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华章科技
HUAZHANG TECHNOLOGY

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 2023

FINANCIAL HIGHLIGHTS

	For the year ended 30 June		
	2023	2022	**change**
	RMB	*RMB*	**%**
Revenue	**528,921,014**	323,868,801	**63.3**
Gross profit	**83,163,610**	33,154,639	**150.8**
Gross profit margin	***15.7%***	*10.2%*	
Loss for the year	**(52,831,060)**	(366,738,839)	**–85.6**
Loss margin	***–10.0%***	*–113.2%*	
Loss attributable to the shareholders of the Company	**(51,248,791)**	(363,753,165)	**–85.9**
Loss per share attributable to the shareholders of the Company for the year (RMB cents per share)			
— Basic loss per share	**(4.82)**	(38.65)	
— Diluted loss per share	**(4.82)**	(38.65)	

The Board does not recommend the payment of a final dividend for the year ended 30 June 2023 (2022: 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 2023, together with the comparative figures for the year ended 30 June 2022, 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 2023

	Notes	2023 RMB	2022 RMB
Revenue	3	**528,921,014**	323,868,801
Cost of sales		**(445,757,404)**	(290,714,162)
Gross profit		**83,163,610**	33,154,639
Other income and gains, net	4	**13,161,604**	18,313,703
Selling and distribution expenses		**(9,666,951)**	(12,768,134)
Administrative expenses		**(79,964,429)**	(77,019,358)
Research and development expenses		**(28,571,835)**	(45,880,831)
Net impairment losses on financial and contract assets	5	**(16,366,419)**	(234,740,801)
Operating loss		**(38,244,420)**	(318,940,782)
Finance income	6	**6,613,505**	4,299,262
Finance costs	6	**(8,485,664)**	(19,733,888)
Finance costs, net		**(1,872,159)**	(15,434,626)
Impairment loss on goodwill	11	**–**	(10,032,101)
Impairment loss on property, plant and equipment		**(2,859,484)**	(1,890,000)
Impairment loss on investment properties		**(8,576,102)**	–
Impairment loss on investment in an associate		**–**	(4,897,538)
Loss before income tax	7	**(51,552,165)**	(351,195,047)
Income tax expense	8	**(1,278,895)**	(15,543,792)
Loss for the year		**(52,831,060)**	(366,738,839)
Loss attributable to:			
The shareholders of the Company		**(51,248,791)**	(363,753,165)
Non-controlling interests		**(1,582,269)**	(2,985,674)
		(52,831,060)	(366,738,839)
Loss per share attributable to the shareholders of the Company for the year (expressed in RMB cents per share)			
Basic loss per share	9	**(4.82)**	(38.65)
Diluted loss per share	9	**(4.82)**	(38.65)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Notes	**2023** *RMB*	2022 *RMB*
ASSETS			
Non-current assets			
Investments in an associate		**–**	50,000
Property, plant and equipment		**62,548,161**	70,773,929
Other right-of-use assets		**6,193,168**	4,622,858
Investment properties		**83,536,088**	98,066,629
Prepaid land lease payments		**72,040,922**	73,752,172
Other intangible assets		**5,610,299**	8,213,256
Goodwill	*11*	**29,902,783**	29,902,783
Financial assets at fair value through profit or loss		**6,196,647**	4,807,255
Trade and other receivables	*12(i)*	**–**	38,542,965
Prepayments	*12(iii)*	**143,662**	156,722
Deferred tax assets		**842,536**	870,371
		267,014,266	329,758,940
Current assets			
Inventories		**153,647,680**	138,104,557
Trade and other receivables	*12(i)*	**175,290,217**	183,968,387
Contract assets	*12(ii)*	**102,243,112**	29,536,441
Prepayments	*12(iii)*	**95,212,255**	95,145,050
Financial assets at fair value through other comprehensive income		**33,342,049**	43,086,801
Pledged deposits		**63,050,840**	28,844,290
Restricted deposits		**38,523,211**	52,312,844
Cash and cash equivalents		**43,983,025**	141,048,866
		705,292,389	712,047,236
Total assets		**972,306,655**	1,041,806,176

	Notes	2023 RMB	2022 RMB
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**4,779,177**	5,153,893
Deferred income		**20,137,500**	21,487,500
Lease liabilities		**3,236,971**	3,389,334
		28,153,648	30,030,727
Current liabilities			
Trade and other payables	*13*	**390,255,878**	406,325,565
Contract liabilities		**123,064,299**	163,933,039
Interest-bearing loans		**68,990,000**	38,500,000
Income tax payable		**7,334,046**	5,866,781
Lease liabilities		**2,908,538**	1,086,798
		592,552,761	615,712,183
Total liabilities		**620,706,409**	645,742,910
Net assets		**351,600,246**	396,063,266
EQUITY			
Share capital	*14*	**8,907,761**	8,907,761
Share premium	*14*	**663,145,447**	663,145,447
Other reserves		**130,456,325**	122,088,285
Accumulated losses		**(444,404,248)**	(393,155,457)
Capital and reserves attributable to the shareholders of the Company		**358,105,285**	400,986,036
Non-controlling interests		**(6,505,039)**	(4,922,770)
Total equity		**351,600,246**	396,063,266

NOTES

FOR THE YEAR ENDED 30 JUNE 2023

1 GENERAL INFORMATION

Huazhang Technology Holding Limited (the "Company") was incorporated on 26 June 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which was suspended from trading on 3 October 2022 and resumed trading on 10 August 2023. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

The consolidated financial statements are presented in Renminbi Yuan ("RMB").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(b) Historical cost convention

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HKFRS 9 Financial Instruments

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

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

HKFRS 16 Leases

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

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

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after 1 January 2024.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to HKAS 8 Definition of Accounting Estimates

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

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

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

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

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

The Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

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

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

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 factories;

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

Supporting services — including after-sales services, machine running services, warehouse and logistic services, supply chain services and renovation services

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

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

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

The segment results for the year ended 30 June 2023:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers within the scope of HKFRS 15	**289,550,869**	**178,454,466**	**10,110,117**	**50,805,562**	**528,921,014**
Timing of revenue recognition					
At a point in time	**289,550,869**	**–**	**9,889,352**	**50,805,562**	**350,245,783**
Over time	**–**	**178,454,466**	**220,765**	**–**	**178,675,231**
Segment cost of sales	**(230,742,366)**	**(169,494,292)**	**(7,339,609)**	**(38,181,137)**	**(445,757,404)**
Segment gross profit	**58,808,503**	**8,960,174**	**2,770,508**	**12,624,425**	**83,163,610**
Segment results	**14,542,797**	**(15,788,184)**	**(5,096,411)**	**(15,372,504)**	**(21,714,302)**
Common administrative expenses					**(41,127,308)**
Other income and gains, net *(Note 4)*					**13,161,064**
Finance costs, net *(Note 6)*					**(1,872,159)**
Loss before income tax					**(51,552,165)**
Income tax expense *(Note 8)*					**(1,278,895)**
Loss for the year					**(52,831,060)**

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	86,011	–	–	1,044,295	–	1,130,306
Depreciation of property, plant and equipment	1,367,636	22,901	954,620	4,322,974	–	6,668,131
Depreciation of investment properties	–	–	–	5,643,697	310,742	5,954,439
Loss on disposals of property, plant and equipment	607	–	–	–	–	607
Net impairment loss on financial and contract assets	9,850,448	926,855	2,355,059	3,234,057	–	16,366,419
Impairment loss on property, plant and equipment	–	–	–	2,589,484	–	2,589,484
Impairment loss on investment property	–	–	–	8,576,102	–	8,576,102
Amortisation of prepaid land lease payments	106,387	–	141,153	1,336,419	127,291	1,711,250
Amortisation of other intangible assets	2,618,484	–	–	10,718	–	2,629,212
Allowance for inventories	381,788	441,846	20,163	108,931	–	952,728

The segment results for the year ended 30 June 2022:

	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Total *RMB*
Segment revenue from external customers within the scope of HKFRS 15	164,916,303	83,849,990	12,758,801	62,343,707	323,868,801
Timing of revenue recognition					
At a point in time	164,916,303	–	6,004,043	62,343,707	233,264,053
Over time	–	83,849,990	6,754,758	–	90,604,748
Segment cost of sales	(129,824,830)	(100,686,846)	(12,058,065)	(48,144,421)	(290,714,162)
Segment gross profit/(loss)	35,091,473	(16,836,856)	700,736	14,199,286	33,154,639
Segment results	(76,652,296)	(142,576,661)	(16,324,672)	(78,951,115)	(314,504,744)
Common administrative expenses					(34,671,842)
Other income and gains, net *(Note 4)*					18,313,703
Impairment loss on investment in an associate					(4,897,538)
Finance costs, net *(Note 6)*					(15,434,626)
Loss before income tax					(351,195,047)
Income tax expense *(Note 8)*					(15,543,792)
Loss for the year					(366,738,839)

Other segment information:

	Industrial products *RMB*	Project contracting services *RMB*	Environmental products *RMB*	Supporting services *RMB*	Unallocated *RMB*	Total *RMB*
Capital expenditure	640,348	–	2,973,615	2,153,398	–	5,767,361
Depreciation of property, plant and equipment	1,187,895	20,633	682,028	4,369,286	–	6,259,842
Depreciation of investment properties	–	–	–	5,643,697	310,742	5,954,439
Loss on disposals of property, plant and equipment	69,956	1,087	14,794	65,340	–	151,177
Net impairment loss on financial and contract assets	57,075,316	113,354,496	6,677,872	57,633,117	–	234,740,801
Impairment loss on goodwill *(Note 11)*	9,311,699	–	–	720,402	–	10,032,101
Impairment loss on property, plant and equipment	–	–	–	1,890,000	–	1,890,000
Amortisation of prepaid land lease payments	81,557	–	108,209	1,336,421	97,583	1,623,770
Amortisation of other intangible assets	2,555,212	–	–	10,068	–	2,565,280
Allowance for inventories	1,770,909	1,669,568	100,662	1,107,573	–	4,648,712

Notes:

There were no inter-segment sales during the years.

Revenue from two (2022: one) customers, accounted for more than 10% of the Group's total revenue for the year, which are shown as follows:

	2023	2022
	RMB	*RMB*
Customer A from project contracting services segment	**N/A[1]**	59,672,556
Customer B from project contracting services segment	**99,344,402**	N/A[1]
Customer C from industrial products segment	**53,539,823**	N/A[1]

[1] The corresponding revenue did not contribute 10% or more of the total revenue of the Group in the respective year.

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

	2023	2022
	RMB	*RMB*
PRC	**527,801,471**	316,962,165
Vietnam	**–**	6,906,636
Others	**1,119,543**	–
	528,921,014	323,868,801

As at 30 June 2023 and 2022, all of the non-current assets of the Group were located in the People's Republic of China.

Segment assets	**2023**	2022
	RMB	*RMB*
Project contracting services	**210,461,872**	181,538,627
Supporting services	**240,119,390**	306,357,498
Industrial products	**330,511,003**	283,782,893
Environmental products	**34,041,858**	37,524,376
Total segment assets	**815,134,123**	809,203,394
Unallocated:		
Cash and cash equivalents	**43,983,025**	141,048,866
Restricted deposits	**38,523,211**	52,312,844
Pledged deposits	**63,050,840**	28,844,290
Deferred tax assets	**842,536**	870,371
Other right-of-use assets	**6,193,168**	4,622,858
Investment properties	**4,436,090**	4,746,831
Prepayments — non-current portion *(Note 12(iii))*	**143,662**	156,722
Total assets	**972,306,655**	1,041,806,176

Segment liabilities	**2023**	2022
	RMB	*RMB*
Industrial products	**255,257,412**	269,995,355
Project contracting services	**151,668,186**	122,996,889
Supporting services	**103,260,486**	88,398,364
Environmental products	**19,566,425**	16,859,944
Total segment liabilities	**529,752,509**	498,250,552
Unallocated:		
Deferred tax liabilities	**4,779,177**	5,153,893
Interest-bearing loans	**68,990,000**	38,500,000
Other payables	**3,705,168**	93,495,552
Income tax payable	**7,334,046**	5,866,781
Lease liabilities	**6,145,509**	4,476,132
Total liabilities	**620,706,409**	645,742,910

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

	2023	2022
	RMB	*RMB*
Contract assets *(Note 12(ii)) (i):*		
Retention receivables *(note)*	**31,137,525**	10,692,396
Contract assets relating to sales of goods	**72,227,038**	15,976,667
Contract assets relating to project contracting services	**13,030,969**	6,616,510
Less: provision for impairment	**(14,152,420)**	(3,749,132)
	102,243,112	29,536,441
Contract liabilities *(i) (ii)*:		
Contract liabilities relating to sales of goods	**93,511,162**	108,971,758
Contract liabilities relating to project contracting services	**29,553,137**	54,961,281
	123,064,299	163,933,039

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers, for which revenue is recognised based on the progress of the provision of related services.

Note: Certain receivables at 30 June 2022 have been reclassified as contract assets to conform with the current year presentation.

(i) Significant changes in contract assets and liabilities

The increase in contract assets was mainly due to some projects were still works in progress before the year ended but have not yet reached the milestone for billing under the contracts. The decrease in contract liabilities was mainly due to recognition of revenue from sales of goods.

(ii) Revenue recognised in relations to contract liabilities

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

	2023	2022
	RMB	*RMB*
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	**81,213,540**	80,075,783

4 OTHER INCOME AND GAINS, NET

	2023	2022
	RMB	*RMB*
Interest income recognised from project contracting services	**1,698,856**	12,311,414
Government grants *(note)*	**8,480,808**	4,557,886
Tax refund	**1,389,210**	7,545
Rental income	**830,947**	638,005
Net fair value gains/(losses) on financial assets at FVPL	**1,389,392**	(640,178)
Lawsuit	**(3,151,894)**	–
Write back of trade and other payables	**2,168,183**	–
Others	**356,102**	1,439,031
	13,161,604	18,313,703

Note:

During the current year, the Group recognised government grants amounted RMB135,746 (2022: RMB26,501) in respect of COVID-19-related subsidies which were granted to the Group under the Employment Support Scheme provided by the Hong Kong government. The remaining grants mainly related to subsidies granted to certain subsidiaries in respect of their operations in the PRC from governments bodies which are either unconditional grants or grants with conditions having been satisfied.

5 NET IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	2023	2022
	RMB	*RMB*
Provision for impairment losses of trade and other receivables that arose from Subject Transactions *(Note i)*	**–**	(95,772,971)
Provision for impairment loss of a major trade debtor *(Note ii)*	**–**	(129,767,173)
Expected credit losses on other financial and contract assets	**(16,366,419)**	(9,200,657)
	(16,366,419)	(234,740,801)

Notes:

(i) During the first half of 2022, when reviewing the balances of the long outstanding receivables of Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly owned subsidiary of the Company, the management of Zhejiang Huazhang discovered a number of abnormal payments and receipts between Zhejiang Huazhang, and three companies which are not subsidiaries of the Company (the "Subject Transactions"), namely (i) Tongxiang Jiafu Paper Equipment Co., Ltd. ("Jiafu Paper"); (ii) Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric"); and (iii) Zhejiang Huazhang Fibertech Co., Ltd. ("Fibertech"). Jiafu Paper was an associate of the Group during the financial year ended 30 June 2022 and was disposed of during the year ended 30 June 2023.

The Subject Transactions related to funding arrangement transactions of significant amounts between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech, which were without any procurement business nature and lacking supporting agreements with Zhejiang Huazhang. Further, most of the Subject Transactions were not properly approved by the Group's internal payment approval procedures, resulting in the existence of outstanding receivables between Zhejiang Huazhang and Jiafu Paper, Yuxin Electric and Fibertech exceeding a reasonable limit. Since the directors of the Company were of the view that the trade and other receivables arose from the Subject Transactions could not be recovered, the Group made provision for impairment losses of trade and other receivables of RMB95,772,971 in the consolidated profit or loss for the year ended 30 June 2022 (2023: Nil). Please also refer to the Company's announcements dated 11 August 2022 and 26 October 2022 for details.

(ii) The amount represented provision for impairment loss of a major trade debtor, which had been past due more than 2 years and was in significant financial difficulty and had defaulted in payment. Although there were pledged assets for the trade debtor, based on the legal advice, the directors of the Company were of the view that there were difficulties in enforcing to recover the pledged assets from the debtor for realisation in the mainland China. As there were significant uncertainties of recovering this receivable, the Group recognised full provision for impairment loss of RMB129,767,173 in the consolidated profit or loss for the year ended 30 June 2022 (2023: Nil).

6 FINANCE COSTS, NET

	2023	2022
	RMB	*RMB*
Finance income		
— Interest income	**3,903,230**	3,119,318
— Net foreign exchange gain	**2,710,275**	1,179,944
	6,613,505	4,299,262
Finance costs		
— Interest on convertible bonds	**–**	(6,891,977)
— Interest on other payables	**(4,257,710)**	(7,400,170)
— Interest on loans	**(3,859,370)**	(5,148,702)
— Interest paid/payable for lease liabilities	**(368,584)**	(293,039)
	(8,485,664)	(19,733,888)
Finance costs, net	**(1,872,159)**	(15,434,626)

7 LOSS BEFORE INCOME TAX

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

	2023	2022
	RMB	*RMB*
Allowance for inventories	**952,728**	4,648,712
Amortisation of prepaid land lease payments	**1,711,250**	1,623,770
Amortisation of other intangible asset	**2,629,212**	2,565,280
Auditor's remuneration	**2,427,483**	2,831,348
Depreciation of property, plant and equipment included in:		
— Cost of sales	**155,798**	996,118
— Administrative expenses	**6,344,401**	4,992,491
— Selling and distribution expenses	**24,663**	119,582
— Research and development expenses	**143,269**	151,651
	6,668,131	6,259,842
Depreciation of other right-of-use assets included in:		
— Administrative expenses	**2,689,433**	1,293,648
Depreciation of investment properties included in:		
— Cost of sales	**5,643,698**	5,643,698
— Administrative expenses	**310,741**	310,741
	5,954,439	5,954,439
Employment benefit expenses included in:		
— Cost of sales	**3,618,277**	1,474,771
— Administrative expenses	**38,224,988**	37,140,927
— Selling and distribution expenses	**6,972,095**	7,380,078
— Research and development expenses	**23,820,979**	34,804,512
	72,636,339	80,800,288
Expense relating to short-term leases	**734,583**	808,185
Loss on disposals of property, plant and equipment	**607**	151,177
Legal and professional fees	**16,464,404**	4,718,262

8 INCOME TAX EXPENSE

	2023	2022
	RMB	*RMB*
Current income tax		
PRC enterprise income tax *(ii)*	**1,625,776**	477,595
Hong Kong profits tax *(iii)*	**–**	–
Deferred income tax	**(346,881)**	15,066,197
	1,278,895	15,543,792

(i) Cayman Islands profits tax

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

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

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

The applicable EIT rate of Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang") is 25% according to the EIT Law. Under the relevant regulations of the EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar year of 2020 with a validation period of three years. The applicable EIT rate of Zhejiang Huazhang is 15% from 1 December 2020 till 30 November 2023. Thus the applicable income tax rate for Zhejiang Huazhang was 15% (2022: 15%) for the year ended 30 June 2023.

(iii) Hong Kong profits tax

Under the two-tiered profits tax regime, Hong Kong profits tax is chargeable at the rate of 8.25% on assessable profits up to HK$2,000,000 and at the rate of 16.5% on any part of assessable profits over HK$2,000,000 for a corporation. No Hong Kong profits tax was provided as there was no estimated assessable profits for the year (2022: Nil).

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 1,064,089,378 (2022: 941,160,490) which represents the shares in issue during the year.

The Company has one (2022: one) category of potentially dilutive potential ordinary shares: share options (2022: share options). The diluted loss per share is same as the basic loss per share as these potential ordinary shares would have anti-dilutive effect for the years ended 30 June 2023 and 2022.

	2023	2022
	RMB	*RMB*
Basic		
Loss		
Loss attributable to the shareholders of the Company	**(51,248,791)**	(363,753,165)
Number of shares		
Weighted average number of ordinary shares in issue during the year	**1,064,089,378**	941,160,490
Basic loss per share (RMB cents)	**(4.82)**	(38.65)
Diluted		
Loss		
Loss attributable to the shareholders of the Company	**(51,248,791)**	(363,753,165)
Number of shares		
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating diluted earnings per share during the year	**1,064,089,378**	941,160,490
Diluted loss per share (RMB cents)	**(4.82)**	(38.65)

During the years ended 30 June 2023 and 2022, the computation of diluted loss per share does not include the Company's outstanding share options because the effect was anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

10 DIVIDEND

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

11 GOODWILL

	Headbox business *RMB*	Logistics and warehousing services *RMB*	Others *RMB*	Total *RMB*
Opening net carrying amount as at 1 July 2021	36,155,379	3,183,135	596,370	39,934,884
Impairment loss recognised for the year	(6,848,966)	(3,183,135)	–	(10,032,101)
Closing net carrying amount as at 30 June 2022 and 2023	29,306,413	–	596,370	29,902,783

Goodwill of the Group mainly arose from the acquisition of Haorong and MCN (together, the "MCN Group") in 2017 which represent the CGU of headbox business and Fu An 777 Logistics Limited ("777 Logistics", together with its subsidiaries, collectively known as the "777 Logistics Group") in 2017 which represent the CGU of logistics and warehousing services.

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

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

	Headbox business	
	2023	2022
Sales (% annual growth rate)	**2.2%**	2.5%–3.0%
Budgeted gross margin (%)	**19.6%**	23.5%
Long term growth rate (%)	**2.2%**	2.5%
Pre-tax discount rate (%)	**20.1%**	19.2%

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

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

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

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

For the year ended 30 June 2023, based on the valuation report prepared by independent professional valuer, Vincorn Consulting and Appraisal Limited ("Vincorn"), the recoverable amount of the headbox business CGU exceeded its carrying amount, no impairment charge arose in the aforesaid CGUs. The management of the Group believes that any reasonably possible change in any of the aforementioned key assumptions would not cause the carrying amount of headbox business CGU to exceed its recoverable amount.

Under the impact of COVID-19 Outbreak in the Mainland China, during the year ended 30 June 2022, the Group's headbox business and logistics and warehousing services business in the PRC were faced with downward pressure. The business was also affected by macroeconomic performance that was affecting the domestic economy. As a result, the directors of the Company expected the projected sales, budgeted gross profit margin and budgeted net profit margin of headbox business CGU and logistics and warehousing services CGU would be decreased and significant impairment loss recognised for the year ended 30 June 2022. An impairment loss of RMB6,848,966 and RMB3,183,135 in respect of the goodwill related to the headbox business CGU and logistics and warehousing respectively were recognised for the year ended 30 June 2022.

Based on the valuation report prepared by independent professional valuer, Valplus Consulting Limited ("Valplus") for the year ended 30 June 2022, the recoverable amounts of the headbox business CGU and logistics and warehousing services CGU are RMB36,663,000 and RMB23,259,790 respectively based on value-in-use calculations.

12 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

(i) Trade and other receivables

	2023	2022
	RMB	*RMB*
Trade receivables	**292,770,950**	315,884,068
Less: provision for impairment of trade receivables *(c)*	**(179,566,793)**	(174,667,301)
Trade receivables — net *(a) & (b)*	**113,204,157**	141,216,767
Bills receivables	**39,906,657**	38,333,671
	153,110,814	179,550,438
Payment on behalf of an independent third party	**–**	3,153,801
Deductible input value added tax	**28,983**	100,298
Loan to a customer	**3,601,624**	2,555,227
Other receivables — guarantee	**188,300**	6,145,397
Others *(note)*	**18,360,496**	31,006,191
Other receivables	**22,179,403**	42,960,914
Total trade and other receivables	**175,290,217**	222,511,352
Less: trade and other receivables non-current portion	**–**	(38,542,965)
	175,290,217	183,968,387

Note:

As at 30 June 2023, included in others are the gross amounts of RMB49,103,484 (2022: RMB49,103,484), RMB39,541,029 (2022: RMB39,541,029) and RMB6,999,500 (2022: RMB7,128,458) due from Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric"), Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu Paper") and Zhejiang Hua Zhang Fibertech Co., Ltd. ("Fibertech") respectively, and provision for impairment of RMB49,103,484 (2022: RMB49,103,484), RMB39,541,029 (2022: RMB39,541,029), and RMB6,999,500 (2022: RMB7,128,458) respectively.

(a) The ageing analysis of the net amount of trade receivables based on the dates that the Group was entitled to collect the revenue is as follows:

	2023	2022
	RMB	*RMB*
Up to 3 months	**78,399,641**	26,944,724
3 months to 6 months	**7,664,258**	1,060,087
6 months to 1 year	**4,675,122**	15,310,129
1 year to 2 years	**9,632,173**	83,965,332
Over 2 years	**12,832,963**	13,936,495
	113,204,157	141,216,767

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

	2023	2022
	RMB	*RMB*
Not due	**67,080,616**	10,717,636
Up to 3 months past due	**11,252,267**	16,169,939
3 months to 6 months past due	**7,629,402**	1,060,087
6 months to 1 year past due	**4,791,913**	15,502,629
1 year to 2 years past due	**9,646,279**	84,019,332
Over 2 years past due	**12,803,680**	13,747,144
	113,204,157	141,216,767

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

	2023	2022
	RMB	*RMB*
At beginning of the year	**174,667,301**	96,219,937
Impairment losses recognised	**4,881,155**	78,447,364
Exchange difference	**18,337**	–
At the end of the year	**179,566,793**	174,667,301

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

	2023	2022
	RMB	*RMB*
At beginning of the year	**181,102,024**	28,051,042
Impairment losses recognised	**1,210,537**	153,050,982
Exchange difference	**3,404**	–
At the end of the year	**182,315,965**	181,102,024

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

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

	2023	2022
	RMB	*RMB*
RMB	**153,438,736**	196,095,556
HK$	**7,208,330**	12,794,566
USD	**14,643,151**	13,621,230
	175,290,217	222,511,352

(ii) Contract assets

	2023	2022
	RMB	*RMB*
Retention receivables *(a)*	**31,137,525**	10,692,396
Contract assets relating to sales of goods	**72,227,038**	15,976,667
Contract assets relating to project contracting services	**13,030,969**	6,616,510
	116,395,532	33,285,573
Less: provision for impairment of contract assets *(b)*	**(14,152,420)**	(3,749,132)
	102,243,112	29,536,441

(a) The retention receivables represent approximately 5% to 10% of the contract value of the sales of the Group which will be collected upon the expiry of the warranty period (which is usually for a period of 18 months from the date of delivery or 12 months after on-site testing, whichever is earlier). Certain receivables at 30 June 2022 have been reclassified as contract assets to conform with the current year presentation.

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

	2023	2022
	RMB	*RMB*
At beginning of the year	**3,749,132**	508,140
Impairment losses recognised	**10,274,727**	3,240,992
Exchange difference	**128,561**	–
At the end of the year	**14,152,420**	3,749,132

As at 30 June 2023 and 2022, the gross amounts of contract assets are denominated in the following currencies:

	2023	2022
	RMB	*RMB*
RMB	**110,014,302**	27,749,063
USD	**6,381,230**	5,536,510
	116,395,532	33,285,573

(iii) Prepayments

	2023	2022
	RMB	*RMB*
Prepayments for procurements	**94,789,330**	94,893,020
Others	**566,587**	408,752
Total prepayments	**95,355,917**	95,301,772
Less: prepayments — non-current portion	**(143,662)**	(156,722)
	95,212,255	95,145,050

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

The Group manages its bills receivable using the business model whose objective is achieved by both collecting contractual cash flow and selling such financial assets and hence, they are categorised as financial assets measured at fair value through other comprehensive income accordance to HKFRS 9.

13 TRADE AND OTHER PAYABLES

	2023	2022
	RMB	*RMB*
Trade payables	**204,050,587**	176,293,302
Bills payable	**59,541,901**	19,077,191
Sub-total	**263,592,488**	195,370,493
Other taxes payables — value added tax	**40,123,900**	46,528,370
Deposits for project contracting services	**6,553,958**	6,553,958
Interest-free loan from independent third parties	**13,080,800**	13,080,800
Amount due to suppliers on a customer's behalf	**13,177,942**	13,419,622
Provision for legal claims *(note)*	**14,799,444**	12,659,277
Accruals	**5,263,774**	4,229,571
Employee benefit payables	**5,451,620**	642,087
Other deposits	**600,568**	627,803
Provision for warranty expenses	**523,838**	523,838
Payables for property, plant and equipment	**325,418**	708,312
Amounts due to related parties	**–**	85,786,822
Interest payable for loans	**591,666**	45,833
Interest payable for convertible bonds	**–**	2,550,040
Others	**26,170,462**	23,598,739
Sub-total	**126,663,390**	210,955,072
Total trade and other payables	**390,255,878**	406,325,565

Note:

As at 30 June 2023, provision for legal claims amounted RMB12,659,277 (2022: RMB12,659,277) was related to a legal claim made by a supplier in July 2020 against the Group in respect of a construction contract.

During the year ended 30 June 2023, the Group recognised a provision for legal claim of RMB2,140,167 made by a supplier (2022: Nil).

No payment has been made to the above claimants pending outcome of the decision. The recognised provision reflects the directors' best estimate of the most likely outcome.

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

	2023	2022
	RMB	*RMB*
Up to 3 months	**90,752,703**	100,962,553
3 months to 6 months	**38,541,414**	7,148,031
6 months to 1 year	**9,427,424**	18,561,739
1 year to 2 years	**30,921,474**	19,953,725
Over 2 years	**34,407,572**	29,667,254
	204,050,587	176,293,302

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

	2023	2022
	RMB	*RMB*
RMB	**386,162,211**	307,049,366
HK$	**4,093,667**	99,009,377
USD	**–**	266,822
	390,255,878	406,325,565

14 SHARE CAPITAL AND SHARE PREMIUM

	2023	2022
	RMB	*RMB*
Issued and fully paid:		
1,064,089,378 (2022: 1,064,089,378) ordinary shares	**8,907,761**	8,907,761

	Number of issued shares	**Share capital**	**Share premium**	**Total**
		RMB	*RMB*	*RMB*
At 1 July 2021	886,741,378	7,471,631	589,857,286	597,328,917
Issue of shares	177,348,000	1,436,130	73,288,161	74,724,291
At 30 June 2022 and 2023	1,064,089,378	8,907,761	663,145,447	672,053,208

On 11 March 2022, the Company issued 177,348,000 ordinary shares at HK$0.53 each, and the net proceeds was used for the partial redemption of the Convertible Bonds.

Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, the share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

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

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

BUSINESS REVIEW

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

Paper Making Related Business

Contracts

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

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

Cost Reduction and Efficiency Enhancement for New Image

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

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

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

Initiative for Breakthroughs and New Area Exploration

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

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

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

Win-win Cooperation for New Market Exploration

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

The Group is eager for exploring new markets in countries along the "Belt and Road". During the year under review, the Group completed the provision of paper machines and rewinder driving systems for PM2 paper machines of Dahua Paper in Nigeria; the provision of paper machines and rewinder driving, DCS and MCS systems for Lee & Man Paper's four 5600/900 packing paper machines in the Malaysia production base;

and the provision of non-reactive high-speed shaking box (無反作用力高頻搖振機) for the PM9 transformation project of Muda Paper* (慕達紙業) in Malaysia. After the relaxation of epidemic control measures, the Group will continue to explore overseas markets with domestic customers to seek new customers.

Renewable Resources Related Business

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

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

FINANCIAL REVIEW

Revenue and gross profit margin

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

(i) Industrial products

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

(ii) Project contracting services

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

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

As the Group have similar purchases from other suppliers with the same terms in respect of this project, the management considered that other suppliers probably will make the same claim against the Group after the 2nd Judgement, therefore, the Group estimated a loss for the claims from other suppliers amounting to RMB18.0 million and recognised in the costs of sales for the year ended 30 June 2022.

(iii) Environmental business

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

(iv) Supporting services

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

Selling and distribution expenses

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

Administrative expenses

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

Research and development expenses

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

Net impairment losses on financial and contract assets

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

Other income and gains, net

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

Finance costs, net

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

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

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

Impairment loss on investment in an associate

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

Income tax expense

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

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

Loss for the year and net loss margin

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

Loss for the year attributable to the shareholder of the Company

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources, loans from banks and equity financing. As at 30 June 2023, the Group had cash and cash equivalent balance amounting to approximately RMB44.0 million (30 June 2022: approximately RMB141.0 million) and interest-bearing loans amounting to approximately RMB69.0 million (30 June 2022: approximately RMB38.5 million).

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

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

BORROWINGS AND CHARGES OF ASSETS

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

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

GEARING RATIO

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

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

TRADE AND OTHER RECEIVABLES

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

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CAPITAL EXPENDITURE

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

CAPITAL COMMITMENTS

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

CONTINGENT LIABILITIES

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

TREASURY POLICY

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

FOREIGN CURRENCY RISK

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

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2023, the Group had 244 employees (30 June 2022: 269 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2023 were approximately RMB72.6 million, as comparable to approximately RMB80.8 million for the year ended 30 June 2022. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. In addition to cash compensation and benefits, we may issue share options to our employees in accordance with our equity plans. During the year, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

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

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

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

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

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

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

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

2022 PLACING OF NEW SHARES UNDER GENERAL MANDATE

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

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

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

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

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

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

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

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

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

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

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

SHARE OPTION SCHEME

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

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

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

As at the date of this announcement, no share option is exercised under the New 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 "Judgement") dated 24 December 2021 handed down by the Intermediate People's Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the "Court") in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings. Zhejiang Huazhang had lodged an appeal application (the "Appeal Application") with the Higher People's Court of Yunnan Province (雲南省高級人民法院) (the "Appeal Court") against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the Judgement and the legal proceedings in question be retried at the Court. The Judgment has been set aside and will not be enforced, but the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts will remain in full force as ordered thereunder. The management expects the amount would become unrestricted within 12 months. Details of the legal proceedings were set out in the Company's announcements dated 21 January 2022 and 9 September 2022.

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

COMPETING INTERESTS

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

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 14 to the Listing Rules for the year ended 30 June 2023, except the following deviations:

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the year ended 30 June 2023 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

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 2023.

SCOPE OF WORK OF KTC PARTNERS CPA LIMITED

The financial figures in respect of the Group's results for the year ended 30 June 2023 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 2023. 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.

EXTRACT OF THE AUDITOR'S REPORT

Basis for qualified opinion

Corresponding figures

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

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

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

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

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

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

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

ANNUAL GENERAL MEETING

The 2023 annual general meeting ("AGM") will be held on Thursday, 30 November 2023. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2023 (2022: 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 2023 annual report containing all the information required by Appendix 16 to the Listing Rules will be published on the abovementioned websites and despatched to the shareholders of the Company in due course.

On behalf of the Board
Huazhang Technology Holding Limited
Fang Hui
Executive Director

Hong Kong, 27 September 2023

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

* *For the purpose of identification only*