-related business and believes that with the its team advantages, both in terms of business development and management experience, the Group can lead the further expansion and growth of business in this sector.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 15.3% from approximately RMB528.9 million for the year ended 30 June 2023 to approximately RMB448.0 million for the year ended 30 June 2024, the gross profit margin increased from approximately 15.7% for the year ended 30 June 2023 to approximately 17.8% for the year ended 30 June 2024, primarily attributing to cost control efforts contributed by the whole management team under the worsen economic environments.

(i) Industrial products

Revenue from sales of industrial products remained fairly stable and decreased by approximately 0.4% from approximately RMB289.6 million for the year ended 30 June 2023 to approximately RMB288.3 million for the year ended 30 June 2024. The gross profit margin of industrial products decreased slightly from approximately 20.3% for the year ended 30 June 2023 to approximately 17.5% for the year ended 30 June 2024.

(ii) Project contracting services

Revenue from project contracting services decreased by approximately 42.5% from approximately RMB178.5 million for the year ended 30 June 2023 to approximately RMB102.6 million for the year ended 30 June 2024. Such decrease was mainly due to 3 sizable contracting service projects were performed by the Group during the year ended 30 June 2023, which contributed revenue of approximately RMB165.8 million. The gross profit margins of project contracting services improved from approximately 5.0% for the year ended 30 June 2023 to approximately 15.0% for the year ended 30 June 2024. Such increase was primarily due to the Group strengthened its cost control in provision for the project contracting service during the year ended 30 June 2024.

(iii) Environmental products

Revenue from sales of environmental products decreased by approximately 44.6% from approximately RMB10.1 million for the year ended 30 June 2023 to approximately RMB5.6 million for the year ended 30 June 2024. 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 products increased from approximately 27.4% for the year ended 30 June 2023 to approximately 54.6% for the year ended 30 June 2024.

(iv) Supporting services

Revenue from the provision of supporting services increased by approximately 1.4% from approximately RMB50.8 million for the year ended 30 June 2023 to approximately RMB51.5 million for the year ended 30 June 2024. The revenue from the provision of supporting services increased slightly due to the increase in numbers of the supporting service for the year ended 30 June 2024. The gross profit margin for the provision of supporting services decreased slightly from approximately 24.8% for the year ended 30 June 2023 to approximately 21.2% for the year ended 30 June 2024.

Selling and distribution expenses

The selling and distribution expenses maintained at approximately RMB9.7 million for both years ended 30 June 2023 and 2024, accounting for approximately 1.8% and approximately 2.2% of the Group's revenue for the years ended 30 June 2023 and 2024 respectively. The increase in percentage was mainly as a result of the increase of advertising cost for the year ended 30 June 2024.

Administrative expenses

The administrative expenses decreased by approximately 5.0% from approximately RMB80.0 million for the year ended 30 June 2023 to approximately RMB76.0 million for the year ended 30 June 2024, accounting for approximately 15.1% and approximately 17.0% of the Group's revenue for the years ended 30 June 2023 and 2024 respectively. Decrease in administrative expenses was mainly attributable to a decrease in (i) professional fee in relation to the investigation and handling of the unusual transactions and resumption of the shares trading; and (ii) staff costs due to a decrease in staff salaries and incentive payment.

Research and development expenses

The research and development expenses decreased by approximately 10.1% from approximately RMB28.6 million for the year ended 30 June 2023 to approximately RMB25.7 million for the year ended 30 June 2024, accounting for approximately 5.4% and approximately 5.7% of the Group's revenue for the years ended 30 June 2023 and 2024 respectively. Decrease in research and development expenses was mainly attributable to a decrease in material used in research and development activities. 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 decreased by approximately 50.6% from approximately RMB16.4 million for the year ended 30 June 2023 to approximately RMB8.1 million for the year ended 30 June 2024. The Group engaged an independent professional 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 RMB8.1 million. The Group has strengthened its collection policies and holds on-going discussion with the customers with regard to collection and billings, and will even take legal action if necessary.

Other income and gains, net

Other income and gains, net increased by 63.9% from approximately RMB13.2 million for the year ended 30 June 2023 to approximately RMB21.6 million for the year ended 30 June 2024, primarily attributing to an over provision for claims of approximately RMB16.6 million for the year ended 30 June 2024.

Finance costs, net

Finance costs, net of the Group decreased from approximately RMB1.9 million for the year ended 30 June 2023 to approximately RMB1.1 million for the year ended 30 June 2024, primarily attributing to a decrease in interest on other payable for the year ended 30 June 2024 as compared with the corresponding period in 2023.

Impairment loss on property, plant and equipment and investment properties

The Group engaged an independent professional valuer to determine the recoverable amounts of business units of headbox and logistic and warehouse. 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. For the year ended 30 June 2024, no such impairment loss was recorded.

Income tax credit/(expense)

The Group recorded an income tax credit of approximately RMB0.7 million for the year ended 30 June 2024 mainly due to a deferred income tax of approximately RMB1.6 million. For the year ended 30 June 2023, the Group incurred an income tax expense of approximately RMB1.3 million.

Loss for the year and net loss margin

As a result of the foregoing, loss for the year reduced by approximately 64.8% from approximately RMB52.8 million for the year ended 30 June 2023 to approximately RMB18.6 million for the year ended 30 June 2024. The net loss margin improved from approximately 10.0% for the year ended 30 June 2023 to approximately 4.2% for the year ended 30 June 2024.

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 RMB51.2 million for the year ended 30 June 2023 to approximately RMB18.7 million for the year ended 30 June 2024.

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 2024, the Group had cash and cash equivalent balance amounting to approximately RMB96.5 million (30 June 2023: approximately RMB44.0 million) and interest-bearing loans amounting to approximately RMB73.4 million (30 June 2023: approximately RMB69.0 million).

BORROWINGS AND CHARGES OF ASSETS

As at 30 June 2024, the Group's borrowings were approximately RMB73.4 million (30 June 2023: RMB69.0 million), which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an average interest rate of 3.82% per annum (30 June 2023: all denominated in RMB, and bore an average interest rate of 4.15% per annum).

As at 30 June 2024, 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 RMB20.9 million, RMB75.7 million and RMB2.7 million respectively (30 June 2023: approximately RMB39.2 million, RMB81.1 million and RMB70.7 million respectively).

GEARING RATIO

The gearing ratios as at 30 June 2024 and 2023 were approximately 14.7% and 16.4%, respectively. The decrease in gearing ratio was mainly attributable to an increase in the Group's equity as a result of the open offer completed on 18 April 2024. Based on the gearing ratio as at 30 June 2024, 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%.

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 2024; and (ii) did not hold any significant investment as at 30 June 2024.

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 2024 and up to the date of this announcement.

CAPITAL EXPENDITURE

For the year ended 30 June 2024, the Group's capital expenditure amounted to approximately RMB0.8 million (2023: RMB1.1 million).

CAPITAL COMMITMENTS

As at 30 June 2024, the Group had no material capital commitments (30 June 2023: Nil).

CONTINGENT LIABILITIES

Save as disclosed elsewhere in this announcement, the Group had no material contingent liabilities as at 30 June 2024 (30 June 2023: 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 2024. 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 2024, the Group had 228 employees (30 June 2023: 245 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2024 were approximately RMB62.5 million, as comparable to approximately RMB72.6 million for the year ended 30 June 2023. 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

With the implementation of policies to stabilize growth, expand domestic demand, and promote consumption, demand for domestic downstream industries has picked up, and the recovery in consumption has driven up the market demand for printing and writing paper, household paper, packaging paper and other products. It is expected that the domestic paper products market will gradually shift from the off-season to the peak season, and demand from end-users may turn from weak to strong. However, as uncertainty in the global economy still exists, consumer confidence has yet to fully recover. Secondly, factors such as zero tariffs on imported paper and geopolitics still exist. Finally, with the tightening of environmental protection policies and the requirements for sustainable development, the paper making industry will face new challenges.

The paper making equipment market has broad market prospects and development potential. In the future, driven by factors such as the improvement of environmental awareness, the improvement of automation and intelligence levels, and the expansion of regional markets, the paper making equipment industry will usher in broader development opportunities.

In order to promote the high-quality development of the paper making industry, the Group will adhere to consistent quality and services and continue to deepen its transformation and upgrading strategy. The Group will consider first from the customer's perspective and proactively provide customers with cost-effective solutions, continue to establish strategic partnerships with leading domestic and foreign suppliers, and integrate more high-quality products, including high-speed paper-cutting machines, onto the Huazhang platform, allowing customers to choose freely. The Group will also continue to optimize the company's management system, implement lean management, strengthen core competitiveness, improve service quality, and never cease to pursue progress. We will closely follow the guidance of national policies and continue to explore new business opportunities in the field of environmental protection to increase the group's profits. Through these measures, we expect to maintain a leading position in the industry and achieve sustainable development.

In the context of dual carbon, reducing carbon emissions in the paper making industry and improving motor energy efficiency have become one of the important ways. As one of the leading paper making equipment suppliers in China, the Group has begun to deploy permanent magnet motors and IE5 super-efficiency motors, and has signed cooperation related to product applications. Permanent magnet motors and IE5 super-efficiency motors have significant advantages in energy conservation and environmental protection. The Group is committed to injecting new impetus into the sustainable development of the industry, and continues to expand new products and new businesses with a customer-oriented approach to meet greater customer needs.

In order to provide financial support for the expansion of the Group's business and further enhance the Group's competitiveness, the Board of Directors proposed to offer a total of 532,044,689 new shares to shareholders through an open offer at a price of HK$0.20 per share. In April 2024, the open offer was completed, and the net proceeds (after deducting relevant expenses) were approximately HK$104.5 million, which would be used for (i) repayment of bank loans; (ii) the expansion of the Company's industrial automation and other related businesses and the supporting services; and (iii) general working capital of the Company.

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 2024, 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.

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 2024:

	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 2024 *RMB'000*	Unused Net Proceeds as at 30 June 2024 *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	312	2,688	On or before 31 December 2024
— Hiring of additional employees	–	1,500	1,500	1,500	–	–
— 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	45,395	2,688	

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.

USE OF PROCEEDS FROM OPEN OFFER

On 18 April 2024, the Group has successfully issued and allotted 532,044,689 new ordinary shares (with a nominal value of HK$5,320,446.89) at HK$0.20 per share (a discount of approximately 25.93% over the closing price of HK$0.27 per share as quoted on the Stock Exchange on 11 March 2024, the latest practicable date, for the prospectus dated 15 March 2024 ("Prospectus")) through an open offer (the "Open Offer") to existing Shareholders on the basis of one open offer share for every two existing shares held by the qualifying shareholders on 16 February 2024, the record date. The net price per Open Offer share is approximately HK$0.196. The gross proceeds raised from the Open Offer are approximately HK$106.0 million and the net proceeds from the Open Offer after deducting the relevant expenses are approximately HK$104.5 million, which would be used for (i) repayment of bank loans; (ii) the expansion of the Company's industrial automation and other related businesses and the supporting services; and (iii) general working capital of the Company.

The Board believes that it would be in the interest of the Company to raise equity funding via the Open Offer to facilitate long-term development of the Group and to save financial costs to be incurred for the Company's funding needs. In addition, the Open Offer would allow the Company to strengthen its capital base and provide an opportunity to all shareholders (other than the non-qualifying shareholders) to participate in the growth of the Company in proportion to their shareholdings.

The table below sets out the proposed application and the status of utilisation of the net proceeds from the Open Offer as at 30 June 2024:

	Planned	**Net proceeds utilised as at 30 June 2024**	**Net proceeds unutilised as at 30 June 2024**
	HK$'000	*HK$'000*	*HK$'000*
Repayment of bank loans	68,620	40,880	27,740
Expansion of the Company's industrial automation and other related businesses and the supporting services	31,380	–	31,380
General working capital	4,500	4,500	–
	104,500	45,380	59,120

As at 30 June 2024, the Group has used the proceeds from the Open Offer of approximately HK$45.4 million and the unused balance of approximately HK$59.1 million was currently placed into deposits and/or money market instruments. 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 Open Offer are disclosed in the Prospectus, the circular of the Company dated 12 January 2024 and the announcements of the Company dated 1 December 2023, 11 April 2024 and 17 April 2024.

SHARE OPTION SCHEME

A share option scheme of the Company (the "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 can be offered or granted under the 2013 Share Option Scheme since 10 February 2022.

During the year ended 30 June 2024, no share options were granted and exercised under the Share Option Scheme.

As at the date of this announcement, no share option is exercised or granted under the Share Option Scheme. Further details of the options will be disclosed in the annual report.

LEGAL PROCEEDINGS

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) ("Plaintiff") 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 initial Judgement. However, the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts remains in effect.

On 20 December 2023, the Court accepted the Plantiff's request to continue to freeze certain bank accounts of Zhejiang Huazhang to the amount of approximately RMB37.6 million for an additional year.

On 28 June 2024, Zhejiang Huazhang received a judgment from the courts for the retrial of the first instance case in which the courts awarded the Plaintiff compensation for breach of contract in the amount of RMB32,994,295 which had already been recognised in the consolidated financial statements. A retrial of the second instance case or appeal commenced on 5 September 2024 and a judgment is yet to be finalized. Details of the legal proceedings were set out in the Company's announcements dated 21 January 2022 and 9 September 2022.

The above legal proceedings had no material adverse impact on the business operation and financials of the Group. The Company will continue to monitor the progress of the legal proceedings and assess the impact of the proceedings on the Group.

COMPETING INTERESTS

For the year ended 30 June 2024, 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.

CORPORATE GOVERNANCE PRACTICES

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 C1 of the Listing Rules for the year ended 30 June 2024, 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. Mr. Zhu Gen Rong is the former chairman of the Company who was removed from the Board on 10 February 2022 and Mr. Fang Hui has been appointed as the chairman of the Board from 3 May 2024. Following 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 CEO. The role and function of the CEO have been performed by all the executive Directors collectively.

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 until Mr. Fang Hui has been appointed as the chairman of the Board from 3 May 2024.

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 vacancy of the chairman of the Company up to 3 May 2024, no person as chairman of the Company had attended the annual general meeting held on 30 November 2023.

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 C3 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 2024 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

EVENTS AFTER THE REPORTING PERIOD

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

AUDIT COMMITTEE

The audit committee 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. 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 has discussed with the management 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 2024.

SCOPE OF WORK OF KTC PARTNERS CPA LIMITED

The financial figures in respect of the Group's results for the year ended 30 June 2024 as set out in this preliminary announcement have been agreed by the Company's auditor, KTC Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2024. The work performed by KTC Partners CPA Limited in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KTC Partners CPA Limited on this preliminary announcement.

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 2024.

ANNUAL GENERAL MEETING

The 2024 annual general meeting ("AGM") will be held on Friday, 29 November 2024. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto which will be published in due course as required under the Listing Rules.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2024 (2023: nil).

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hzeg.com. The 2024 annual report containing all the information required by Appendix D2 to the Listing Rules will be published on the abovementioned websites in due course and despatched to the shareholders of the Company, upon request.

On behalf of the Board
Huazhang Technology Holding Limited
Fang Hui
Chairman

Hong Kong, 27 September 2024

As at the date of this announcement, the executive Directors are Mr. Fang Hui (Chairman), Mr. Chen Hongwei and Mr. Cai Haifeng and the independent non-executive Directors are Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang.

* *For the purpose of identification only*