华章科技

HUAZHANG TECHNOLOGY

華章科技控股有限公司

# Huazhang Technology Holding Limited

(Incorporated in Cayman Islands with limited liability)

Stock code：1673

# 2017

# Annual Report

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors

Mr Zhu Gen Rong (Chairman)
Mr Wang Ai Yan (Chief Executive Officer)
Mr Jin Hao
Mr Zhong Xin Gang

### Independent Non-Executive Directors

Ms Chen Jin Mei
Mr Dai Tian Zhu
Mr Kong Chi Mo

## AUDIT COMMITTEE

Mr Kong Chi Mo (Chairman)
Ms Chen Jin Mei
Mr Dai Tian Zhu

## REMUNERATION COMMITTEE

Ms Chen Jin Mei (Chairlady)
Mr Dai Tian Zhu
Mr Kong Chi Mo

## NOMINATION COMMITTEE

Mr Dai Tian Zhu (Chairman)
Mr Zhu Gen Rong
Ms Chen Jin Mei
Mr Kong Chi Mo

## COMPANY SECRETARY

Mr Chan So Kuen

## COMPLIANCE OFFICER

Mr Jin Hao

## AUTHORISED REPRESENTATIVES

Mr Zhu Gen Rong
Mr Chan So Kuen

## LEGAL ADVISOR

As to Hong Kong Law

Stevenson, Wong & Co.

# Corporate Information

## AUDITORS

Ernst & Young

## REGISTERED ADDRESS

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

1360 Zhenhua Road
No. 2 Industrial Area
Tongxiang Economic & Technical Development Zone
Tongxiang, Zhejiang Province
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 805A, 8/F
Tower 1, South Seas Centre
75 Mody Road, Tsim Sha Tsui
Kowloon
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE

1673

## WEBSITE

www.hzeg.com

# Financial Summary

| Year ended 30 June | 2017<br>RMB | 2016<br>RMB<br>(Note 1) | 2015<br>RMB<br>(Note 1) | 2014<br>RMB<br>(Note 1) | 2013<br>RMB<br>(Note 1) |
|---|---|---|---|---|---|
| **Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income** | | | | | |
| Revenue | **416,007,189** | 327,260,578 | 301,893,662 | 244,715,266 | 203,352,027 |
| Gross profit | **91,592,396** | 80,695,282 | 74,630,434 | 68,312,056 | 57,983,454 |
| Gross profit margin | **22.0%** | 24.7% | 24.7% | 27.9% | 28.5% |
| Profit attributable to the owners of the Parent | **30,638,948** | 28,332,245 | 27,275,045 | 22,574,206 | 14,304,889 |
| Net profit margin | **7.3%** | 8.3% | 9.0% | 9.2% | 7.0% |
| As 30 June | | | | | |
| **Major Items of Consolidated Statement of Financial Position** | | | | | |
| Non-current assets | **137,945,745** | 79,725,211 | 70,450,806 | 49,713,037 | 39,568,642 |
| Current assets | **489,371,916** | 434,815,090 | 196,527,637 | 252,240,600 | 194,562,890 |
| Non-current liabilities | **67,622,369** | 1,148,227 | 307,234 | 1,079,500 | 643,135 |
| Current liabilities | **239,377,599** | 237,448,888 | 99,570,213 | 144,869,783 | 93,121,167 |
| Capital and reserves attributable to the owners of the Parent | **319,117,623** | 274,462,046 | 167,100,996 | 156,004,354 | 140,367,230 |
| Gearing ratio (Note 2) | **2.6%** | 1.8% | 9.4% | 10.1% | 0.0% |

Notes:

(1) Since Huazhang Technology Holding Limited (the "Company") and its subsidiaries (the "Group") mainly operates its business in the People's Republic of China (the "PRC"), the directors consider that it is more appropriate to use Renminbi("RMB") as the presentation currency of the Group and that the presentation of financial statements in RMB can provide more relevant information for management to control and monitor the performance and financial position of the Group. Accordingly, the Company has changed its presentation currency for the preparation of its consolidated financial statements from HK$ to RMB starting from the financial year ended 30 June 2017. The comparative figures in the financial summary have been restated from HK$ to RMB accordingly.

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

# Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Huazhang Technology Holding Limited ("Huazhang Technology" or the "Company"), I am pleased to report the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2017.

In the first half of 2017, China's gross domestic production ("GDP") grew by 6.9%, the largest since the slowdown in 2015, showing a growth momentum of slow but stable progress and robust development. To facilitate the industry upgrade and transformation of the traditional economy and to support innovative and sustainable development, the Chinese government proactively launched a series of policies aimed at pushing forward industry reform and eradicating outdated capacity. With the robust growth of the macro-economy, and spurred by the reform on supply side, "the Belt and Road" initiative, and other national policies, the paper-making industry underwent industry optimization and upgrade, entering a period of balanced development with unmistakable signs of recovery.

Over the past year, taking the tailwind of the recovering paper-making industry in China and giving fully play to its advantages in the industry, Huazhang Technology united efforts from everyone in the Company to successfully shift from offerings of industrial automation system equipment to that of comprehensive solutions for the paper-making industry. In the June 2017 list of "Top 30 Equipment Manufacturers in China' Light Industry" published by China National Light Industry Council, Huazhang Technology was ranked 7th in the overall ranking, No.1 among paper-making equipment manufacturers. During the year, the Group achieved encouraging results while maintaining its industry-leading position, recording turnover and profit under non-GAAP Financial Measures of RMB416.0 million and RMB38.0 million, respectively, representing a year-on-year growth of approximately 27.1% and 29.4%, respectively. The contracts signed by the Group totaled approximately RMB644.3 million, representing a year-on-year increase of approximately 52.2%.

Looking ahead, the paper-making industry is expected to sustain the positive trend thanks to the ongoing policy support. However, with increasingly tightened environmental protection policies, the paper-making industry will be subject to more stringent environmental protection requirements and the industry concentration will increase. "New Huazhang, New Development, New Dream" is our new policy to address the trend of the paper-making industry and the new direction that Huazhang Technology is heading. Our goal is to offer professional, all-encompassing services in China's paper-making industry and, in the long run, to export complete-set Chinese paper-making equipment. To achieve this goal, we have changed our business segmentation, moving from product-line oriented in the past to business development trend-oriented business segments that engage in developments and efforts in four areas: Intelligent Manufacturing Equipment Business, Major Project Contracting Service, Clean Manufacturing Equipment Business, and Comprehensive Services for Paper-making Plants. To put Intelligent Manufacturing Equipment in action, we took a significant leap forward in mergers and acquisitions for core parts in the past year, including acquisition of Hangzhou MCN paper Tech Co., Ltd. a leading supplier of headbox and high-frequency shake in China, and sought potential acquisition opportunities to achieve intelligent manufacturing of core paper-making parts with enhanced connection with our systems, so as to monitor production and maintenance alarms in real-time, improving the production efficiency and intelligence of the Company. In addition, we strove to provide all-encompassing services for the paper-making industry by continuing to expand our service outlets and acquiring logistics companies and maintenance service companies.

# Chairman's Statement

In this June, I joined the Chinese paper-making exploratory mission in a tour to Finland, where I witnessed the advanced paper-making technology of the country and was deeply touched, realizing that despite the closing gap in technology between Chinese paper-making equipment and that of foreign countries, there was still a formidable distance in the area of advanced technology. Huazhang Technology's "New Dream" is to become a leading solution provider and comprehensive service provider. To this end, we will increase investment in research and development so as to catch up with the world level, and actively explore overseas markets in support of "the Belt and Road" national strategy, helping China to become a powerhouse in the world in paper-making equipment manufacturing.

Lastly, I would like to express my sincere gratitude to the Board, management and our staff for their tenacious efforts and outstanding contributions to the development of the Group in the past year. I would also like to extend my heartfelt thanks to all the business partners, customers and shareholders for their ongoing support to the Group. With their assistance and efforts, the Group will move forward courageously in the new direction of "New Huazhang, New Development, New Dream" and deliver sustainable business growth for creating more values for all parties.

**Zhu Gen Rong**
*Chairman*
Zhejiang, China
5 September 2017

## EXECUTIVE DIRECTORS

**Mr ZHU Gen Rong (朱根榮)**, aged 54, is the chairman of our board and an executive Director. He is also a member of the Nomination Committee and one of our Controlling Shareholders. Mr Zhu oversees the overall operation and is responsible for the overall strategic planning, development, and management of our Group. Mr Zhu has approximately 25 years of experience in the mechanical and engineering industry. Prior to founding our Group, Mr Zhu worked at Hangzhou Project and Research Institute of Electro mechanic in Light Industry (輕工業杭州機電設計研究院) from 1984 to 1993, a state-owned entity principally engaged in the business of, among others, researches in the technology for pulp, paper-making and the automation of electric instruments and he took up several positions including the deputy head of the product development department. He then worked as general manager at Hangzhou Microelectronics Company Limited (杭州華章微電子公司) from 1993 to 1996, a company principally engaged in the business of manufacturing of mixed integrated circuit and electrical ballast, projects of industrial automation system, and the purchasing of materials and equipment for industrial automation systems. He also founded Hangzhou Yiyi Consultation (then known a Hangzhou Huazhang Electric Engineering Company Limited) in December 1996, Hangzhou Rongtai Electric in December 1998 and Shanghai Yunjie Consultation (then known as Shanghai Huazhang Electric Control Engineering Company Limited) in May 1999, of which the businesses of all three companies were then transferred to Huazhang Automation (Zhejiang) in November 2006. Hangzhou Rongtai Electric has been deregistered. Mr Zhu founded Zhejiang Huazhang Technology Limited (浙江華章科技有限公司), the PRC operating subsidiary of our Company, in July 2001. Mr Zhu obtained a diploma in industrial electrical automation (工業電氣自動化) from Nanjing Electrical School (南京機電學校) in July 1984. He has been the vice president of the China Association of the Federation of Industry and Commerce (中華全國工商業聯合會紙業商會) since October 2009.

**Mr WANG Ai Yan (王愛燕)**, aged 50, was appointed and became an executive Director on 1 October 2014. Mr Wang has also been the chief executive officer of the Group since 1 October 2014, who is responsible to oversee the Group's daily operation and accounting and financial matters with the assistance of the chief financial officer of the Group. Mr Wang obtained a bachelor's degree in Electrical automation and an EMBA degree from Zhejiang University (浙江大學) in 1992 and 2014, respectively. Mr Wang has over 20 years of experience in the mechanical and engineering industry. He worked as an assistant engineer at the Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業部杭州機電設計研究所) from 1987 to 1993. From 1993 to 1996, Mr Wang worked as the vice general manager at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司). He worked as the vice general manager at Hangzhou Yiyi Corporate Management Consultation Limited (杭州意義諮詢有限公司) (then known as Hangzhou Huazhang Electric Engineering Company Limited (杭州華章電氣工程有限公司) from December 1996 to August 2006. Mr Wang worked as a director and general manager at Zhejiang Huazhang Automation Equipment Company Limited from September 2006 to September 2014.

# Biographical Details of Directors and Senior Management

**Mr ZHONG Xin Gang (鍾新鋼)**, aged 48, is an executive Director. Mr Zhong oversees and is responsible for the strategic planning, execution and day-to-day management and administration of our Group's sludge treatment products department. Mr Zhong has approximately 26 years of experience in the filter and engineering industry. Mr Zhong joined our Group in July 2011 and is currently the general manager of environmental protection department at Huazhang Technology. Prior to joining our Group, Mr Zhong worked at Hangzhou Better Filter Press Company Limited (杭州貝特過濾機有限公司) which is principally engaged in the manufacture and sale of filter presses, in 2003 and held the position of director. He previously worked at Hangzhou Xingyuan Filter Technology Company Limited (杭州興源過濾科技有限公司) which is principally engaged in the manufacture and sale of filter presses, from August 1991 to April 2003 and was the chief of the technical department. Mr Zhong studied in Zhejiang University (浙江大學) specialized in chemical mechanic in 1987. Mr Zhong has been a member of the executive council and the experts committee of the forth (from 2003 to 2006), fifth (from 2007 to 2011) and sixth (from 2012 to 2015) of China General Machinery Industry Association-Separation Machinery Sub-Association (the"Sub-Association") (中國通用機械工業協會分離機械分會); and committee member of the forth (from 2003 to 2006), fifth (2007 to 2011), sixth (2012 to 2015) and seventh (2016-2021) of National Standardization Technical committee of Separation Machinery (全國分離機械標準化技術委員會).

**Mr JIN Hao (金皓)**, aged 46, is an executive Director. Mr Jin oversees and is responsible for the strategic planning, execution and day-to-day management and administration of our Group's industrial automation system department. Mr Jin has approximately 24 years of experience in the electric and engineering industry. Mr Jin joined our Group in 2001. Mr Jin worked at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司) from July 1993 to December 1995 as project person in charge. Mr Jin joined Hangzhou Yiyi Consultation (formerly known as Hangzhou Huazhang Electric Engineering Company Limited) in 1996 and worked as the general manager in the engineering department until 2001. He served as the engineering general manager at Huazhang Technology from 2001 to 2009 served as the general manager of the industrial automation department of Huazhang Technology since 2009 and served as the general manager of the project division of Huazhang Technology since 2016. Mr Jin obtained a bachelor's degree in electrical engineering from Zhejiang University (浙江大學) in June 1993.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr DAI Tian Zhu (戴天柱)**, aged 63, is an independent non-executive Director and the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee respectively. Mr Dai was appointed as an independent non-executive Director on 6 May 2013. Mr Dai obtained a graduate certificate in pulp of Paper Manufacturing Technology from the Zhejiang University of Technology (浙江工業大學) (formerly known as Zhejiang Institute of Technology (浙江工業學院)) in January 1982. He then obtained a master degree in economy planning and management from the Chinese Academy of Social Sciences Graduate School (中國社會科學院研究生院) in January 1989. Mr Dai obtained a doctorate degree in economics from the Chinese Academy of Social Sciences Graduate School (中國社會科學院研究生院) in July 1997. He was a member of the Eight Chinese People's Political Consultative Conference of Zhejiang Province (中國人民政治協商會議浙江省第八屆委員會), and a member of the Economic Commission of Zhejiang Province (浙江省第八屆省政協經濟委員會委員) in 1998. Mr Dai was the deputy director of Centre of Scientific Research of Zhejiang University of Finance and Economics (浙江財經學學院科研所) in 1998 , a professor of the department of finance and a member of the academic committee of the Shanghai University of International Business and Economics (previously known as Shanghai Institute of Foreign Trade (上海對外貿易學院)) from March 2006. Mr Dai served as an independent director in Tian He Securities Company Limited (天和證券經紀有限公司) from December 2003 to December 2006. He was the main editor of teaching material "Theory and practice of investment banking operations" (投資銀行運作理論與實務) for high school students.

**Ms CHEN Jin Mei (陳錦梅)**, aged 65, is an independent non-executive Director, and is the chairlady of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee respectively. Ms Chen was appointed as an independent non-executive Director on 6 May 2013. Ms Chen began to work in November 1969, and joined the Hangzhou Municipal Finance Bureau (杭州市財政局) in July 1980. Ms Chen was the deputy director general of Hangzhou Municipal Finance Bureau from July 1997 to June 2002 and the director general of Hang Zhou Municipal Finance Bureau and the director general of Hangzhou Local Tax Bureau from June 2002 to April 2011. She then retired from her duties at the Hangzhou Municipal Finance Bureau in August 2012. Ms Chen obtained a bachelor's degree in accounting from the Hangzhou Institute of Electronic Engineering (杭州電子工程學院) in July 1997. She (i) completed all the courses for a post graduate degree in management engineering from Zhejiang University (浙江大學) in June 1998; (ii) graduated with a post graduate degree in political economics from Zhejiang Provincial Party School (中共浙江省委黨校) in July 2000 and (iii) obtained master's degree in business administration from the Macau University of Science and Technology (澳門科技大學) in August 2005. She also obtained the qualification of a professor-level senior accountant (教授級高級會計師) in December 2010.

**Mr KONG Chi Mo (江智武)** FCCA, FCIS, FCS & MHKIoD, aged 42, has been an independent non-executive Director since 6 May 2013. He is the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee respectively. Mr. Kong has over 19 years of experience in auditing, corporate finance, investor relations and corporate governance. Mr. Kong currently holds various positions in the following companies listed on the Main Board of the Stock Exchange: i) Hengshi Mining Investments Limited (Stock code: 01370) appointed as the independent non-executive director since June 2013; ii) Starlight Culture Entertainment Group Limited (previously known as Jimei International Entertainment Group Limited) (Stock code: 01159) appointed as the independent non-executive director since May 2017; and iii) China Vanadium Titano-Magnetite Mining Company Limited ("China Vanadium") (Stock code: 00893) appointed as the company secretary and authorised representative since September 2009.

Mr. Kong was the executive director and chief financial officer of China Vanadium from October 2013 to May 2015 and from May 2008 to May 2015, respectively. Mr. Kong was the independent non-executive director of CAA Resources Limited (Stock code: 02112) from April 2013 to August 2017. Mr. Kong worked at KPMG from October 1999 to December 2007 and was promoted to senior manager during his term of office. Prior to joining KPMG, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited from June 1997 to March 1998, and as an associate in PricewaterhouseCoopers from March 1998 to October 1999.

Mr. Kong obtained his bachelor degree in business administration from the Chinese University of Hong Kong in December 1997. Mr. Kong became a fellow of the Association of Chartered Certified Accountants in February 2008, a member of the Hong Kong Institute of Directors ("HKIoD") in May 2010, and a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in February 2012. Mr. Kong received silver, gold and bronze certificates of merit in continuing professional development in 2013, 2014 and 2015, respectively from the HKIoD.

## SENIOR MANAGEMENT

**Mr LIU Chuan Jiang (劉川江)**, aged 53, is the deputy general manager and quality assurance director of Zhejiang Huazhang Technology Limited ("Zhejiang"). Mr Liu has approximately 24 years of experience in the mechanical and engineering industry. He joined our Group in 2001 and is currently the deputy general manager and quality assurance director of Zhejiang Huazhang and was also previously the technical director of Zhejiang Huazhang. Mr Liu obtained a bachelor's degree in electrical engineering and computer science from the Southwest Jiaotong University (西南交通大學電氣工程及計算機科學學士) in August 1984 and a master's degree in electrical engineering from Shanghai Railway Institute (上海鐵道學院電氣工程系碩士學位) in October 1989. Mr Liu obtained his professional qualification as an engineer by the Department of Light Industry (中華人民共和國輕工業部) of the PRC in July 1991.

**Mr CHAN So Kuen (陳素權)**, aged 37, is company secretary, chief financial officer and authorized representative of the Company with effect from 28 February 2014. Mr Chan has been appointed as an independent non-executive director of Link Holdings Limited (Stock code: 08237) and Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (Stock code: 08252) since 16 October 2014 and 15 January 2015, respectively. Mr Chan has over 15 years of experience in financing, auditing and accounting. Mr Chan is a member of the Hong Kong Institute of Certified Public Accountants and obtained a bachelor's degree in accountancy from The Hong Kong Polytechnic University in 2001.

# Management Discussion and Analysis

## SUMMARY

The Group is principally engaged in research and development, manufacture and sale of industrial automation systems and sludge treatment products, and already has been in the paper-making industrial for over 16 years. The Group industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers. Moreover, we are also engaged in the provision of after-sales and other services to our existing customers. In March 2017, the Group signed an agreement with a Taiwanese environmental protection company in respect of treatment of paper sludge and solid waste in the paper industry, thereby officially commence the solid waste treatment business.

In recent years, the Group adapted to the development trend of the paper-making industry and changed from an automation system equipment provider to a comprehensive service provider for the paper-making industry. To pursue the goal of providing professional, all-encompassing services for the paper-making industry, the Group has divided its business development into the following four main areas:

### Intelligent Manufacturing Equipment Business

Intelligent Manufacturing Equipment Business includes industrial automation system equipments and other paper-making-related production machines and equipments. The automation system is used to control production process and consequently improve the efficiency of the production lines.

### Project Contracting Service

Project Contracting Service mainly includes system integration of complete-set paper-making equipments. By working with financing lease companies, the Group provides clients with "Design", "Production", and "Services" modes ("One-stop service"). In addition to helping clients design industrial automation system or clean manufacturing products, the Group make the most of its technical advantage and provides value-added services for clients by using the Group's industrial automation system and the products of the same to design or transform their production lines.

### Clean Manufacturing Equipment Business

The Group provides comprehensive treatment for wastewater, sludge, and solid waste produced in paper-making process by paper-making companies.

Sludge treatment product refer to the water separation system produced by using the software developed by the Group and hardware purchased from suppliers, which is used to separate solid and liquid in the treatment of industrial waste, so as to lower the sludge treatment costs and meet the requirements of the Chinese government on environmental protection. The Group's sludge treatment products include two types: ordinary filter press and steel-belt filter press.

The wastewater treatment business refers to the design of wastewater treatment facility, equipment installation work, and auxiliary services provided by the Group to clients, used mainly in wastewater treatment plant works, water supply plant works, architectural intelligence works, integration of computer management and control works, and other industrial auto-control works.

The solid waste treatment business involves the exclusive introduction of the Refuse Derived Fuel technology into China's paper-making industry by the Group through the agreement with the Taiwanese environmental protection company, turning wastes into combustible fuels, suitable for paper-making companies with their own power plants and boilers.

### Comprehensive Services for Paper-making Plants

Comprehensive Services for Paper-making Plants refers to the after-sale and maintenance services, sale of paper-making equipment parts, and other paper-making plant-related services provided by the Group for clients.

## INDUSTRY REVIEW

Over the past year, the Chinese economy progressed slowly yet stably. In 2016, the GDP grew at a rate of 6.7%, well-within the expected range (6.5%-6.7%) of the Chinese government. In the first half year of 2017, China's GDP grew at a rate of 6.9%, an increase in percentage point showing a robust growth momentum. Against the backdrop of the stable macro-economy, the paper-making industry in which the Company operated was driven by the reform on the supply side, the national environmental protection initiatives, the eradication of out-dated capacity, and the growth in market demand, and witnessed an accelerated pace of paper price increase. In particular, since the second half year of 2016, prices have generally been increasing in the paper-making industry in China due to, among other things, the increased cost of wood pulp, waste paper, logistics and coal, and showing signs of recovery in the industry with a potential of a prolonged boom.

Propelled by the increase in demand, the paper-making industry is expected to have larger development potentials. Since 2009, China has become the largest paper and cardboard production base in the world. Although the per capita consumption of the Chinese exceeds the world average, there is still great room for improvement considering the per capita consumption of over 200 kg for developed countries. Paper and cardboard consumption was once an important indicator of the level of modernization and civilization of a country. In the long run, with the continuous and steady expansion of China's national economy, the paper-making industry's growth potential will continue to expand steadily, its industry structure optimized, and the concentration level will continue to increase. Affected by factors such as economic development level, raw materials supply, and market price fluctuation, the paper-making industry will undergo a new round of structure adjustment. In the future, companies with clear resource advantages and strong integration capability will gain a competitive advantage and achieve better growth.

Moreover, as environmental protection policies continue to tighten in China, improving capacity and promoting compliant clean manufacturing have become the focus of the industry. On 5 January 2017, the Ministry of Environmental Protection issued Interim Measures for the Administration of Pollutant Discharge Licenses (排污授權管理暫行條例), requiring licenses for pollutant treatment facilities as well as concentration, quantity, and management of pollutants, and providing that paper-making industry nationwide must obtain licenses before engaging in pollutant treatment as of 1 July 2017. With increasingly stringent environmental protection regime, various environmental protection policies were issued, indicating the eradication of out-dated capacity will remain a key task for the reform on the supply side in the paper-making industry during the 13th Five Year Plan. Therefore, for paper-making companies that have yet to meet the new environmental protection requirements, more investment must be made to meet such requirements. In particular, investment and operating cost in wastewater treatment will increase for manufacturing companies.

# Management Discussion and Analysis

## OPERATION DISCUSSION AND ANALYSIS

During the year, guided by the new policy of "New Huazhang, New Development, New Dream", employees of the Group continued to live up to our corporate philosophy, namely, "integrity, dedication, learning and innovation" and achieved encouraging results. For the year ended 30 June 2017, the Group recorded a turnover and profit under the non-GAAP financial measures of approximately RMB416.0 million and RMB38.0 million, respectively, representing a year-on-year growth of approximately 27.1% and 29.4%, respectively. With such results, the Group accomplished various performance and financial indicators set at the beginning of the year.

For the year ended 30 June 2017, the aggregate value of contracts signed by the Group amounted to approximately RMB644.3 million, representing an increase of approximately 52.2% over the same period in 2016. Among the signed contracts, contracts of project contracting services for the paper-making industry amounted to RMB437.9 million, representing an increase of 84.5% over the same period in 2016. Currently, the market demands for paper-making project contracting services are strong, mainly because many medium and large paper-making companies lack necessary technologies and capable engineers. In this regard, the Group, with over 16 years of industry experience and over 100 engineers and project management personnel, is well-equipped to help clients set up a variety of production lines and provides comprehensive solutions, and establishes competitive advantages in the industry.

During the year, to address the strong demand in the paper-making industry for quality improvement, effective productivity integration, and cost reduction, and to meet more stringent regulatory requirements, the Group efficiently executed relevant strategies to help paper-making companies effectively improve capacity and meet various clean manufacturing requirements. As a result, the Group gained advantages in the process of accelerated industry consolidation. The Group united efforts of all employees to tackle the challenges and achieved remarkable progress in its business. In particular, the Group executed the following strategies in the year ended 30 June 2017:

### Accelerated Merger and Acquisition for Core Parts

By acquiring upstream manufacturer of core parts, the Group expanded its capability in intelligent manufacturing and helped paper-making companies implement auto-control. In May 2017, the Group acquired the entire interests in Hangzhou Haorong Technology Co., Ltd ("Hangzhou Haorong") and Hangzhou MCN Paper Tech Co., Ltd ("Hangzhou MCN", and together, "MCN Group"). Founded in 2001, Hangzhou MCN was a leading supplier of headbox and high-frequency shake in China, owning multiple proprietary technologies and intellectual property rights. Hangzhou Haorong was founded in 2006 and its main businesses include development of various control systems for high-frequency shake and headbox. Acquisition of manufacturers of core parts helped the Group carry out the plan of replacing imported parts with Chinese proprietary core parts, achieve economies of scale, and command more control in integration at technical level, thereby helped the Group realize the Chinese Dream at the high-end of the industry.

## Expanded Distribution of Industry Service Outlet

The Group expanded distribution of service outlet to provide complete value-added services for the paper-making industry. In May 2017, the Group announced the intention to acquire Wuxi Refine Technology Co,. Ltd. ("Wuxi Refine") to strength its capability of after-sale and maintenance services. Wuxi Refine principally engages in the business of maintenance and upgrade services. In June 2017, the Group announced the acquisition of all issued share capital and shareholders' loan of Fu An 777 Logistics Limited ("777 Logistics", together with its subsidiaries, "777 Logistics Group"). 777 Logistics Group mainly engages in logistics and warehouse business. It is currently constructing a logistics and warehouse centre in Yangjiang, Guangdong Province which is capable of providing bonded logistics services of raw materials, equipment and supplies for paper-making companies. Such logistics and warehouse centre is expected to be completed at the end of this year. The acquisition helped the Group establish a one-stop integrated service platform through further integration of internal resources and promote all-encompassing services to paper-making companies.

## Improved Clean Manufacturing Business

Through strategic cooperation, the Group continued to provide comprehensive solutions for clean manufacturing of the paper-making industry. In March 2017, the Group entered into an Exclusive Cooperation Agreement with a Taiwanese environmental protection company, Kun Sheng Machine Co., Ltd., which introduced the Refuse Derived Fuel technology into China's paper-making industry. Kun Sheng Machine Co., Ltd is a global leader in treatment of paper sludge and solid waste in the paper industry. The strategic cooperation further strengthened the Group's competitiveness in green manufacturing technology and product in the paper-making industry and enabled the Group to expand from the existing wastewater and sludge treatment to treatment of paper sludge and solid waste, helping paper-making companies meet regulator's environmental protection requirements, and improving the Group's clean manufacturing business.

## Proactively Explored Overseas Markets

In the second half of 2016, in support of the national "the Belt and Road" strategy, the Group established the overseas business division to actively explore the overseas markets. In the past year, staffs of overseas business division have visited paper-making enterprises in countries in Middle East and Southeast Asian. The Group made contact with a number of potential customers, and negotiated the business opportunities.

In addition, in December 2016, Zhejiang Huazhang Technology Co., Ltd., a subsidiary of the Group, acted as a host of the Indian Paper-making Enterprise China Delegation, which was organized by the Indian Pulp and Paper Technology Association (IPPTA) and the National Federation of Industry and Commerce Paper Industry Association (CPICC). The Indian Paper-making Enterprise China Delegation invited 34 Indian paper and paper-making equipment companies to visit the Groups plant in Tongxiang and presented the latest paper-making technologies and sludge treatment solutions. In June 2017, at the invitation of Finnish Paper Engineers' Association, Zhu Gen Rong, the Chairman of the Group, joined the Chinese paper-making exploratory mission led by China Paper and Pulp Industry Chamber of Commerce in a visit to Finland for the purpose of exploration and exchange as well as project docking. Through expansion in overseas markets and strengthening industry exchange overseas, the Group will help China become a powerhouse in the world in paper-making equipment manufacturing.

# Management Discussion and Analysis

### Competitive Strength Recognized by the Industry

In November 2016, the China Paper and Pulp Industry Chamber of Commerce (CPICC) hosted the 9th China Paper Industry Development Conference cum 10th CPICC Anniversary Meeting (第九屆中國紙業發展大會暨紙業商會十周年大會), at which the Group was awarded two prizes, namely, the Leadership Award (領軍力量獎) and the Motivation Award (自主力量獎) under the "China Cailun Award", demonstrating the recognition given by industry peers to the Group's technology, products and services. In the June 2017 list of "Top 30 Equipment Manufacturers in China Light Industry" published by China National Light Industry Council, Huazhang Technology was ranked the seventh overall ranking, and the first among paper-making equipment manufacturers.

In addition, in June 2017, the Group jointly hosted the 2017 Chinese Paper-making Industry Executive Summit in Tongxiang, Zhejiang, which attracted over 170 organizations within the industry to participate.

## FINANCIAL REVIEW

### Revenue and gross profit margin

Revenue increased by approximately 27.1% from approximately RMB327,261,000 for the year ended 30 June 2016 to approximately RMB416,007,000 for the year ended 30 June 2017. Gross profit margin decreased form approximately 24.7% for the year ended 30 June 2016 to approximately 22.0% for the year ended 30 June 2017.

### Industrial automation systems

Revenue from sales of industrial automation systems decreased by approximately 14.8% from approximately RMB90,404,000 for the year ended 30 June 2016 to approximately RMB77,064,000 for the year ended 30 June 2017. Such decrease was primarily attributable to the decrease in export sales through trading agency from approximately RMB24,684,000 for the year ended 30 June 2016 to approximately RMB5,491,000 for the year ended 30 June 2017. The gross profit margin of industrial automation systems increased from approximately 29.7% for the year ended 30 June 2016 to approximately 34.2% for the year ended 30 June 2017. For the year ended 30 June 2017, the Group have established overseas business division to develop overseas markets and explore for direct export sales.

### Project contracting services

Revenue from project contracting services increased significantly by approximately 56.8% from approximately RMB150,175,000 for the year ended 30 June 2016 to approximately RMB235,483,000 for the year ended 30 June 2017. The revenue from project contracting services was recognised under the completion percentage method, and was partially offset by financial components in relation to the discount of instalment receivables. Such instalment receivables generally have repayment periods of approximately 2-3 years and the financial components are recognised as interest income using effective interest method over repayment periods.

# Management Discussion and Analysis

Since 2014, the Group has been to developing the project contracting services business, an one-stop service which includes the provision of "design", "production" and "service". The number of projects in progress and revenue from such projects increased from 3 and approximately RMB152,486,000 for the year ended 30 June 2016 to 6 and approximately RMB242,597,000 for the year ended 30 June 2017, respectively, as project of the scale become large. The increase in revenue from the projects was offset by the financial components, which increased from approximately RMB2,311,000 for the year ended 30 June 2016 to approximately RMB7,113,000 for the year ended 30 June 2017. The gross profit margin of project contracting services decreased from approximately 21.3% for the year ended 30 June 2016 to approximately 15.2% for the year ended 30 June 2017 mainly due to the increase in financial components and decrease in profit margin of a project.

### Sludge and wastewater treatment business

Revenue from sales of sludge and wastewater treatment business increased by approximately 4.4% from approximately RMB46,565,000 for the year ended 30 June 2016 to approximately RMB48,615,000 for the year ended 30 June 2017, primarily attributing to the increase in the sales of wastewater treatment products. The gross profit margin of sludge and wastewater treatment business increased from approximately 24.2% for the years ended 30 June 2016 to approximately 31.2% for the year ended 30 June 2017, primarily due to the increase was a result of improvement of gross profit margin of wastewater treatment business.

### After-sales and other services

Revenue from after-sales and other services increased by approximately 36.7% from approximately RMB40,116,000 for the year ended 30 June 2016 to approximately RMB54,844,000 for the year ended 30 June 2017. Such increase was primarily attributable to the increase in sales of the electrical components and equipment and increase in after-sales services. The gross profit margin for after sales and other services remained stable at approximately 26.2% and approximately 26.1% for the year ended 30 June 2016 and 2017, respectively.

### Other income

Other income increased from approximately RMB3,374,000 for the year ended 30 June 2016 to approximately RMB5,907,000 for the year ended 30 June 2017, primarily due to the increase in bidding-service income of approximately RMB1,019,000, the increase in government grant of approximately RMB781,000 and the increase in consultation income of approximately RMB2,201,000 for the year ended 30 June 2017 as compared with year ended 30 June 2016. Such increase was offset by the decrease in gain on disposal of an available-for-sales investment of RMB1,331,000 as no such transaction was recorded for the year ended 30 June 2017.

### Selling and distribution expenses

The selling and distribution expenses increased by approximately RMB1,143,000 from approximately RMB8,578,000 for the years ended 30 June 2016 to approximately RMB9,721,000 for the years ended 30 June 2017. Selling and distribution expenses accounted for approximately 2.6% and 2.3% of the Group's revenue for the years ended 30 June 2016 and 2017, respectively. The increase in amount for the year ended 30 June 2017 was mainly attributable to the increase in product maintenance expenses of approximately RMB903,000, as the Group provided certain after-sales service free of charge in order to maintain the business relationships with certain customers.

# Management Discussion and Analysis

### Administrative expenses

The administrative expenses increased by approximately RMB3,263,000 from approximately RMB29,061,000 for the year ended 30 June 2016 to approximately RMB32,324,000 for the year ended 30 June 2017. Administrative expenses accounted for approximately 7.7% of the Group's revenue for the year ended 30 June 2017, as compared with approximately 8.9% last year. The increase in amount for the year ended 30 June 2017 was primarily due to the increase in auditor's remuneration and other professional fees by the aggregate amount of approximately RMB882,000, which was mainly related to services provided for the acquisition transactions and issuance of convertible bonds and increase in salaries and employee benefit expenses amounting to approximately RMB1,146,000 in relation to increase in number of management personnel.

### Research and development expenses

The research and development expenses increased by approximately RMB2,548,000 from approximately RMB11,910,000 for the year ended 30 June 2016 to approximately RMB14,458,000 for the year ended 30 June 2017. Research and development expenses accounted for approximately 3.5% of the Group's revenue for the year ended 30 June 2017, as compared with approximately 3.6% last year. The increase in amount for the year ended 30 June 2017 was mainly attributable to the increase in number of staff in the research and development department. The Group focused on development of technologies in relation to intelligence manufacturing and environment protection in paper-making industry. During the year, the Group obtained 8 new patents in relation to control systems and software copyright.

### Finance (expense)/income – net

The net finance expense for year ended 30 June 2017 was approximately RMB2,158,000 as compared to a net finance income of approximately RMB1,097,000 for the year ended 30 June 2016. Such change was attributing to the interest expenses of approximately RMB3,585,000 in relation to issuance of convertible bonds with a coupon rate of 5.0% in March 2017.

### Income tax expense

Income tax expense remained relatively stable, which was approximately RMB6,352,000 for the year ended 30 June 2017 and approximately RMB6,232,000 for the year ended 30 June 2016.

The effective tax rates of the Group for the years ended 30 June 2016 and 2017 were 18.7% and 17.3% respectively. The decrease was primarily attributable to the re-measurement of deferred income tax, which increased from approximately RMB100,000 for the year ended 30 June 2016 to approximately RMB352,000 for the year ended 30 June 2017.

### Profit for the year and net profit margin

Profit for the year increased by approximately RMB3,285,000 from approximately RMB27,073,000 for the year ended 30 June 2016 to approximately RMB30,358,000 for the year ended 30 June 2017. At the same time, the net profit margin decreased from approximately 8.3% for the year ended 30 June 2016 to approximately 7.3% for the year ended 30 June 2017. Such decrease was primarily attributable to the decrease in gross profit margin.

### Profit attributable to the owners of the parent

Profit attributable to the owners of the parent increased by approximately RMB2,307,000 from approximately RMB28,332,000 for the year ended 30 June 2016 to approximately RMB30,639,000 for the year ended 30 June 2017.

### Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain additional non-GAAP financial measures (in terms of, profit for the year, profit attributable to owners of the Company, basic earnings per share and diluted earnings per share), have been presented in this annual report. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of discounting of receivables from instalment transactions. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

The following tables set forth the reconciliation between the non-GAAP financial measures and measures prepared in accordance with Hong Kong Financial Report Standard ("HKFRS") for the year ended 30 June 2017 and 2016:

| | | Year ended 30 June 2017 | | |
|---|---|---|---|---|
| | **As reported** | **Amortised costs of liability component of the convertible bonds** (Note 1) | **Financial components from provision for project contracting services** (Note 2) | **Non-GAAP** |
| | RMB | RMB | RMB | RMB |
| **Profit for the year** | **30,357,878** | **2,470,064** | **5,197,987** | **38,025,929** |
| **Profit attributable to owners of the Company** | **30,638,948** | **2,470,064** | **5,197,987** | **38,306,999** |
| **Earnings per share (RMB cents per share)** | | | | |
| **– basic** | **5.10** | | | **6.38** |
| **– diluted** | **5.10** | | | **6.38** |

| | As reported RMB | Year ended 30 June 2016<br>Amortised costs of liability component of the convertible bonds (Note 1) RMB | Financial components from provision for project contracting services (Note 2) RMB | Non-GAAP RMB |
|---|---|---|---|---|
| Profit for the year | 27,073,259 | – | 2,310,906 | 29,384,165 |
| Profit attributable to owners of the Company | 28,332,245 | – | 2,310,906 | 30,643,151 |
| Earnings per share (RMB cents per share) | | | | |
| – basic | 4.73 | | | 5.11 |
| – diluted | 4.73 | | | 5.11 |

Notes:

(1) Amortised costs of liability component of convertible bonds is the amount at which the convertible bonds was measured at initial recognitions plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

(2) Financial components from provision for project contracting services combines the difference between the sales price and the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest, and the difference to be recognised as revenue as interest element using the effective interest method.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year ended 30 June 2017. The Group was principally financed through internal resources, interest-bearing loans and the issuance of convertible bonds during the year. As at 30 June 2017, the Group had cash and cash equivalent balance of approximately RMB50,554,000 (30 June 2016: approximately RMB63,359,000) and interest-bearing loans of approximately RMB8,626,000 (30 June 2016: approximately RMB5,078,000).

### Convertible Bonds

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

Pursuant to the bond subscription agreement, the convertible bonds are:

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

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

### Borrowing and charges of assets

As at 30 June 2017, the Group's interest-bearing loans were approximately RMB8,626,000 in aggregate (30 June 2016: RMB5,078,000). The interest-bearing loans are repayable within 1 year. Such loans were all denominated in RMB, and bear an interest range of 3.0% to 7.2% per annum (30 June 2016: all denominated in RMB and 7.2% per annum).

As at 30 June 2017, the unused banking facilities of the Group were RMB53,794,000 in aggregate (as compared to RMB25,804,000 as at 30 June 2016). The banking facilities granted by banks were secured by property, plant and equipment, prepaid land lease payments and investment properties of the Group amounting to approximately RMB32,199,000 and RMB3,354,000 and RMB6,301,000, respectively, as at 30 June 2017 (30 June 2016: RMB34,713,000 and RMB3,459,000 and RMB6,611,000, respectively).

### Gearing ratio

The gearing ratios as at 30 June 2016 and 2017 were approximately 1.8% and 2.6% respectively. The increase in gear ratio was mainly attributable to the increase in Group's interest bearing loans from approximately RMB5,078,000 as at 30 June 2016 to approximately RMB8,626,000 as at 30 June 2017. Based on the gearing ratio as at 30 June 2017, the Group still maintained a good financial position.

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

### Trade and bills receivables

Trade and bills receivables increased by approximately RMB151,712,000 from approximately RMB247,766,000 as at 30 June 2016 to approximately RMB399,478,000 as at 30 June 2017. The increase was mainly attributable to the Group's provision of the project contracting services, in which the Group allowed the customers to extend the repayment period to 2-3 years and to settle the receivable by instalment through finance lease companies. The Group believes that this model will enable the Group to improve market competitiveness and provide more flexible services to customers. In addition, the Group will strengthen customer credit risk management to guard against the increase in bad debt provision.

# Management Discussion and Analysis

### Capital Expenditure

For the year ended 30 June 2017, the Group's capital expenditure amounted to approximately RMB794,000 (30 June 2016: RMB8,528,000).

### Commitments

As at 30 June 2017, the Group had no capital commitments.

### Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

### Foreign Currency Risk

The Group's principal business is located in the PRC and its major transactions are conducted in RMB. Most of its assets and liabilities are denominated in RMB, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars ("HK$").

The RMB is not freely exchangeable. 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 has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB.

## SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

### Significant investments

The Group had no significant investments held and disposals during the year ended 30 June 2017.

### Acquisitions

On 16 May 2017, the Company as purchaser and Zhang Hai Hui, Jiang Yi Dong and Cui Liang Rong as vendors entered into a sale and purchase agreement in relation to the sale and purchase of (1) the entire equity interests in MCN Group and (2) the benefit (subject to the burden) of the contracts entered into by Sunplus Industrial Co., Limited for an initial consideration of RMB34,000,000 (subject to adjustment), which will be settled partly by cash consideration of approximately RMB9,000,000 and partly by issuance of 11,097,942 shares of the Company upon completion of the transaction. In addition, there is also a contingent consideration with the maximum amount of RMB34,000,000 stipulated in the agreement, which is based on the performance on profit over the next two years after the acquisition. On 14 August 2017, an extraordinary general meeting was held, at which the shareholders of the Company approved the transaction. For more details of the transaction, please refer to the announcements of the Company dated 17 May 2017, 23 May 2017, 24 July 2017, 14 August 2017 and 31 August 2017 and the circular of the Company dated 28 July 2017.

On 31 May 2017, the Company entered into a non-legally binding letter of intent with the vendors in relation to the possible acquisition of the entire interest in Wuxi Refine.

On 17 June 2017, the Company entered into a sale and purchase agreement with the Swift Fortune Holdings Limited and 777 Logistics Warehouse Holdings Limited, pursuant to which the Company conditionally agreed to acquire the entire issued share capital of the 777 Logistics and the shareholders loans due from the 777 Logistic Group at an aggregate consideration of HK$205,140,000, which would be satisfied in full by the Company's issue of 80,447,059 shares upon the completion of the acquisition. For more details of the transaction, please refer to the announcements of the Company dated 18 June 2017, 21 July 2017 and 31 August 2017.

As at the date this announcement, the transactions mentioned above were yet to be consummated. Save as disclosed herewith, the Group did not make any other material mergers or acquisitions for the year ended 30 June 2017.

## EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2017, the Group had 285 employees (30 June 2016: 287 employees), including the Directors. Total staff cost (including Directors' emoluments) for the year ended 30 June 2017 was approximately RMB36,960,000, as compared to approximately RMB32,836,000 for the year ended 30 June 2016.

The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the year, the Group continued its commitment to employees' training and development programme.

## FUTURE PROSPECTS

Next year, the Group expects the Chinese economy to continue the stable development. As the "13th Five Year" national plan unfolds, the development direction of China's macro-economy will become clearer. Against this backdrop, the paper-making industry is expected to continue its group momentum from the past year and take advantage of the rallying paper price to maintain a robust profit growth trend. In addition, the Chinese government will roll out more positive measures to encourage companies to transform and upgrade, and will intensify environmental protection supervision. It is expected that the paper-making industry will be subject to more stringent environmental protection requirements and the industry concentration will increase. To address on the opportunities and address the challenges faced by the industry, the Group will take proactive actions in an attempt to become a leading solution provider and comprehension service provider for the paper-making industry in China. Such actions include:

# Management Discussion and Analysis

## "Intelligent Manufacturing"

"Made in China 2025" is a strategic plan for the manufacturing sector expressly specified in China's "13th Five Year" plan to enhance innovation capability and quality level of China's manufacturing industry and advance the process of industrialization and modernization. The core concept of "Made in China 2025" is Intelligent Manufacturing, or boosting production efficiency and product quality through information technology and digital and intelligent production facilities. The Group expects that paper-making companies will proactively promote the paper industry's own "Made in China 2025" strategy, while the production processes will align with the core concept of "Intelligent Manufacturing". The industrial automation system produced by the Group is equipped with functions for real-time collection and monitoring of production information, which is conducive to the Group in playing an important role in the process of pushing forward the paper-making industry's "Made in China 2025" strategy. The Group will increase its investment in research and enhance its digital and intelligent products and services through collaboration with universities or technology corporations to meet the product quality improvement needs of the paper-making industry while effectively controlling costs and increasing profits.

## Continue Strategic Acquisition and Enhance Industry Chain Service

The Group will continue to seek proper acquisition opportunities to enhance the services for the entire industry chain of the paper-making industry and provide the paper-making industry with professional, all encompassing services. Potential acquisition targets include leading companies in both upstream and downstream of the industry chain, including but not limited to suppliers of core parts and logistics companies. In selection of an acquisition target, the Group will consider its position in the industry and its reputation and operational capability, as well as whether its business complements the Group's businesses. The Group believes that ongoing strategic acquisition will bring about synergy for the Group, enable the Group to have more core technologies in paper-making equipment, and benefits the Group's export business, which is in line with "the Belt and Road" national strategy.

## Strengthen Comprehensive Services for Paper-making Plants

The Group will make the best use of its existing advantage in client resources to strengthen comprehensive services for paper-making plants. The Group believes that as the paper-making industry matures, such comprehensive services for paper-making plants as on-site technology support and responsiveness will be one of the most critical factors on which the success of a company hinges. Providing comprehensive services for paper-making plants not only provides revenue for the Group and fully utilises the Group's skills and expertise, but also allows the Group to better serve our clients and maintain good business relations with them. To support its business expansion and growth, the Group intends to further expand its comprehensive service team to improve its service quality.

## USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

From the listing date to 30 June 2017, the proceeds from the listing by way of placing were used as follows:

| | Use of proceeds in the same manner and proportion as shown in the prospectus from the listing date to 30 June 2017<br>RMB'000 | Actual use of proceeds from the listing date to 30 June 2017<br>RMB'000 | Unused proceeds<br>RMB'000 |
|---|---|---|---|
| Increase production capacity | 23,521 | 18,299 | 5,221 |
| Cost saving construction | 15,709 | – | 15,709 |
| Continuous product development and innovation | 5,208 | 5,208 | – |
| Increase market awareness and image of the Group | 3,385 | 1,423 | 1,962 |
| Improve the current information management system | 260 | 76 | 185 |
| | 48,083 | 25,005 | 23,078 |

The unused net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong and the PRC.

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

# Environmental, Social and Governance Report

The Board and management of the Company are committed to establishing a good standard in environmental, social and corporate governance practices. In the past, the Group is in the pursuit of corporate profits, it also took the sustainable development of the environment, the society and corporate governance into consideration in all aspect of the business operation of the Group, so that those standards could be sustained. The Group believed that those standards were beneficial to improve the Group's corporate governance to a higher level, to make a commitment to the employees, the society and the environment, and enhance the reputation of the Group. The Board will continue to formulate guidelines and spearhead initiatives that can be implemented in the whole group.

This is the third environmental, social and governance report released by the Company pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") provided in Appendix 27 to the Listing Rules on the Stock Exchange, which sets out the Company's policies and practices which describe how the Company fulfills "comply or explain" provisions of the ESG Reporting Guide for the year ended 30 June 2017. This report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the Company's corporate governance and culture. The Company is aware of the importance of having a reciprocal relationship with society. Utilising its influence on society, so that Huazhang Technology has become a social responsibilities enterprise.

## ENVIRONMENTAL PROTECTION

### Environmental Policy on natural resources

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

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

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

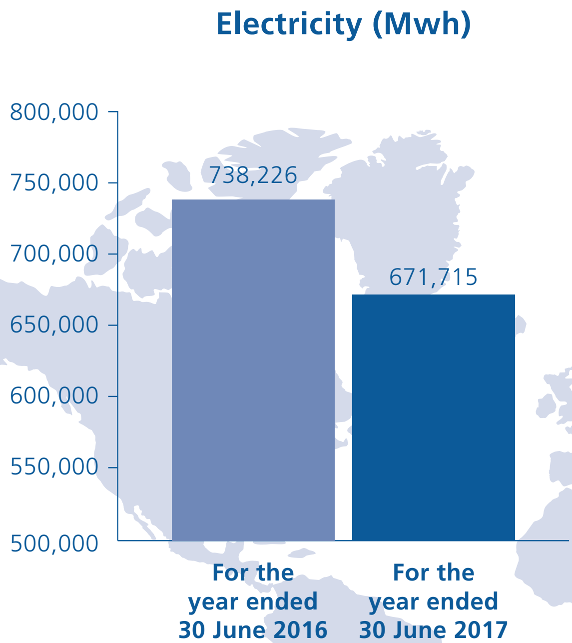
1. The Company obtained the ISO14001 Environmental Management System certifications – implemented internal procedures to prevent and manage pollution.

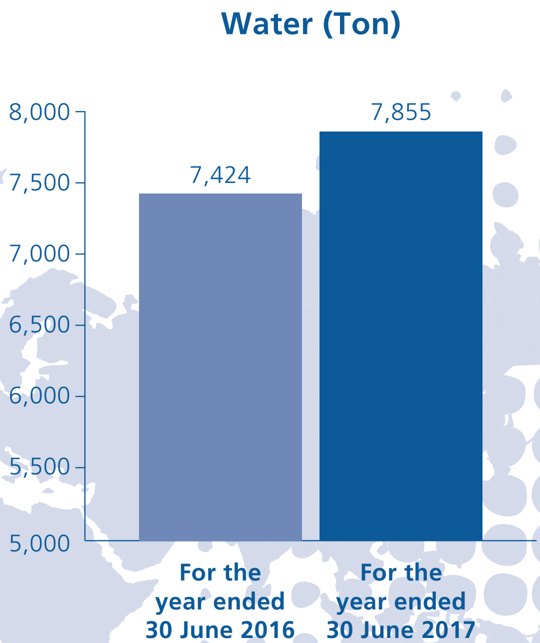
2. The Company commits to fulfill and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.

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

### Resource Management and Emissions Management

The Company dedicated to manage in a responsible way and strive to optimise the use of our resources. Below is resources management data:



## USE OF RESOURCES

### Power Consumption Control

The headquarters and other offices of the Group all adhere to the principle of energy conservation and environmental protection.

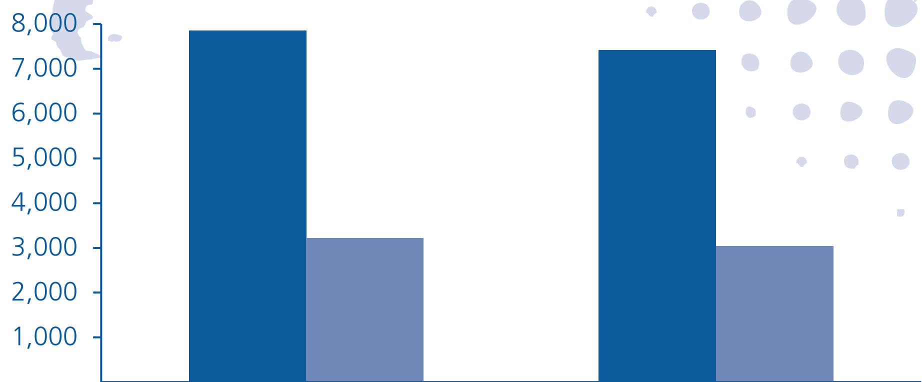
## Power Consumption Control


| | 2016 | 2017 |
|---|---|---|
| ■ Power consumption (Mwh) | 738,226 | 671,715 |
| ■ Carbon emission (kg) | 575,812 | 523,938 |

### Water Consumption Control

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

## Water Consumption Control




| | 2016 | 2017 |
|---|---|---|
| ■ Water consumption (ton) | 7,424 | 7,855 |
| ■ Carbon emission (kg) | 3,044 | 3,221 |

## WORKING ENVIRONMENT

### Health and Safety

The Group are committed to providing a safe and non-hazardous working environment for all staff. The Group are subject to the relevant PRC laws and regulations regarding production safely, including the principle law governing the administration of production safety in the PRC, namely the PRC Production Safety Law (中華人民共和國安全生產法) which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the process of production, we have adopted various measures such as the provision of periodic training courses on self-rescue and escape to employees, installation of first-aid cases at production sites, use of labour protective equipment. We have also undertaken accidental insurance policies for our employees. The Group has obtained certifications for the following management systems, namely: (i) ISO 14001:2004 Environment Management System; and (ii) OHSAS 18001:2007 Occupational Health and Safely Management System, for the Group business operations.

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

During the year, there were only 2 injury cases in Tongxiang, it has been identified as work-related injuries and have been settled. Overtime personnel are mainly for the production workshop staff, overtime hours are substantially between 2-3 hours.

## EMPLOYMENT

### Employees Practices

Almost 99% of employees hired by the Group have been located in the PRC. The Company strictly complies with the requirements of the Labour Law of the PRC without violating the relevant rules and regulations:

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

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

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

### Fair Recruitment

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

### Employment

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

## EMPLOYEES

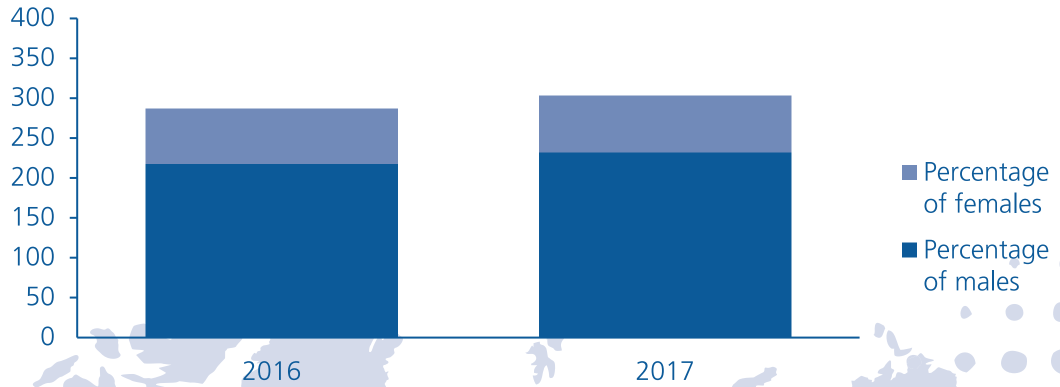
The Group believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, we provide regular training to our employees.

During the year, talent management was the key focus of the Group's human resources strategy. The following table sets forth the number and breakdown of our full-time employees by function as at 30 June 2017:

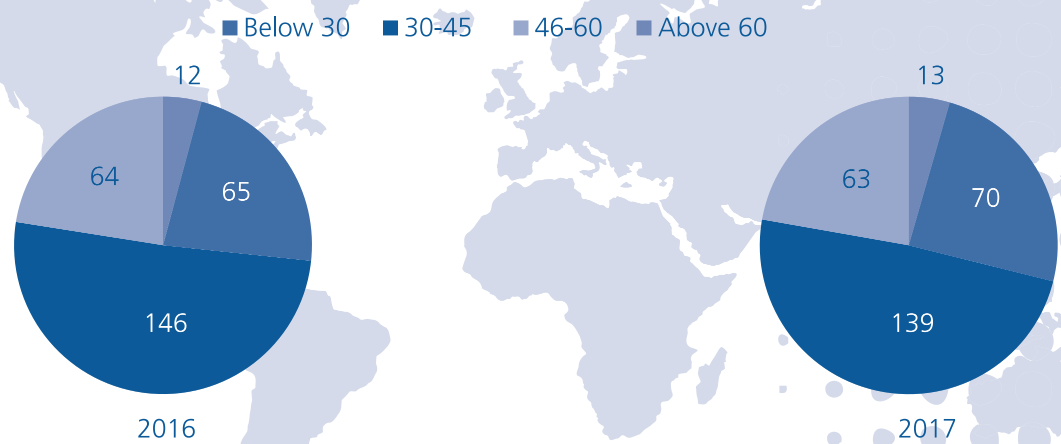
| | Number of employees |
|---|---|
| Production | 62 |
| Technical and Research and development | 91 |
| Sales and marketing | 29 |
| Procurement and warehouse | 14 |
| Maintenance services | 15 |
| General administration and management | 56 |
| Quality control | 8 |
| Accounting and finance | 10 |
| Total | 285 |

## EMPLOYMENT STATISTICS BY GENDER, AGE AND EDUCATION LEVEL

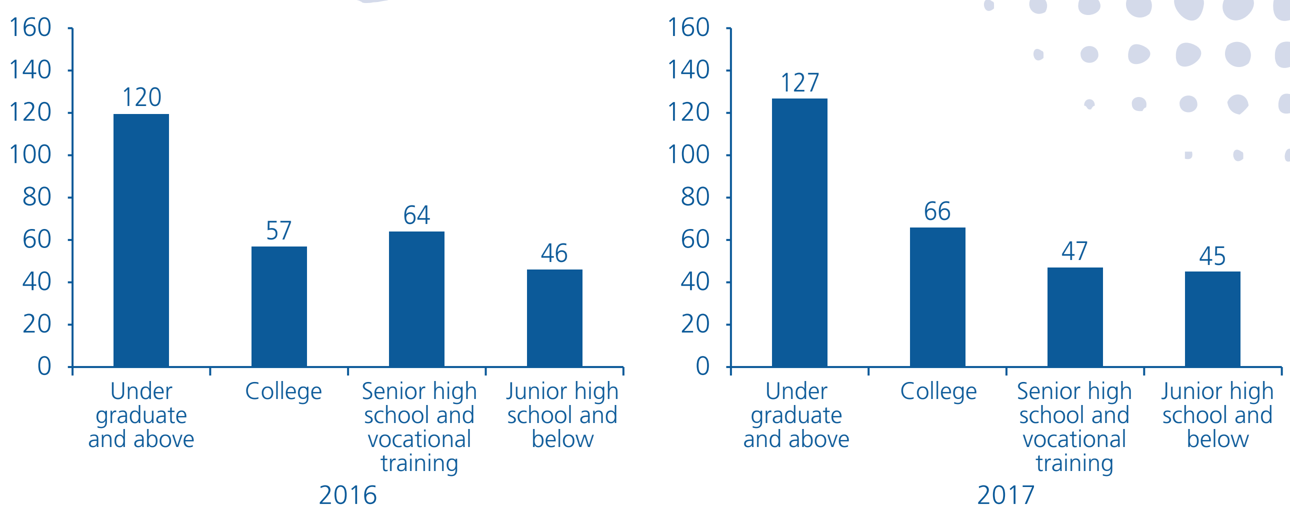
### Distribution of employees by gender




### Distribution of employees by age

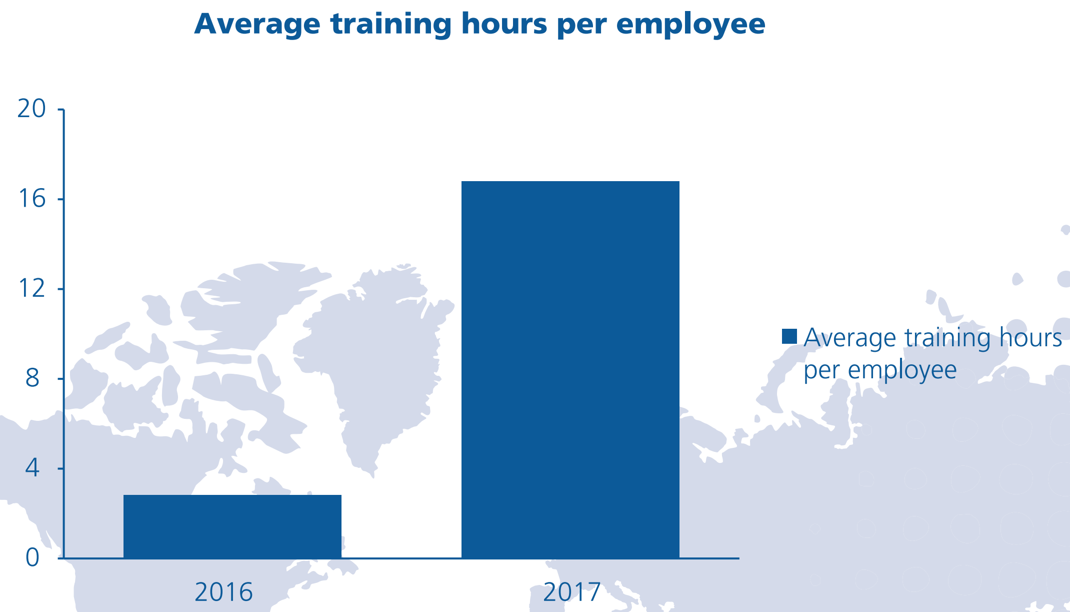



### Distribution of employees by education level



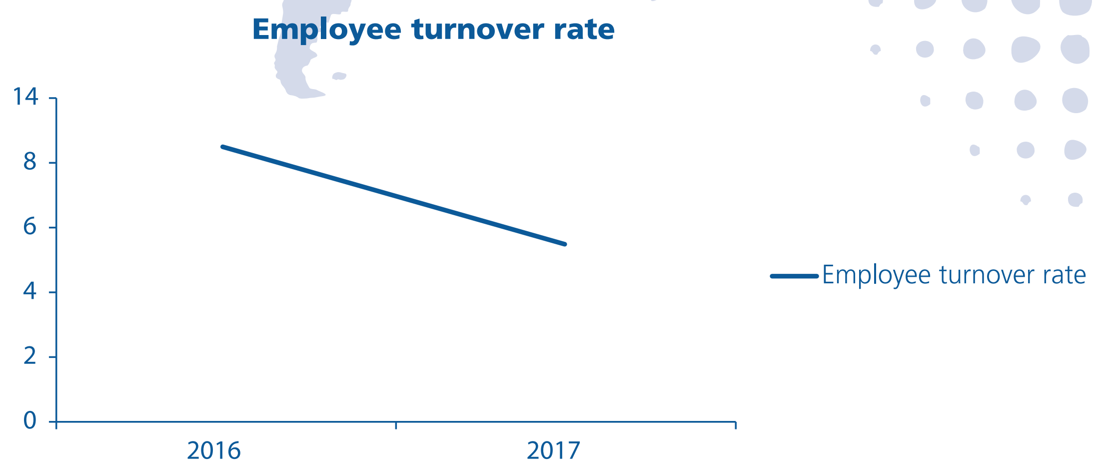
## EMPLOYEE TRAINING AND DEVELOPMENT

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




### Benefits

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



## Supply Chain Management

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

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

## QUALITY CONTROL AND MANAGEMENT PRODUCT RESPONSIBILITY

### Quality Control

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

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

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

We have internal control system to record and handle customer's complaint on product quality. If we receive any complaint on our product quality, staff in the sales department will record all the details and inform the responsible person of the relevant department(s) to investigate the reason for the product quality issue and design measures to rectify the issues and prevent the occurrence in the future. The measures will be passed to the management for approval and implementation.

### Warranty period

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

### Procurement and receipt of raw materials

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

## INTELLECTUAL PROPERTIES

Since the intellectual property rights authorized for our use are material and consist mainly of trade secrets, to guard our interests, we require all of our employees, including management personnel, research and development personnel, technical personnel, sales personnel and production workers to execute a confidentiality agreement which covers a wide range of confidential information including technical plans and reports, project design, circuit design, manufacturing methods, commercial secrets, industrial processes, technical standards, measurement software, database, product designs, and records of research design and development.

## ANTI-CORRUPTION

The Group has established anti-corruption polices, and stringent policies for anti-corruption and anti-fraud, and is committed to prevent and monitor any malpractice or unethical practice.

## COMMUNITY INVOLVEMENT

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

### Future Direction

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

We will continue to work hard on various aspects to improve our performance in Corporate Social Responsibility, including:

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

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

– Continue to ensure positive contribution to good Corporate Social Responsibility practices.

The Group will regularly review this Corporate Social Responsibility policy to ensure the Corporate Social Responsibility initiatives and performance address the needs of the society in this ever-changing environment.

# Directors' Report

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 30 June 2017.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by segments is set out in note 4 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 30 June 2017 and the financial information of the Group as at 30 June 2017 are set out in the audited financial statements of this report.

## BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 30 June 2017 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 11 to 24 of this annual report. The analysis of the key financial performance indicators of the Group is also shown in "Management Discussion and Analysis" section of this annual report.

## KEY RISKS AND UNCERTAINTIES

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

### Fluctuations in costs of raw materials

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

### Difficulty in obtaining financing

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

### Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 30 June 2017, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

## ENVIRONMENTAL PROTECTION

The environmental protection policy adopted by the Group is set out in the section head "Environmental, Social and Governance Report" on pages 25 to 34 of this annual report.

## RELATIONSHIP WITH OUR STAFF , CUSTOMERS AND SUPPLIERS

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

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

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

## FINAL DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2016 (2015: Nil).

The board of directors now recommend to pay the final dividend for 2017 at 2.4 HK cents per share (2016: 4.0 HK cents per share) payable to shareholders of the Company whose names are on the register of members on 3 November 2017. It is expected that the final dividend will be paid on 8 November 2017. The proposed distribution of final dividend is subject to the approval of the Annual General Meeting ("AGM").

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from 20 October 2017 (Friday) to 25 October 2017 (Wednesday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 19 October 2017 (Thursday); and

(ii) from 1 November 2017 (Wednesday) to 3 November 2017 (Friday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to the final dividend. In order to establish entitlements to the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 31 October 2017 (Tuesday).

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

## ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 25 October 2017. 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.

# Directors' Report

## FINANCIAL SUMMARY

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

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in Note 13 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in Note 24 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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 2017.

## PLACING OF SHARES IN JULY 2015

On 16 July 2015, Florescent Holdings Limited ("Florescent"), the controlling shareholder of the Company, entered into a placing and subscription agreement with a placing agent and the Company, pursuant to which (i) placing a maximum of 33,000,000 ordinary shares (the "Placing Shares") of the Company at a placing price of HK$3.60 per share; and (ii) Florescent agree to subscribe a maximum of 33,000,000 new ordinary shares at HK$3.60 per share.

On 21 July 2015, 33,000,000 ordinary shares (with an aggregate nominal value of HK$330,000) of the Company were placed by Florescent to certain independent third parties at a subscription price of HK$3.60 per share. On the same date, the Company issued 33,000,000 new ordinary shares (with an aggregate nominal value of HK$330,000) to Florescent at an issue price of HK$3.60 per share. The Company raised approximately HK$118,800,000 (net of directly attributable expenses of approximately HK$116,593,000), which will be used to fund the Group's business expansion in wastewater treatment business, repayment of third party loan and general working capital.

The placing and subscription price of HK$3.60 per Share represents:

(i) a discount of approximately 18.00% to the closing price of HK$4.39 per Share as quoted on the Stock Exchange on 16 July 2015, being the date of the placing and subscription Agreement; and

(ii) a discount of approximately 15.41% to the average closing price of approximately HK$4.26 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 15 July 2015, being the date prior to the date of the placing and subscription Agreement.

The subscription price of HK$3.60 per Share is the same as the placing price.

Taking into account the Company's estimated expenses for the placing and the subscription, the net subscription price is approximately HK$3.53 per subscription share.

The placing and the subscription would achieve the following benefits for the Company:

(i) it would increase the amount of Shares held by public investors which may in turn enhance the trading liquidity of the Shares;

(ii) it would introduce new investors to the Company and hence further optimise and diversify the shareholder base of the Company;

(iii) it would capture the current Share price to raise new proceeds for the Group's business expansion in the wastewater treatment business and general working capital purposes; and

(iv) it is expected that the Company's gearing level would be lowered as a result of the placing and the subscription and thereby preserving the healthiness of the financial status of the Company.

The placing shares have been placed to not less than six placees, being institutional, professional and/or individual investors who and whose ultimate beneficial owners are independent third parties.

None of the placees and their respective associates become a substantial shareholder as a result of the placing.

As at 30 June 2016, the Group have utilized an amount of approximately HK$7,996,000 for acquisition of 70% interests in Wukong, an amount of approximately HK$22,000,000 for repayment of a loan from third party amounting and an amount of approximately HK$38,873,000 for general working. As at 30 June 2017, the proceeds from the placing of shares are fully used to fund the Group's business expansion in wastewater treatment business, repayment of third party loan and general working capital.

## DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 24, 25 and 26 to the consolidated financial statements.

As at 30 June 2017, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amount to RMB112,063,000. The amount of RMB112,063,000 represents the Company's share premium retained earnings and translation difference, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## BORROWINGS

Particulars of borrowings of the Group as at 30 June 2017 are set out in Note 21 and Note 23 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 30 June 2017 represented approximately 32.9% (30 June 2016: 30.0%) and approximately 56.6% (30 June 2016: 58.3%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 30 June 2017 represented approximately 14.9% (30 June 2016: 10.7%) and approximately 35.9% (30 June 2016: 33.4%), respectively, of the Group's total purchases.

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

# Directors' Report

## DIRECTORS

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

### Executive Directors

Mr Zhu Gen Rong (Chairman)
Mr Wang Ai Yan (Chief Executive Officer)
Mr Zhong Xin Gang
Mr Jin Hao

### Independent Non-Executive Directors

Mr Dai Tian Zhu
Ms Chen Jin Mei
Mr Kong Chi Mo

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

In accordance with Articles 84 of the Articles, Mr Wang Ai Yan, Mr Zhong Xin Gang and Ms Chen Jin Mei will retire at the 2017 AGM and, being eligible, will offer themselves for re-election at the 2017 AGM.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 30 June 2017.

## DIRECTORS' SERVICE CONTRACTS

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

Independent non-executive Directors are appointed for a term up to 30 June 2015 and will continue thereafter unless terminated by either party giving at least one month's notice in writing. The appointment period of them has been extended to 30 June 2018.

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

## DIRECTORS' INTERESTS IN CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

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

## REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Directors of the Company and five highest paid employees are set out in Note 7 and 8 to the consolidated financial statements in this annual report.

Except for Ms Chen Jin Mei, no Director has waived or has agreed to waive any emoluments during the year ended 30 June 2017.

## EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

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

Details of the retirement benefit schemes of the Group are set out in Note 2.5 to the consolidated financial statements.

## COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

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

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

In this regard, each of the Controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the Deed for the year ended 30 June 2017. The independent non-executive directors of the Company who forms the Independent Board Committee have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Deed and have confirmed that, as far as they can ascertain, there is no breach of any of the undertakings in the Deed given by the Controlling Shareholders.

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

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as the information set out in the section headed "Compliance of Non-competition Undertakings", during the year ended 30 June 2017 and up to the date of this report, none of the Directors or controlling shareholder or any of their respective associates, had engaged in any business that competes or is likely to compete with the business of the Group, or has any other conflict of interest with the Group.

## SHARE OPTION SCHEME

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

### 1. Purpose

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

### 2. Participants

The Board may, at its discretion, invite any full-time or part-time employees including any executive, non-executive Directors, advisors, consultants of the Group to take up options.

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

The maximum number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Listing Date (i.e. a total of 27,200,000 shares). 27,200,000 shares representing approximately 4.53% of the issued shares of the Company as at the date of this annual report.

### 4. Maximum entitlement of each participant

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

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

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

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

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

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

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

**8. Life of the Share option Scheme**

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

As at 30 June 2017, no option under the Share Option Scheme has been granted by the Company.

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

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 9 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") required to be notified to the Company and the Stock Exchange, are as follows:

### Long positions in the shares

| Name of director | Company/name of associated company | Natural of interest | Number of securities | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr Zhu Gen Rong | The Company | Interest of a controlled corporation | 411,854,000 shares (Note 1) | 68.57% |
| | | Beneficial owner | 608,000 shares (Note 2) | 0.10% |
| | | Interest of people acting in concert | 200,000 shares (Note 1) | 0.03% |
| | Florescent Holdings Limited | Interest of a controlled corporation | 7,790 shares (Note 3) | 77.90% |
| | Lian Shun Limited | Beneficial interest | 5,705,500 shares (Note 4) | 61.31% |
| Mr Wang Ai Yan (Note 4) | The Company | Interest of a controlled corporation | 411,854,000 shares (Note 5) | 68.57% |
| | | Beneficial owner | 200,000 shares (Note 6) | 0.03% |
| | | Interest of people acting in concert | 608,000 shares (Note 5) | 0.10% |
| | Florescent Holdings Limited | Interest of a controlled corporation | 7,790 shares (Note 3) | 77.90% |
| | Lian Shun Limited | Beneficial interest | 1,930,000 shares (Note 4) | 20.74% |

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 61.31% by Mr Zhu Gen Rong. Mr Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited. He is also deemed to be interested in the Shares held in the personal name of Mr Wang Ai Yan.

2. The 608,000 shares which Mr Zhu Gen Rong is interested in as beneficial owner.

3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited and as to 22.10% by Qunyu Limited.

4. Lian Shun Limited is owned as to 61.31% by Mr Zhu Gen Rong, as to 20.74% by Mr Wang Ai Yan and as to 17.95% by Mr Liu Chuan Jiang.

5. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 20.74% by Mr Wang Ai Yan. Mr Wang is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is deemed to be interested in the Shares held by Florescent Holdings Limited. He is also deemed to be interested in 608,000 shares held in the personal name of Mr Zhu Gen Rong.

6. The 200,000 shares which Mr Wang Ai Yan is interested in as beneficial owner.

Save as disclosed above, as at 30 June 2017, none of the Directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

As at 30 June 2017, so far as the Directors are aware, the interests and short positions owned by the following persons or institutions (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

### Long positions in the shares

| Name of Substantial Shareholders | Capacity/Natural of interest | Number of Shares directly or indirectly held | Approximate percentage of shareholding |
|---|---|---|---|
| Florescent Holdings Limited | Beneficial owner | 411,854,000 | 68.57% |
| Lian Shun Limited | Interest of a controlled corporation | 411,854,000 (Note 1) | 68.57% |
| Mr Zhu Gen Rong | Interest of a controlled corporation/Beneficial owner, person acting in concert | 412,662,000 (Note 2) | 68.70% |
| Mr Wang Ai Yan | Interest of a controlled corporation/Beneficial owner, person acting in concert | 412,662,000 (Note 3) | 68.70% |
| Mr Liu Chuan Jiang | Interest of a controlled corporation/person acting in concert | 412,662,000 (Note 4) | 68.70% |
| Ms Zhu Ling Yun | Person acting in concert | 412,662,000 (Note 5) | 68.70% |
| Mr Yan Kam Cheong | Interest of a controlled corporation | 54,760,000 (Note 6) | 9.12% |
| Kaiser Asset Management Limited | Beneficial owner | 40,000,000 (Note 6) | 6.66% |
| Oceanic Boom Limited | Beneficial owner | 14,760,000 (Note 6) | 2.46% |

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited. Under the SFO, Lian Shun Limited is deemed to be interested in the shares held by Florescent Holdings Limited.

2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 61.31% by Mr Zhu Gen Rong. Under the SFO, Mr Zhu is deemed to be interested in the shares held by Florescent Holdings Limited. And include 608,000 shares which Mr Zhu is interested in as beneficial owner and include 200,000 shares which Mr Wang is interested in as beneficial owner.

3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 20.74% by Mr Wang Ai Yan. Mr Wang is regarded as one of the parties acting in concert with Mr Zhu Gen Rong under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited and Mr. Zhu.

4. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 17.95% by Mr Liu Chuan Jiang. Mr Liu is regarded as one of the parties acting in concert with Mr Zhu Gen Rong under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited, held by Mr Zhu and Mr Wang Ai Yan.

5. The announcement as dated 8 November 2015 (the "Announcement") in relation the Share Transfer (i.e. disposal of 7.52% interests in Lian Shun, one of the controlling shareholders of the Company, by Ms Zhu to Mr Zhu) and the deed of termination of the acting-in-concert arrangement among Mr Zhu, Mr Wang, Mr Liu and Ms Zhu (the "Termination Deed"). As the Company has not yet obtained confirmation from the Executive that it can be accepted that they are no longer acting in concert pursuant to note 3 to the definition of 'acting in concert' of the Takeovers Code. Therefore, Mr Zhu, Mr Wang, Mr Liu and Ms Zhu will continue to be deemed to be interested in the Shares held by each of the other parties under SFO.

6. These 54,760,000 Shares consist of 40,000,000 Shares in which Kaiser Asset Management Limited is interested and 14,760,000 Shares in which Oceanic Boom Limited is interested. Kaiser Asset Management Limited and Oceanic Boom Limited each is owned as to 100.00% by Mr Yan Kam Cheong. Under the SFO, Mr Yan is deemed to be interested in the shares held by Kaiser Asset Management Limited and Oceanic Boom Limited.

Save as disclosed above, as at 30 June 2017, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 30 June 2017 was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## AUDIT COMMITTEE

The audit committee was established on 6 May 2013. The primary duties of the audit committee are mainly to review the financial systems of the Group; to review the accounting policy, financial position and financial reporting procedures of the Group; to communicate with external auditors; to assess the performance of internal financial and audit personnel; and to assess the risk management and internal controls of the Group. The audit committee consists of three independent non-executive Directors namely, Mr Kong Chi Mo, Ms Chen Jin Mei and Mr Dai Tian Zhu. The audit committee is chaired by Mr Kong Chi Mo.

The audit committee of the Company has discussed with the management, external auditor and internal auditor about the accounting principles and policies adopted by the Group and discussed risk management and internal controls and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 30 June 2017.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PERMITTED INDEMNITY PROVISION

During the financial year and up to the date of this report, a permitted indemnity provision being in force for the benefit of the directors of the Company.

## AUDITORS

In 2015, PricewaterhouseCoopers resigned as auditors of the Company.

Ernst & Young was appointed by the Directors as the auditors of the Company. Ernst & Young will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM. The consolidated financial statements for the year ended 30 June 2017 have been audited by Ernst & Young.

On behalf of the Board
**Zhu Gen Rong**
*Chairman*

Zhejiang, China
5 September 2017

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value.

Continuous efforts are made to review and enhance the Group's risk management, internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 30 June 2017.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the year ended 30 June 2017 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## BOARD OF DIRECTORS

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

| | |
|---|---|
| Executive Directors: | Mr Zhu Gen Rong (Chairman)<br>Mr Wang Ai Yan (Chief Executive Officer)<br>Mr Zhong Xin Gang<br>Mr Jin Hao |
| Independent Non-executive Directors: | Ms Chen Jin Mei<br>Mr Dai Tian Zhu<br>Mr Kong Chi Mo |

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

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

## RESPONSIBILITIES OF THE BOARD

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

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

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

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

## THE ATTENDANCE OF MEETINGS OF THE BOARD

During the year, the Company held 4 regular Board meetings for the reviewing and approving the financial and operating performance of the Group. At least 14 days notice of regular Board meetings would be given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers would be sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents. The Chairman would also ensure that all directors are properly briefed on matters arising at board meetings.

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

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

Details of the Director's attendance record in full meetings of the Board are as follows:

| Name of Director | Meeting of the Board of Directors No. of Attendance by Directors/No. of Meetings | General meeting No. of Attendance by Directors/No. of Meetings |
|---|---|---|
| Mr Zhu Gen Rong (Chairman) | 4/4 | 1/1 |
| Mr Wang Ai Yan (Chief Executive Officer) | 4/4 | 1/1 |
| Mr Zhong Xin Gang | 4/4 | 1/1 |
| Mr Jin Hao | 4/4 | 1/1 |
| Ms Chen Jin Mei | 4/4 | 1/1 |
| Mr Dai Tian Zhu | 4/4 | 1/1 |
| Mr Kong Chi Mo | 4/4 | 1/1 |

## CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. This corporate governance report has been reviewed by the Board in discharge of its corporate governance functions in compliance with the Code Provision D.3 of the Corporate Governance Code.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his/her independence and must provide an annual confirmation of his/her independence to the Company. Up to the date of this report, no independent non-executive director has served the Company more than 9 years.

## PROFESSIONAL DEVELOPMENT

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

The individual training record of each director received for the year ended 30 June 2017 is summarized below:

| Name of director | Attending seminar(s)/ programme(s)/ conference(s) relevant to the business or directors' duties |
|---|---|
| Mr Zhu Gen Rong | ✔ |
| Mr Wang Ai Yan | ✔ |
| Mr Zhong Xin Gang | ✔ |
| Mr Jin Hao | ✔ |
| Ms Chen Jin Mei | ✔ |
| Mr Dai Tian Zhu | ✔ |
| Mr Kong Chi Mo | ✔ |

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

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 6 May 2013 comprising 3 independent non-executive Directors namely, Mr Kong Chi Mo, Ms Chen Jin Mei and Mr Dai Tian Zhu. Mr Kong Chi Mo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee are available at the Company's website and on the website of the Stock Exchange.

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

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

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

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

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

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

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

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

During the year, the Audit Committee reviewed the final and interim results of the Group as well as discussed with the management and the external auditors and internal auditor about the accounting principles and policies adopted by the Group and discussed risk management internal controls and financial reporting matters at the relevant meeting and recorded unanimous decisions for the year ended 30 June 2017. In addition, the Audit Committee has reviewed external auditor's remuneration.

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

| Name of Director | No. of Attendance/ No. of Meetings |
|---|---|
| Mr Kong Chi Mo (Chairman) | 2/2 |
| Ms Chen Jin Mei | 2/2 |
| Mr Dai Tian Zhu | 2/2 |

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors. Ms Chen Jin Mei is the chairlady of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The roles and functions of the Remuneration Committee include consulting the Chairman of the Board about their remuneration proposals for other executive directors, having the delegated responsibility to determine the specific remuneration packages of all executive directors of the Group and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of the non-executive Directors.

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

During the year, the Remuneration Committee held one meeting. The Remuneration committee has reviewed and approved the remuneration package of the Executive Directors. Details of the directors' emolument are set out in note 7 to the financial statements.

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

| Name of Director | No. of Attendance/ No. of Meetings |
|---|---|
| Ms Chen Jin Mei (Chairlady) | 1/1 |
| Mr Dai Tian Zhu | 1/1 |
| Mr Kong Chi Mo | 1/1 |

## NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 6 May 2013 comprising the 3 independent non-executive directors and Mr Zhu Gen Rong. Mr Dai Tian Zhu is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of the Stock Exchange.

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

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

During the year, the Nomination Committee held one meeting. No change has been proposed to the structure, size and composition of the Board during the meeting and the committee had also confirmed the diversity of the Board.

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

| Name of Director | No. of Attendance/ No. of Meetings |
|---|---|
| Mr Dai Tian Zhu (Chairman) | 1/1 |
| Mr Zhu Gen Rong | 1/1 |
| Ms Chen Jin Mei | 1/1 |
| Mr Kong Chi Mo | 1/1 |

## BOARD DIVERSITY POLICY

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

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

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

As at the date of this report, the Board comprises 7 directors. One of them is woman. Three of the directors are independent non-executive directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

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

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

### Risk Management and Internal Control systems

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

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

Also, the Board engaged an external independent consultant to assess the effectiveness of the Group's risk management, internal control systems and perform an internal audit function which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 30 June 2017. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness of the risk management and internal control systems and the internal audit function for the year ended 30 June 2017.

## AUDITORS' REMUNERATION

During the financial year ended 30 June 2017, the fees paid/payable to the Company's auditors are set out as follows:

| **Services rendered** | **Fees paid/ payable** (RMB'000) |
|---|---|
| Annual audit services | 850 |
| Interim review services | 600 |
| | 1,450 |

## COMPANY SECRETARY

Mr Chan So Kuen was appointed as the Company Secretary on 28 February 2014. According to Rule 3.29 of the Listing Rules, an issuer's company secretary must take no less than 15 hours of relevant professional training in each financial year while Mr Chan has taken no less than 15 hours of relevant professional training in 2017.

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

## SHAREHOLDERS' RIGHTS

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

### Right to convene extraordinary general meeting

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

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business at Unit No. 805A, 8th Floor, Tower 1, South Seas Centre, 75 Mody Road, Kowloon, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

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

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

(a) At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company;

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

### Right to put enquiries to the board

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

### Right to put forward proposals at general meetings

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

## INVESTOR RELATIONS

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

During the year ended 30 June 2017, there had been no significant change in the Company's constitutional documents.

# Independent Auditors' Report

## OPINION

We have audited the consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 138, which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Percentage of completion of construction and related construction contract revenue and cost* | |
| The Group manufactures and sells a range of industrial automation systems and sludge treatment products. Under certain contracts, the Group is obliged to design and manufacture the products, install the production line, and complete the functional testing after the installation. The Group accounts for such contracts as construction contracting services and revenue and costs are recognised on the percentage of completion method ("POC"). The POC of a construction contract is estimated by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Budgeted construction costs are prepared by the management factoring the complexity of the construction project, material and labor. The recognition of construction revenue and costs involve significant judgment and estimates, whereby the Group reviews and revises the estimates of construction revenue and costs, as appropriate, based on variation orders requested by customers, as construction progresses. Considering the significance of the POC and the estimates and assumptions used in computing the construction revenue and costs, the construction revenue and costs accounts are considered as most significance to our audit.<br><br>The Group's disclosures about construction revenue and cost are included in Note 2.4 – Summary of significant accounting policies, Note 3 – Significant accounting judgements and estimates, as well as in Note 6 – Revenue, other income and gains to the consolidated financial statements. | Our audit procedures included, amongst others, the assessment of the Group's controls over the estimation of the POC of construction contracts and the construction costs budgeting process. We tested the POC of selected construction projects through reviewing the supporting documentation of construction costs. We also observed selected construction work sites to assess consistency between the construction status and the related POC used for estimating the construction revenue and costs. We evaluated the assumptions and methodologies used by the Group in determining the budgeted construction costs. We discussed and assessed management's estimates, taking into account the historical accuracy of such estimates. On a sample basis, we compared the actual construction revenue and costs with the contract revenue and budgeted costs for completed projects, considering the effect of variation orders and reviewing the project gross margin for trend analysis. We also recomputed the related construction revenue and costs based on the POC and budgeted revenue and costs. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Recoverability of receivables | |
| The Group's receivables mainly consist of trade receivables and warranty receivables. Trade receivables consists of uncollected amount from sales of goods and progress billings raised to customers related to construction work performed by the Group based on contractual terms. Warranty receivables represents retention fees withheld by customers until the expiration of the warranty period. The determination as to whether the receivables are collectable requires a high level of management judgment and estimates, whereby the Group considers specific factors including the age of the balances, location of customers, existence of disputes, historical payment patterns and any other relevant information concerning the creditworthiness of the customers. Given the significant judgment and estimates used in assessing the provision for impairment of the receivables, the assessment of the recoverability of receivables is considered most significance to our audit.<br><br>The Group's disclosures about the impairment of receivables are included in Note 2.4 - Summary of significant accounting policies, Note 3 – Significant accounting judgements and estimates, as well as in Note 18 – Trade and other receivables and prepayments to the consolidated financial statements. | Our audit procedures included, among others, the assessment of the Group's controls over the receivables collection process and the provision for impairment at each year end. We assessed management's judgment and assumptions used in estimating the recoverability of the receivables, taking into account the historical cash collection patterns, payment and credit terms with customers and other factors that may influence the estimate. We checked the post year-end payments up to the date of completing our audit procedures. We further focused on the Group's disclosures in this area, such as the degree of estimation involved in arriving at the provision and the aged analysis of the receivables. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Fair value measurement of convertible bonds | |
| The Group issued a convertible bonds in March 2017 and the fair value of the convertible bonds at initial recognition has been valued based on a valuation technique (binomial model) that incorporates various market inputs including risk-free rate, liquidity discount and volatility, which are subject to uncertainty. The fair value measurement is a subjective area and the management's assessment process is complex and highly judgmental.<br><br>The Group's disclosures of the key terms and fair value hierarchy of the convertible bonds are included in Note 23 and Note 30 to the consolidated financial statements. | Our audit procedures included, among others, the assessment of the Group's controls over the fair value measurement of the convertible bonds. We involved our internal valuation expert in evaluating the assumptions and methodologies used by the Group in the fair value measurement of the convertible bonds. We validated the reasonableness of the input used by the valuation technique. We also assessed the adequacy of the Group's disclosures of the key terms and the fair value hierarchy of the convertible bonds. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent Auditors' Report

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Cheekong Lai.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
5 September 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2017

| | Notes | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|---|
| **REVENUE** | 5 | **416,007,189** | 327,260,578 |
| Cost of sales | | **(324,414,793)** | (246,565,296) |
| **Gross profit** | | **91,592,396** | 80,695,282 |
| Other income and gains | 5 | **5,906,585** | 3,373,644 |
| Selling and distribution expenses | | **(9,721,324)** | (8,578,077) |
| Administrative expenses | | **(32,323,830)** | (29,060,743) |
| Research and development expenses | | **(14,458,386)** | (11,909,645) |
| Other expenses | | **(2,127,619)** | (2,312,737) |
| **OPERATING PROFIT** | | **38,867,822** | 32,207,724 |
| Finance income | 9 | **2,164,023** | 1,331,031 |
| Finance expense | 9 | **(4,322,196)** | (233,571) |
| Finance (expense)/income – net | 9 | **(2,158,173)** | 1,097,460 |
| **PROFIT BEFORE TAX** | 6 | **36,709,649** | 33,305,184 |
| Income tax expense | 10 | **(6,351,771)** | (6,231,925) |
| **PROFIT FOR THE YEAR** | | **30,357,878** | 27,073,259 |
| Attributable to: | | | |
| Owners of the parent | | **30,638,948** | 28,332,245 |
| Non-controlling interests | | **(281,070)** | (1,258,986) |
| | | **30,357,878** | 27,073,259 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences related to foreign operations | | **1,098,634** | 5,311,255 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **1,098,634** | 5,311,255 |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2017

| | Notes | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|---|
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **31,456,512** | 32,384,514 |
| Attributable to: | | | |
| Owners of the parent | | **31,737,582** | 33,643,500 |
| Non-controlling interests | | **(281,070)** | (1,258,986) |
| | | **31,456,512** | 32,384,514 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 12 | | |
| – Basic earnings per share (RMB cents) | | **5.10** | 4.73 |
| – Diluted earnings per share (RMB cents) | | **5.10** | 4.73 |

# Consolidated Statement of Financial Position

30 June 2017

| | Notes | 2017 RMB | 2016 RMB (Restated) | 2015 RMB (Restated) |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 13 | **40,141,314** | 44,160,954 | 39,903,042 |
| Investment properties | 14 | **6,300,537** | 6,611,279 | 6,922,021 |
| Prepaid land lease payments | 15 | **3,248,863** | 3,353,805 | 3,458,747 |
| Goodwill | | **596,369** | 596,369 | – |
| Derivative financial instrument | | **–** | 430,000 | – |
| Available-for-sale investment | 16 | **–** | – | 8,000,000 |
| Deferred tax assets | 22 | **2,762,933** | 2,600,720 | 2,947,091 |
| Trade and other receivables | 18 | **84,673,706** | 21,737,001 | 8,876,175 |
| Prepayments | 18 | **222,023** | 235,083 | 343,730 |
| Total non-current assets | | **137,945,745** | 79,725,211 | 70,450,806 |
| **CURRENT ASSETS** | | | | |
| Prepaid land lease payments | 15 | **104,942** | 104,942 | 104,942 |
| Inventories | 17 | **59,511,860** | 81,312,866 | 55,965,808 |
| Trade and other receivables | 18 | **322,804,478** | 241,886,964 | 91,537,106 |
| Prepayments | 18 | **34,880,557** | 24,596,257 | 10,666,450 |
| Pledged deposits | 19 | **21,515,802** | 23,554,990 | 1,236,037 |
| Cash and cash equivalents | 19 | **50,554,277** | 63,359,071 | 37,017,294 |
| Total current assets | | **489,371,916** | 434,815,090 | 196,527,637 |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 20 | **228,067,991** | 228,279,677 | 80,329,983 |
| Interest-bearing loans | 21 | **8,626,000** | 5,078,400 | 17,349,200 |
| Income tax payable | | **2,683,608** | 4,090,811 | 1,891,030 |
| Total current liabilities | | **239,377,599** | 237,448,888 | 99,570,213 |
| **NET CURRENT ASSETS** | | **249,994,317** | 197,366,202 | 96,957,424 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **387,940,062** | 277,091,413 | 167,408,230 |
| **NON-CURRENT LIABILITIES** | | | | |
| Deferred tax liabilities | 22 | **800,512** | 1,148,227 | 307,234 |
| Convertible bonds | 23 | **66,821,857** | – | – |
| Total non-current liabilities | | **67,622,369** | 1,148,227 | 307,234 |
| **NET ASSETS** | | **320,317,693** | 275,943,186 | 167,100,996 |

# Consolidated Statement of Financial Position

30 June 2017

| | Notes | 2017 RMB | 2016 RMB (Restated) | 2015 RMB (Restated) |
|---|---|---|---|---|
| **EQUITY** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | 24 | **5,075,783** | 2,397,524 | 2,175,184 |
| Share premium | 24 | **93,615,618** | 106,985,471 | 33,490,261 |
| Equity component of convertible bonds | 23 | **23,609,589** | – | – |
| Other reserves | 26 | **65,867,660** | 61,029,226 | 52,514,070 |
| Retained earnings | 25 | **130,948,973** | 104,049,825 | 78,921,481 |
| | | **319,117,623** | 274,462,046 | 167,100,996 |
| Non-controlling interests | | **1,200,070** | 1,481,140 | – |
| TOTAL EQUITY | | **320,317,693** | 275,943,186 | 167,100,996 |

**Zhu Gen Rong**
*Director*

**Wang Ai Yan**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 30 June 2017

| | | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital RMB | Share premium RMB | Equity component of convertible bonds RMB | Other reserves RMB | Retained earnings RMB | Total RMB | Non-controlling interests RMB | Total equity RMB |
| **At 1 July 2016 (Restated)** | | 2,397,524 | 106,985,471 | – | 61,029,226 | 104,049,825 | 274,462,046 | 1,481,140 | 275,943,186 |
| Profit for the year | | – | – | – | – | 30,638,948 | 30,638,948 | (281,070) | 30,357,878 |
| **Other Comprehensive income for the year:** | | | | | | | | | |
| Exchange differences related to foreign operations | | – | – | – | 1,098,634 | – | 1,098,634 | – | 1,098,634 |
| Total comprehensive income for the year | | – | – | – | 1,098,634 | 30,638,948 | 31,737,582 | (281,070) | 31,456,512 |
| Issue of shares | 24 | 2,678,259 | (2,678,259) | – | – | – | – | – | – |
| Dividends paid | 24 | – | (10,691,594) | – | – | – | (10,691,594) | – | (10,691,594) |
| Convertible bonds | | – | – | 23,609,589 | – | – | 23,609,589 | – | 23,609,589 |
| Profit appropriation to statutory reserves | | – | – | – | 3,739,800 | (3,739,800) | – | – | – |
| At 30 June 2017 | | 5,075,783 | 93,615,618 | 23,609,589 | 65,867,660 | 130,948,973 | 319,117,623 | 1,200,070 | 320,317,693 |

| | | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital RMB | Share premium RMB | Other reserves RMB | Retained earnings RMB | Total RMB | Non-controlling interests RMB | Total equity RMB |
| **At 1 July 2015 (Restated)** | | 2,175,184 | 33,490,261 | 52,514,070 | 78,921,481 | 167,100,996 | – | 167,100,996 |
| Profit for the year | | – | – | – | 28,332,245 | 28,332,245 | (1,258,986) | 27,073,259 |
| **Other Comprehensive income for the year:** | | | | | | | | |
| Exchange differences related to foreign operations | | – | – | 5,311,255 | – | 5,311,255 | – | 5,311,255 |
| Total comprehensive income for the year | | – | – | 5,311,255 | 28,332,245 | 33,643,500 | (1,258,986) | 32,384,514 |
| Dividends paid | 24 | – | (5,793,347) | – | – | (5,793,347) | – | (5,793,347) |
| Issue of shares | 24 | 260,568 | 91,801,207 | – | – | 92,061,775 | – | 92,061,775 |
| Shares repurchased | 24 | (38,228) | (12,512,650) | – | – | (12,550,878) | – | (12,550,878) |
| Acquisition of a subsidiary | | – | – | – | – | – | 2,740,126 | 2,740,126 |
| Profit appropriation to statutory reserves | | – | – | 3,203,901 | (3,203,901) | – | – | – |
| At 30 June 2016 (Restated) | | 2,397,524 | 106,985,471 | 61,029,226 | 104,049,825 | 274,462,046 | 1,481,140 | 275,943,186 |

# Consolidated Statement of Cash Flows

Year ended 30 June 2017

| | Notes | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax: | | **36,709,649** | 33,305,184 |
| Adjustments for: | | | |
| Finance income | 9 | **(2,164,023)** | (1,331,031) |
| Finance expense | 9 | **3,977,285** | 233,571 |
| Depreciation of property, plant and equipment | 13 | **4,814,205** | 4,242,301 |
| Depreciation of investment properties | 14 | **310,742** | 310,742 |
| Amortisation of prepaid land lease payments | 15 | **104,942** | 104,942 |
| Impairment of trade receivables and other receivables | 18 | **1,622,271** | 2,312,737 |
| Impairment of inventories | 17 | **111,947** | 761,961 |
| Change in fair value of derivative financial instruments | | **430,000** | – |
| Gain on disposal of available-for-sale investment | 5 | **–** | (1,331,148) |
| Gain on disposal of items of property, plant and equipment, net | | **–** | (41,674) |
| | | **45,917,018** | 38,567,585 |
| Decrease/(increase) in inventories | | **21,689,059** | (20,685,527) |
| Increase in trade and bill receivables | | **(82,374,796)** | (135,148,817) |
| Increase in prepayments and other receivables | | **(64,207,945)** | (24,828,044) |
| Decrease/(increase) in trade and other payables | | **(178,033)** | 138,530,646 |
| Decrease/(increase) in pledged deposits | | **2,039,188** | (22,318,953) |
| Cash used in operations | | **(77,115,509)** | (25,883,110) |
| Income taxes paid | | **(8,273,433)** | (3,938,739) |
| Net cash flows used in operating activities | | **(85,388,942)** | (29,821,849) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(828,129)** | (3,102,636) |
| Acquisition of a subsidiary | | **–** | (6,514,645) |
| Investment down payments related to acquisition of new subsidiaries | | **(9,000,000)** | – |
| Proceeds from disposal of items of property, plant and equipment | | **–** | 69,500 |
| Interest received | | **2,164,023** | 1,331,031 |
| Proceeds from disposal of available-for-sale financial assets | 16 | **–** | 9,331,148 |
| Net cash flows (used in)/generated from investing activities | | **(7,664,106)** | 1,114,398 |

# Consolidated Statement of Cash Flows

Year ended 30 June 2017

| | Notes | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | – | 92,061,775 |
| Shares repurchased | | – | (12,550,878) |
| Proceeds from issuance of convertible bonds | | **88,336,100** | – |
| Repayment of loans from non-controlling shareholders | | **(1,500,000)** | (9,703,802) |
| Repayment of loans from an independent third party | | – | (18,272,485) |
| Bank borrowings | | **5,000,000** | – |
| Loan from non-controlling shareholders | | – | 5,000,000 |
| Dividends paid to shareholders | | **(10,691,594)** | (5,793,347) |
| Interest paid | | **(344,987)** | (786,281) |
| Net cash flows generated from financing activities | | **80,799,519** | 49,954,982 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(12,253,529)** | 21,247,531 |
| Cash and cash equivalents at beginning of year | | **63,359,071** | 37,017,294 |
| Effect of foreign exchange rate changes, net | | **(551,265)** | 5,094,246 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 19 | **50,554,277** | 63,359,071 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash at banks and on hand | 19 | **72,070,079** | 86,914,061 |
| Pledged deposits | 19 | **(21,515,802)** | (23,554,990) |
| Cash and cash equivalents as stated in the statement of cash flows | | **50,554,277** | 63,359,071 |

## 1. CORPORATE AND GROUP INFORMATION

The Company was incorporated on 26 June 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

In the opinion of the directors, the ultimate controlling shareholder is Mr. Zhu Gen Rong.

### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

| Company name | Place and date of incorporation | Registered or authorised capital | Issued and fully paid share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Zhejiang Huazhang Technology Limited* ("Zhejiang Huazhang") | PRC, 19 July 2001 | USD31,300,000 (2016: USD16,300,000) | USD16,300,000 (2016: USD13,578,280) | – | 100% | Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales and other services |
| Huazhang Electric Holding Limited ("Huazhang Electric") | Hong Kong, 25 March 1993 | RMB5,000,000 | RMB3,000,002 | – | 100% | Investment holding and trading of electronic parts |
| Likwin Limited ("Likwin") | BVI, 8 June 2012 | USD50,000 | USD1 | 100% | – | Investment holding |
| Huazhang Technology (Hangzhou) Limited ("Huazhang Hangzhou") | PRC, 7 August 2014 | RMB30,000,000 | RMB11,000,000 | – | 100% | Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales and other services |
| Wuhan Wukong Control System Engineering Co., Ltd. ("Wukong") | PRC, 23 April 2001 | RMB12,000,000 | RMB12,000,000 | – | 70% | Wastewater treatment business |

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

## 2.1 CHANGE OF PRESENTATION CURRENCY

The Group's functional currency is Renminbi ("RMB"). The presentation currency of the consolidated financial statements for the prior financial year was HK$.

Since the Group mainly operates its business in the PRC, the directors consider that it is more appropriate to use RMB as the presentation currency of the Group and that the presentation of financial statements in RMB can provide more relevant information for management to control and monitor the performance and financial position of the Group. Accordingly, the Company has changed its presentation currency for the preparation of its consolidated financial statements from HK$ to RMB starting from the financial year ended 30 June 2017. The comparative figures in these consolidated financial statements have been restated from HK$ to RMB accordingly.

For the purpose of presenting the consolidated financial statements of the Group in RMB, the assets and liabilities for the consolidated statement of financial position are translated into RMB at the closing rate at the end of the reporting period. Income and expenses for the consolidated statement of profit or loss and other comprehensive income are translated at the average exchange rates for the relevant financial year, unless exchange rates fluctuated significantly during the year, in which case, the exchange rates prevailing on the dates of transactions are used. The share capital, share premium and reserves are translated at the exchange rates on the dates of the relevant transactions.

The relevant exchange rates used to re-present the comparative figures at 30 June 2015 and 30 June 2016 and for the year ended 30 June 2016 are as follows:

Year ended 30 June 2015 RMB1 = HK$
Average rate 1.26
Closing rate 1.27
Year ended 30 June 2016 RMB1 = HK$
Average rate 1.20
Closing rate 1.17

The change in presentation currency mainly impacted the carrying amount of foreign currency translation reserves from HK$13,905,000 (credit balance) and HK$5,871,000 to RMB6,463,000 (credit balance) and RMB11,774,000 (credit balance) as at 30 June 2015 and 2016, respectively.

## 2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instrument at fair value. These financial statements are presented in RMB, unless otherwise stated.

## 2.2 BASIS OF PREPARATION *(Continued)*

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 30 June 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception* |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations* |
| HKFRS 14 | *Regulatory Deferral Accounts* |
| Amendments to HKAS 1 | *Disclosure Initiative* |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants* |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements* |
| Annual Improvements 2012-2014 Cycle | *Amendments to a number of HKFRSs* |

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, to these financial statements:

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[2] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2] |
| Amendments to HKAS 7 | *Disclosure Initiative*[1] |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses*[1] |
| HKFRS 9 | *Financial Instruments*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 15 | *Revenue from Contracts with Customers*[2] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2] |
| HKFRS 16 | *Leases*[3] |
| HK (IFRIC) – Int 22 | *Foreign Currency Transactions and Advance Consideration*[2] |
| HK (IFRIC) – Int 23 | *Uncertainty over Income Tax Treatments*[3] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[2] |
| Annual Improvements 2014-2016 Cycle | *Amendments to the following three Standards*<br>*HKFRS 1 First-time Adoption of HONG KONG Financial Reporting Standards*[2]<br>*HKAS 28 Investments in Associates and Joint Ventures*[2]<br>*HKFRS 12 Disclosure of Interests in Other Entities*[2] |

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Management is in the process of making an assessment of the impact of above new standards and amendments to standards on the financial statements of the Group upon initial application.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combination and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

The Group measures its available-for-sale investments and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 5% |
| Machinery and vehicles | 10%-25% |
| Furniture, fittings and equipment | 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at depreciated cost less accumulated impairment.

Depreciation of investment properties is calculated using the straight-line method to allocate cost to their residual value over their estimated useful lives of 15 to 34 years. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are included in profit or loss when the changes arise.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in profit or loss during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as an item of property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. If an item of property, plant and equipment becomes an investment property because its use has changed, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement or disclosure purposes.

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss and other comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, and derivative financial instruments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the consolidated statement of profit or loss and other comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

#### Subsequent measurement *(Continued)*

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in consolidated statement of profit or loss and other comprehensive income in finance expense for loans and in other expenses for receivables.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets *(Continued)*

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the consolidated statement of profit or loss and other comprehensive income.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, and convertible bonds, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

#### Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities *(Continued)*

#### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance expense in the consolidated statement of profit or loss and other comprehensive income.

#### Convertible bonds

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

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss and other comprehensive income.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined using the weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**(a) Sale of goods**

The Group manufactures and sells a range of industrial automation systems and sludge treatment products. Revenue from the sales of goods is recognised when the risk and reward of the goods have been transferred to the customer, which is usually upon delivery of the products to the customer and completion of the installation and debugging (if required), and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

**(b) Revenue from after-sales, bidding service and other services**

The Group is engaged in the provision of after-sales, bidding service and other services to existing customers of industrial automation systems, sludge treatment products and construction contracts. Revenue from after-sales and other service and other income from bidding services are recognised in the accounting period in which the services rendered.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

**(c) Construction contracts**

A construction contract is defined by HKAS 11, 'Construction Contracts', as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activities on a contract are excluded from contract costs in determining the stage of completion.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

**(d) Operating lease rental income**

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

**(e) Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

**(f) Dividend income**

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits

#### Retirement benefits

Pursuant to the relevant regulations, the Group's subsidiaries which operate in Mainland China participate in a local municipal government retirement benefit scheme, whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme mentioned above. Contributions under the scheme are charged to profit or loss as incurred. There are no provisions under the scheme whereby forfeited contributions may be used to reduce future contributions.

#### Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their consolidated statement of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserves. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss and other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty *(Continued)*

#### Fair value of liability component of convertible bonds

The fair value of liability component of convertible bonds have been valued based on a valuation technique of binomial model that incorporates various market inputs including risk-free rate, volatility, liquidity discount and risky discount rate, and hence they are subject to uncertainty The fair value of liability component of convertible bonds at 29 March 2017 was RMB65,051,769. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 30 to the financial statements.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 30 June 2017 was RMB596,369 (2016:RMB596,369).

#### Carrying values of non-current assets

Non-current assets, including prepaid land lease payments, investment properties and property, plant and equipment are carried at cost less accumulated amortisation/depreciation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

#### Useful lives of property, plant, equipment and investment properties

Management determines the estimated useful lives and related depreciation charges for its property, plant, equipment and investment properties. This estimate is based on the historical experience of the actual useful lives of property, plant, equipment and investment properties of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. Management will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty *(Continued)*

#### Impairment of trade receivables

Over 12% and 25% of the trade receivables were past due but not considered as impaired as at 30 June 2017 and 2016 respectively. Management estimates the provision of impairment of such receivables by assessing their recoverability individually with reference to their past repayment history as well as subsequent settlement status. Provisions are applied to these receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade receivables and impairment charge in the period in which such estimate has been changed.

#### Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of a similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at the end of each reporting period.

#### Current and deferred income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

#### Warranty claims

The Group generally offers one to two years warranties for its products sold. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. However, in so far as the factors change, the estimate of the associated expenses may be subject to revision from time to time.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Judgements

#### Revenue recognition

The Group manufactures and sells a range of industrial automation systems and sludge treatment products. Cash collection is in accordance with the milestone specified in each sales contract. Under respective contracts, the Group is obliged to design and manufacture the products, and complete the functional testing after the customer's whole production line including the Group's products has been installed, for which the duration of each contact fluctuated and may last over one year. As such, the revenue to be recognised in future periods maybe related to products delivered in earlier periods.

The Group determines whether a sales contract is sales of goods or qualifies as a construction contract. In making its judgement, the Group considers whether the sales contract is specifically negotiated for construction of a product. If the major structural elements of the products are standard products designed by the Group with limited custom-built features based on the customer's requirements, revenue from the sales of goods is recognised when the risk and reward of the goods have been transferred to the customer, which is usually upon delivery of products to the customer and completion of the installation and debugging (if required), and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Otherwise, the sales contract qualifies as a construction contract. Judgement is applied in determining whether the customers' specifications are limited and that a sales contract does not qualify as a construction contract. The Group considers each sales contract separately in making its judgement.

The Group uses the percentage-of-completion method in the accounting for a construction contract. The use of the percentage-of-completion method requires the Group to estimate the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs to completion for each contract. Where contract costs incurred to total estimated costs to completion differ by 10% from management's estimates, the amount of revenue recognised in the year would be increased or decreased by RMB19,884,461 if the proportion performed was increased or decreased.

## 4. OPERATING SEGMENT INFORMATION

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

(a) industrial automation systems;

(b) project contracting services;

(c) sludge and wastewater treatment business; and

(d) after-sales and other services

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

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 before tax except that common administrative expenses, other losses, other income and gains, financing (including finance expense and interest income) and income taxes are excluded from such measurement.

Segment assets include all assets of the Group except investment properties, goodwill, derivative financial instruments, deferred tax assets, pledged deposits, and certain prepayments, other receivables, cash and cash equivalents, property plant and equipment and prepaid land lease payments, as these assets are managed on a group basis.

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

| Year ended 30 June 2017 | Industrial automation systems RMB | Project contracting services RMB | Sludge and wastewater treatment business RMB | After-sales and other services RMB | Total RMB |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | 77,064,124 | 235,483,184 | 48,615,465 | 54,844,416 | 416,007,189 |
| Segment cost of sales | (50,696,282) | (199,715,179) | (33,468,845) | (40,534,487) | (324,414,793) |
| Segment gross profit | 26,367,842 | 35,768,005 | 15,146,620 | 14,309,929 | 91,592,396 |
| Segment results | 6,801,142 | 32,370,319 | 5,023,247 | 13,853,152 | 58,047,860 |
| Common administrative expenses | | | | | (24,581,275) |
| Other expenses | | | | | (505,348) |
| Other income and gains | | | | | 5,906,585 |
| Finance expense – net | | | | | (2,158,173) |
| Profit before tax | | | | | 36,709,649 |
| Income tax expense | | | | | (6,351,771) |
| Profit for the year | | | | | 30,357,878 |

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

Other segment information:

| | Industrial automation systems RMB | Project contracting services RMB | Sludge and wastewater treatment business RMB | After-sales and other services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| Capital expenditure | 225,494 | – | 299,181 | – | 269,801 | 794,476 |
| Depreciation of property, plant and equipment | 803,779 | – | 1,159,719 | – | 2,850,707 | 4,814,205 |
| Amortisation of prepaid land lease payments | 29,786 | – | 39,519 | – | 35,637 | 104,942 |
| Depreciation of investment properties | – | – | – | – | 310,742 | 310,742 |

The segment assets and liabilities as at 30 June 2017 are as follows:

| | Industrial automation systems RMB | Project contracting services RMB | Sludge and wastewater treatment business RMB | After-sales and other services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| **Assets** | 87,402,655 | 311,086,561 | 93,813,001 | 6,765,303 | 128,250,141 | 627,317,661 |
| **Liabilities** | 85,650,789 | 74,552,830 | 45,215,562 | 261,000 | 101,319,787 | 306,999,968 |

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

| Year ended 30 June 2016 (Restated) | Industrial automation systems RMB | Project contracting services RMB | Sludge and wastewater treatment business RMB | After-sales and other services RMB | Total RMB |
|---|---|---|---|---|---|
| Segment revenue: | | | | | |
| Sales to external customers | 90,404,421 | 150,175,020 | 46,564,750 | 40,116,387 | 327,260,578 |
| Segment cost of sales | (63,538,153) | (118,119,673) | (35,300,184) | (29,607,286) | (246,565,296) |
| Segment gross profit | 26,866,268 | 32,055,347 | 11,264,566 | 10,509,101 | 80,695,282 |
| Segment results | 11,053,371 | 30,417,846 | 14,163 | 10,044,529 | 51,529,909 |
| Common administrative expenses | | | | | (22,695,829) |
| Other income and gains | | | | | 3,373,644 |
| Finance income – net | | | | | 1,097,460 |
| Profit before tax | | | | | 33,305,184 |
| Income tax expense | | | | | (6,231,925) |
| Profit for the year | | | | | 27,073,259 |

Other segment information:

| | Industrial automation systems RMB | Project contracting services RMB | Sludge and wastewater treatment business RMB | After-sales and other services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| Capital expenditure | 5,397,287 | – | 1,006,504 | – | 2,123,816 | 8,527,607 |
| Depreciation of property, plant and equipment | 871,649 | – | 1,268,222 | – | 2,102,430 | 4,242,301 |
| Amortisation of prepaid land lease payments | 29,785 | – | 39,518 | – | 35,639 | 104,942 |
| Gains on disposal of property, plant and equipment, net | – | – | – | – | 41,674 | 41,674 |
| Depreciation of investment properties | – | – | – | – | 310,742 | 310,742 |

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

The segment assets and liabilities as at 30 June 2016 are as follows: (Restated)

| | Industrial automation systems RMB | Project contracting services RMB | Sludge and wastewater treatment business RMB | After-sales and other services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| **Assets** | 268,468,362 | 13,253,415 | 105,355,607 | 6,847,876 | 120,615,041 | 514,540,301 |
| **Liabilities** | 183,653,675 | – | 38,718,873 | 2,092,883 | 14,131,684 | 238,597,115 |

### Geographical information

No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and return.

### Information about major customers

Revenues from two customers of the project contracting services segment amounted to RMB111,001,490 and RMB39,157,319 representing over 10% and 9% of the Group's total revenue for the year ended 30 June 2017, respectively. Revenues from two customers of the project contracting services segment amounted to RMB94,051,025 and RMB34,714,865 each representing over 10% of the Group's total revenue for the year ended 30 June 2016.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| **Revenue** | | |
| Project contracting services | **235,483,184** | 150,175,020 |
| Industrial automation systems | **77,064,124** | 90,404,421 |
| Sludge and wastewater treatment business | **48,615,465** | 46,564,750 |
| After-sale and other services | **54,844,416** | 40,116,387 |
| | **416,007,189** | 327,260,578 |
| **Other income and gains** | | |
| Consultation income | **2,200,855** | – |
| Bidding service income | **1,466,084** | 447,359 |
| Government grants* | **1,051,593** | 270,301 |
| Rental income | **514,729** | 548,006 |
| Scrap steel income | **183,580** | 205,211 |
| Gain on disposal of an available-for sale investment | **–** | 1,331,148 |
| Others | **489,744** | 571,619 |
| | **5,906,585** | 3,373,644 |

* Government grants mainly consists of subsidies for subsidies for encouraging technological innovation and tax exemption. There are no unfulfilled conditions or contingencies attached to these grants.

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(credited):

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Raw materials used | **326,969,206** | 217,045,403 |
| Employee benefit expenses (excluding directors' and chief executive's remuneration) (Note 7) | **34,052,606** | 30,076,093 |
| Change in inventories of finished goods and work in progress (Note 17) | **(16,769,658)** | 14,130,888 |
| Travelling expenses | **6,870,719** | 5,411,145 |
| Depreciation of property, plant and equipment (Note 13) | **4,814,205** | 4,242,301 |
| Office expenses | **3,331,586** | 3,620,366 |
| Miscellaneous tax charges other than value added tax and income tax | **1,884,908** | 2,882,370 |
| Impairment of trade receivables and other receivables (Note 18) | **1,622,271** | 2,312,737 |
| Transportation expenses | **2,136,623** | 2,008,912 |
| Professional service fees | **2,046,755** | 1,514,521 |
| Auditor's remuneration | **1,450,000** | 1,100,000 |
| Change in fair value of derivative financial instrument | **430,000** | – |
| Utilities | **286,807** | 410,737 |

## 7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Fees | **210,552** | 199,344 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **2,333,104** | 2,318,763 |
| Bonuses | **334,527** | 193,203 |
| Other benefits | **29,370** | 48,416 |
| | **2,697,001** | 2,560,382 |
| | **2,907,553** | 2,759,726 |

## 7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Mr. Kong Chi Mo | 105,276 | 99,672 |
| Mr. Dai Tian Zhu | 105,276 | 99,672 |
| Ms. Chen Jin Mei | – | – |
| | 210,552 | 199,344 |

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

### (b) Executive directors and the chief executive

**Year ended 30 June 2017**

| | Salaries, allowances and benefits in kind RMB | Bonuses RMB | Other benefits RMB | Total remuneration RMB |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Mr. Zhu Gen Rong (Chairman) | 858,552 | 146,427 | 4,195 | 1,009,174 |
| Mr. Wang Ai Yan (Chief Executive) | 810,552 | 118,800 | 4,285 | 933,637 |
| Mr. Jin Hao | 396,000 | 66,000 | 10,150 | 472,150 |
| Mr. Zhong Xin Gang | 268,000 | 3,300 | 10,740 | 282,040 |
| | 2,333,104 | 334,527 | 29,370 | 2,697,001 |

## 7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (b) Executive directors and the chief executive *(Continued)*

**Year ended 30 June 2016 (Restated)**

| | Salaries, allowances and benefits in kind RMB | Bonuses RMB | Other benefits RMB | Total remuneration RMB (Restated) |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Mr. Zhu Gen Rong (Chairman) | 847,369 | 70,003 | 14,297 | 931,669 |
| Mr. Wang Ai Yan (Chief Executive) | 799,368 | 66,003 | 14,297 | 879,668 |
| Mr.Jin Hao | 396,015 | 26,466 | 10,181 | 432,662 |
| Mr.Zhong Xin Gang | 276,011 | 30,731 | 9,641 | 316,383 |
| | 2,318,763 | 193,203 | 48,416 | 2,560,382 |

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2016: four directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| Salaries, allowances and benefits in kind | **600,000** | 600,000 |
| Bonuses | **90,000** | 50,000 |
| Other benefits | **10,300** | 10,330 |
| | **700,300** | 660,330 |

## 8. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

| | Number of employees 2017 | 2016 (Restated) |
|---|---|---|
| Nil to RMB1,000,000 | **1** | 1 |

For the years ended 30 June 2017 and 2016, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 9. FINANCE (EXPENSE)/INCOME – NET

An analysis of finance (expense)/income - net is as follows:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Finance income | | |
| – Interest income | **2,164,023** | 1,318,235 |
| – Exchange gain | **–** | 12,796 |
| | **2,164,023** | 1,331,031 |
| Finance expense | | |
| – Interest expense on convertible bonds | **(3,584,698)** | – |
| – Interest expenses on loans | **(392,587)** | (233,571) |
| – Exchange loss | **(344,911)** | – |
| | **(4,322,196)** | (233,571) |
| Finance (expense)/income - net | **(2,158,173)** | 1,097,460 |

## 10. INCOME TAX EXPENSE

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Current – PRC | | |
| Charge for the year | **6,866,230** | 6,138,520 |
| Deferred tax (Note 22) | **(514,459)** | 93,405 |
| Income tax expense | **6,351,771** | 6,231,925 |

### (i) Cayman Islands profits tax

The Company is not subject to profits tax in the Cayman Islands.

### (ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the year ended 30 June 2017 (2016: Nil), as the Group had no taxable profits earned or derived in Hong Kong during the year.

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

EIT is provided on the assessable income of entities within the Group incorporated in the PRC.

Pursuant to the PRC Enterprise Income Tax Law (the "New EIT Law"), the EIT of companies established in the PRC is unified at 25%, effective from 1 January 2008.

Zhejiang Huazhang's applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the New EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar years of 2008, 2011 and 2014, with a validation period of three years each. The applicable EIT rate of Zhejiang Huazhang is 15% from 2008 till 2016. Zhejiang Huazhang is now under application of new validation period. It's highly possible that preferential tax rate will be approved by tax bureau around October 2017. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2017 (2016: 15%).

For Wukong, EIT was levied on 2% of the total revenue till 31 December 2016. From 1 January 2017, the applicable EIT rate of Wukong is 25% for taxable profit before tax.

## 10. INCOME TAX EXPENSE *(Continued)*

### (iv) PRC withholding income tax

According to the New EIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when its PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company. The deferred tax liabilities in respect of the withholding tax on the unremitted earnings of the PRC subsidiaries are disclosed in Note 22.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | **2017**<br>**RMB** | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Profit before tax | **36,709,649** | 33,305,184 |
| Income tax charge at the statutory income tax rate | **11,373,696** | 10,253,291 |
| Effect of the preferential tax rate | **(4,375,045)** | (3,759,740) |
| Expenses not deductible for tax purposes | **(119,240)** | 100,079 |
| Super deduction for R&D expense | **–** | (165,774) |
| Re-measurement of deferred income tax | **(352,175)** | (99,780) |
| Adjustments in respect of current tax of previous periods | **–** | 55,709 |
| Effect of withholding tax on the expected distributable profits of the subsidiary in Mainland China | **(175,465)** | (151,860) |
| Tax charge for the year at the effective rate | **6,351,771** | 6,231,925 |

## 11. DIVIDENDS

### (i) Dividends attributable to the year

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Proposed final – HK 2.4 cents (2016: HK 4.0 cents) per ordinary share | **12,511,258** | 10,267,477 |
| | **12,511,258** | 10,267,477 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming AGM.

### (ii) Dividends attributable to the previous financial year, approved and paid during the year:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Final dividend in respect of the previous financial year, Approved and paid during the year, of HK 4.0 cents (2016: HK 2.3 cents) per share | **10,691,594** | 5,793,347 |

A dividend in respect of the year ended 30 June 2017 of HK 2.4 cents per share, amounting to a total dividend of RMB12,511,258 based on the number of issued shares outstanding at relevant time, is to be proposed at the Board meeting on 5 September 2017. These financial statements do not reflect this dividends payable.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 600,648,000 (2016: 599,537,213) in issue during the year,as adjusted to reflect the rights issue during the year. On November 2016, the Company issued 300,324,000 bonus shares (one-for-one) to qualifying shareholders, the weighted average number of ordinary shares is calculated as if the bonus shares were granted before the beginning of 2016, the earliest period presented.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 30 June 2017 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The Group had no potentially dilutive ordinary shares in issue during the years ended 30 June 2016.

The calculations of basic and diluted earnings per share are based on:

| | **2017** | 2016 |
|---|---|---|
| | **RMB** | RMB (Restated) |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation: | **30,638,948** | 28,332,245 |
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation | **600,648,000** | 599,537,213 |
| Basic and diluted earnings per share (RMB cents) | **5.10** | 4.73 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB | Machinery and vehicles RMB | Furniture, fittings and equipment RMB | Total RMB |
|---|---|---|---|---|
| **30 June 2017** | | | | |
| **At 1 July 2016 (Restated):** | | | | |
| Cost | 44,720,435 | 9,940,920 | 7,519,846 | 62,181,201 |
| Accumulated depreciation and impairment | (9,278,486) | (3,567,047) | (5,174,714) | (18,020,247) |
| Net carrying amount | 35,441,949 | 6,373,873 | 2,345,132 | 44,160,954 |
| **Year ended 30 June 2017** | | | | |
| Opening net book amount | 35,441,949 | 6,373,873 | 2,345,132 | 44,160,954 |
| Additions | – | 400,256 | 394,220 | 794,476 |
| Depreciation provided during the year (Note 6) | (2,627,100) | (978,222) | (1,208,883) | (4,814,205) |
| Exchange realignment | – | – | 89 | 89 |
| At 30 June 2017, net of accumulated depreciation | 32,814,849 | 5,795,907 | 1,530,558 | 40,141,314 |
| At 30 June 2017: | | | | |
| Cost | 44,720,435 | 10,341,176 | 7,914,066 | 62,975,677 |
| Accumulated depreciation | (11,905,586) | (4,545,269) | (6,383,508) | (22,834,363) |
| Net carrying amount | 32,814,849 | 5,795,907 | 1,530,558 | 40,141,314 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings RMB | Machinery and vehicles RMB | Furniture, fittings and equipment RMB | Total RMB |
|---|---|---|---|---|
| **30 June 2016 (Restated)** | | | | |
| **At 1 July 2015:** | | | | |
| Cost | 37,907,368 | 9,083,886 | 6,860,092 | 53,851,346 |
| Accumulated depreciation and impairment | (7,159,978) | (2,813,207) | (3,975,119) | (13,948,304) |
| Net carrying amount | 30,747,390 | 6,270,679 | 2,884,973 | 39,903,042 |
| Year ended 30 June 2016 | | | | |
| Opening net book amount | 30,747,390 | 6,270,679 | 2,884,973 | 39,903,042 |
| Additions | 2,011,693 | 402,171 | 653,983 | 3,067,647 |
| Additions resulting from acquisition of a subsidiary | 4,801,374 | 652,615 | 5,971 | 5,459,960 |
| Disposals | – | (27,826) | – | (27,826) |
| Depreciation provided during the year (Note 6) | (2,118,508) | (923,766) | (1,200,027) | (4,242,301) |
| Exchange realignment | – | – | 432 | 432 |
| At 30 June 2016, net of accumulated depreciation | 35,441,949 | 6,373,873 | 2,345,132 | 44,160,954 |
| At 30 June 2016: | | | | |
| Cost | 44,720,435 | 9,940,920 | 7,519,846 | 62,181,201 |
| Accumulated depreciation | (9,278,486) | (3,567,047) | (5,174,714) | (18,020,247) |
| Net carrying amount | 35,441,949 | 6,373,873 | 2,345,132 | 44,160,954 |

As at 30 June 2017, buildings with an aggregate carrying amount of RMB32,199,445 were pledged as collateral for the Group's banking facilities (Note 21) (2016: RMB34,713,019).

## 14. INVESTMENT PROPERTIES

The investment properties are located in the PRC and their net book values are analysed as follows:

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| At beginning of year (Restated) | | |
| Cost | **8,501,625** | 8,501,625 |
| Accumulated amortisation | **(1,890,346)** | (1,579,604) |
| Net book amount | **6,611,279** | 6,922,021 |
| Opening net book amount | **6,611,279** | 6,922,021 |
| Depreciation | **(310,742)** | (310,742) |
| Closing net book amount | **6,300,537** | 6,611,279 |
| At end of year | | |
| Cost | **8,501,625** | 8,501,625 |
| Accumulated amortisation | **(2,201,088)** | (1,890,346) |
| Net book amount | **6,300,537** | 6,611,279 |

As at 30 June 2017, the fair value of the investment property was approximately RMB14,633,190 (2016: RMB14,840,703). These estimate is made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. The fair value measurement of investment properties was categorised with level 2 of the fair value hierarchy.

## 14. INVESTMENT PROPERTIES *(Continued)*

Amounts recognised in profit or loss for investment properties included:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Rental income | **514,729** | 548,006 |
| Depreciation of investment properties charged to profit or loss | **(310,742)** | (310,742) |
| | **203,987** | 237,264 |

As at 30 June 2017, investment properties with an aggregate carrying amount of RMB6,300,537 were pledged as collateral for the Group's banking facilities (Note 21) (2016: RMB6,611,279).

As at 30 June 2017, the Group had no significant contractual obligations for future repairs and maintenance of the investment properties (2016: Nil).

## 15. PREPAID LAND LEASE PAYMENTS

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Carrying amount as at beginning of the year | **3,458,747** | 3,563,689 |
| Recognised during the year | **(104,942)** | (104,942) |
| Carrying amount as at end of the year | **3,353,805** | 3,458,747 |
| Portion classified as current assets | **(104,942)** | (104,942) |
| Non-current portion | **3,248,863** | 3,353,805 |

As at 30 June 2017, prepaid land lease payments with an aggregate carrying amount of RMB3,353,804 were pledged as collateral for the Group's banking facilities (Note 21) (2016: RMB3,458,747).

## 16. AVAILABLE-FOR-SALE INVESTMENT

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| As at beginning of the year | **–** | 8,000,000 |
| Additions | **–** | – |
| Disposals | **–** | (8,000,000) |
| | **–** | – |

The Group disposed of the investment in the unlisted equity interest in May 2016.

## 17. INVENTORIES

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Raw materials | **18,284,948** | 23,316,296 |
| Work in progress | **23,941,706** | 27,111,034 |
| Finished goods | **17,285,206** | 30,885,536 |
| | **59,511,860** | 81,312,866 |

Movements in the Group's provision for write-down of inventories are as follows:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| At 1 July | **5,721,870** | 4,959,909 |
| Provision for write-down of inventories | **111,947** | 761,961 |
| At 30 June | **5,833,817** | 5,721,870 |

As at 30 June 2017, raw materials with a cost of RMB10,201,151 were considered as obsolete (2016: RMB8,737,826) and a provision of RMB5,833,817 (2016: RMB5,721,870) to write down to their net realisable value was made against these raw materials as at 30 June 2017. The Group made an additional provision for inventory write-down of RMB111,947 (2016: RMB761,961) for the year ended 30 June 2017. The amount charged has been included in 'cost of sales' in profit or loss.

## 18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

### (i) Trade and other receivables

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Warranty receivables (note a) | **21,608,760** | 24,997,516 |
| Amounts due from contract customers (note b) | **72,896,612** | 61,354,280 |
| Other trade receivables (note c) | **265,060,443** | 142,413,390 |
| | **359,565,815** | 228,765,186 |
| Less: provision for impairment of trade receivables (note d) | **6,529,385** | 6,888,899 |
| Trade receivables – net | **353,036,430** | 221,876,287 |
| Bills receivable (note e) | **46,441,408** | 25,889,246 |
| Trade and bills receivables | **399,477,838** | 247,765,533 |
| Other receivables due from a related party (Note 28) | **17,428** | 17,428 |
| Other receivables – performance guarantee | **3,979,787** | 6,870,791 |
| Others | **5,955,980** | 8,970,213 |
| | **9,953,195** | 15,858,432 |
| Less: provision for impairment of other receivables (note f) | **1,952,849** | - |
| Other receivables – net | **8,000,346** | 15,858,432 |
| Total trade and other receivables | **407,478,184** | 263,623,965 |
| Less: trade receivables – non-current portion | **84,673,706** | 21,737,001 |
| | **322,804,478** | 241,886,964 |

## 18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

Notes:

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

The aged analysis of the warranty receivables as at the end of the reporting period is as follows:

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Up to 3 months | **7,520,636** | 7,890,606 |
| 3 months to 6 months | **3,475,779** | 1,588,399 |
| 6 months to 1 year | **2,012,519** | 2,545,015 |
| 1 year to 2 years | **3,318,363** | 5,586,917 |
| Over 2 years | **5,281,463** | 7,386,579 |
| | **21,608,760** | 24,997,516 |

(b) Amounts due from contract customers at the end of the reporting period are as follows:

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Cost incurred | **229,456,211** | 110,844,058 |
| Recognised profits | **90,754,994** | 33,244,611 |
| | **320,211,205** | 144,088,669 |
| Less: progress billings | **247,314,593** | 82,734,389 |
| | **72,896,612** | 61,354,280 |

## 18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

Notes: *(Continued)*

(c) The aged analysis of the other trade receivables (including non-current portion) is as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| Other trade receivables | | |
| Up to 3 months | **102,246,206** | 57,191,402 |
| 3 months to 6 months | **1,750,061** | 49,391,620 |
| 6 months to 1 year | **125,882,640** | 9,892,187 |
| 1 year to 2 years | **24,801,412** | 22,181,648 |
| Over 2 years | **10,380,124** | 3,756,533 |
| | **265,060,443** | 142,413,390 |

(d) Movements in the Group's provision for impairment of trade receivables

The aged analysis of the warranty and other trade receivables that are not individually nor collectively considered to be impaired is as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| Neither past due nor impaired | **246,019,262** | 118,204,798 |
| Past due but not impaired | **34,120,556** | 42,317,209 |
| | **280,139,818** | 160,522,007 |

Receivables that were neither past due nor impaired mainly relate to a few customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

Notes: *(Continued)*

(d) Movements on the Group's provision for impairment of trade receivables *(Continued)*

The movements in provision for impairment of trade receivables are as follows:

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| At beginning of the year | **6,888,899** | 5,097,961 |
| (Reversal of impairment losses) Impairment losses recognised (Note 6) | **(330,578)** | 2,312,737 |
| Amounts written off as uncollectible | **(28,936)** | (521,799) |
| | **6,529,385** | 6,888,899 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB6,529,385 (2016: RMB6,888,899) with a carrying amount before provision of RMB6,529,385 (2016: RMB6,888,899).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| 1 year to 2 years | **2,721,816** | 2,509,258 |
| Over 2 years | **3,807,569** | 4,379,641 |
| | **6,529,385** | 6,888,899 |

## 18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

Notes: *(Continued)*

(e) Bills receivable

**Transfer of financial assets that are not derecognised in their entirety**

At 30 June 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB18,071,165 to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB18,071,165 as at 30 June 2017.

The Group keeps monitoring the default risk of endorsed bills and as of 30 June 2017, all endorsed bills became mature except for the amount retained on the book totalling RMB18,071,165 and those bills that are derecognised as discussed below, which have a maturity from one to six months.

At 30 June 2017, the Group discounted certain bills receivable with recourse accepted by certain banks in Mainland China (the "Recognised Bills") with a carrying amount of RMB5,000,000, (the "Discount"). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Recognised Bills have a right of recourse against the Group if the PRC banks default. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Recognised Bills, and accordingly, it continued to recognise the full carrying amounts of the Recognised Bills. The proceeds from the Discount are recorded as interest-bearing loans.

**Transfer of financial assets that are derecognised in their entirety**

At 30 June 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount of RMB31,483,219. The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 30 June 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

(f) Movements in the Group's provision for impairment of other receivables

The movements in provision for impairment of other receivables are as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| At beginning of the year | **–** | – |
| Impairment losses recognised (Note 6) | **1,952,849** | – |
| | **1,952,849** | - |

## 18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

### (ii) Prepayments

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Prepayments for raw materials | **23,697,260** | 24,077,373 |
| Investment down payment | **9,000,000** | – |
| Prepayments for new contracts | **1,810,710** | 161,145 |
| Others | **594,610** | 592,822 |
| Total prepayments | **35,102,580** | 24,831,340 |
| Less: prepayments – non-current portion | **222,023** | 235,083 |
| | **34,880,557** | 24,596,257 |

## 19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Cash at banks and on hand | **72,070,079** | 86,914,061 |
| Less: pledged deposits | **(21,515,802)** | (23,554,990) |
| Cash and cash equivalents | **50,554,277** | 63,359,071 |

(a) The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable and letters of credit.

(b) Cash and cash equivalents are denominated in the following currencies:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| RMB | **21,949,682** | 50,887,082 |
| HK$ | **28,053,168** | 11,927,805 |
| USD | **551,427** | 544,184 |
| | **50,554,277** | 63,359,071 |

## 20. TRADE AND OTHER PAYABLES

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Trade payables | **84,326,082** | 88,332,989 |
| Bills payable | **41,413,968** | 56,378,103 |
| | **125,740,050** | 144,711,092 |
| Advances from customers | **66,347,155** | 59,932,685 |
| Other taxes payables | **18,558,419** | 1,512,804 |
| Employee benefit payables | **5,266,456** | 4,586,790 |
| Accrual | **2,801,397** | 3,216,795 |
| Deposit | **2,135,426** | 4,429,800 |
| Provision for warranty expenses | **570,470** | 688,853 |
| Others | **6,648,618** | 9,200,858 |
| | **102,327,941** | 83,568,585 |
| | **228,067,991** | 228,279,677 |

The aged analysis of the trade payables is as follows:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Up to 3 months | **43,113,547** | 53,575,818 |
| 3 months to 6 months | **14,216,652** | 20,386,102 |
| 6 months to 1 years | **14,102,033** | 10,448,471 |
| 1 year to 2 years | **8,992,629** | 2,813,616 |
| Over 2 years | **3,901,221** | 1,108,982 |
| | **84,326,082** | 88,332,989 |

## 21. INTEREST-BEARING LOANS

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Loan from non-controlling shareholders (Note 28) | **3,626,000** | 5,078,400 |
| Bank borrowings | **5,000,000** | – |
| | **8,626,000** | 5,078,400 |

As at 30 June 2017, the Group's borrowings are all denominated in RMB.

The loan from non-controlling shareholders bears interest at a rate 7.2% per annum (30 June 2016: 7.2% per annum). As mentioned in note 18, the Company entered into a trade receivable factoring arrangement at 3% per annum and the proceeds received from bank are recognised as a loan.

As at 30 June 2017, the banking facilities granted by the bank was secured by property, plant and equipment, prepaid land lease payments and investment properties of the Group amounting to approximately RMB32,199,445, RMB3,353,804 and RMB6,300,537 respectively (30 June 2016: RMB34,713,019, RMB3,458,747 and RMB6,611,279 respectively).

As at 30 June 2017, the Group had the following unutilised banking facilities:

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Authorised banking facilities – expiring within three years | **77,000,000** | 77,000,000 |
| Less: utilised banking facilities | **(23,206,104)** | (51,196,451) |
| | **53,793,896** | 25,803,549 |

## 22. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred taxes relate to the same tax authority.

The movements in deferred income tax assets and liabilities during the year were as follows:

| | Deferred tax assets | | | | | |
|---|---|---|---|---|---|---|
| | Provision for warranty expense RMB | Provision for impairment RMB | Provision for deductible losses RMB | Provision for accrual expense RMB | Changes in fair value of derivative instruments RMB | Total RMB |
| At 1 July 2016 (Restated) | **103,329** | **1,828,155** | **669,236** | **–** | **–** | **2,600,720** |
| Credited/(charged) to profit or loss | **(17,758)** | **281,358** | **(165,887)** | **–** | **64,500** | **162,213** |
| At 30 June 2017 | **85,571** | **2,109,513** | **503,349** | **–** | **64,500** | **2,762,933** |
| At 1 July 2015 (Restated) | 243,766 | 1,508,680 | 1,068,969 | 125,676 | – | 2,947,091 |
| Credited/(charged) to profit or loss | (140,437) | 319,475 | (399,733) | (125,676) | – | (346,371) |
| At 30 June 2016 (Restated) | 103,329 | 1,828,155 | 669,236 | – | – | 2,600,720 |

| | Deferred tax liabilities | | |
|---|---|---|---|
| | Withholding tax on unremitted earnings of Zhejiang Huazhang RMB | Fair value adjustments arising from acquisition of a subsidiary RMB | Total RMB |
| At 1 July 2016 (Restated) | **(170,934)** | **(977,293)** | **(1,148,227)** |
| Deferred tax credited to profit or loss during the year | **175,465** | **176,781** | **352,246** |
| Foreign exchange difference | **(4,531)** | **–** | **(4,531)** |
| At 30 June 2017 | **–** | **(800,512)** | **(800,512)** |
| At 1 July 2015 (Restated) | (307,234) | – | (307,234) |
| Acquisition of a subsidiary | – | (1,078,405) | (1,078,405) |
| Deferred tax credited to profit or loss during the year | 151,854 | 101,112 | 252,966 |
| Foreign exchange difference | (15,554) | – | (15,554) |
| At 30 June 2016 (Restated) | (170,934) | (977,293) | (1,148,227) |

## 23. CONVERTIBLE BONDS

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

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

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

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

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

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

The proceeds from the issuance of Convertible Bonds of HK$100,000,000 have been split into liability and equity components on 29 March 2017 (the issuance date). On the issuance date, the fair value of the liability component of the Convertible Bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bonds with consideration of the Group's own non-performance risk. And it will be measured on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds are allocated to the equity component of Convertible Bonds. Transaction cost are apportioned between liability and equity components of the Convertible Bonds based on the allocation of proceeds to the liability and equity components on the issuance date.

There is no movement in the number of the Convertible Bonds during the year.

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

The convertible bonds issued during the year have been split into the liability and equity components as follows:

| | **Liability component of Convertible Bonds**<br>RMB | **Equity component of Convertible Bonds**<br>RMB | **Total**<br>RMB |
|---|---|---|---|
| At 29 March 2017 | 65,051,769 | 23,728,231 | 88,780,000 |
| Transaction cost allocation | (325,258) | (118,642) | (443,900) |
| Interest expense | 3,584,698 | – | 3,584,698 |
| Currency translation differences | (1,489,352) | – | (1,489,352) |
| At 30 June 2017 | 66,821,857 | 23,609,589 | 90,431,446 |

## 24. SHARE CAPITAL AND PREMIUM

| | 2017 RMB | 2016 RMB (Restated) |
|---|---|---|
| Issued and fully paid: | | |
| 600,648,000 (2016: 300,324,000) ordinary shares | **5,075,783** | 2,397,524 |

A summary of movements in the Company's share capital is as follows:

| | Number of issued shares | Ordinary shares RMB | Share premium RMB | Total RMB |
|---|---|---|---|---|
| **At 1 July 2016 (Restated)** | **300,324,000** | **2,397,524** | **106,985,471** | **109,382,995** |
| Issue of shares (i) | **300,324,000** | **2,678,259** | **(2,678,259)** | **–** |
| Dividends (ii) | **–** | **–** | **(10,691,594)** | **(10,691,594)** |
| **At 30 June 2017** | **600,648,000** | **5,075,783** | **93,615,618** | **98,691,401** |
| **At 1 July 2015 (Restated)** | 272,000,000 | 2,175,184 | 33,490,261 | 35,665,445 |
| Issue of shares | 33,000,000 | 260,568 | 91,801,207 | 92,061,775 |
| Shares repurchased | (4,676,000) | (38,228) | (12,512,650) | (12,550,878) |
| Dividends | – | – | (5,793,347) | (5,793,347) |
| **At 30 June 2016 (Restated)** | 300,324,000 | 2,397,524 | 106,985,471 | 109,382,995 |

(i) On 25 November 2016, the Company issued 300,324,000 bonus shares (with an aggregate nominal value of HK$3,003,240) to qualifying shareholders.

(ii) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company. Details of the proposed dividends are set out in Note 11.

## 25. RETAINED EARNINGS

| | 2017 RMB | 2016 RMB |
|---|---|---|
| At 1 July 2016 (Restated) | **104,049,825** | 78,921,481 |
| Profit for the year | **30,638,948** | 28,332,245 |
| Appropriation to statutory reserves (Note 26) | **(3,739,800)** | (3,203,901) |
| At 30 June 2017 | **130,948,973** | 104,049,825 |

## 26. OTHER RESERVES

| | Reorganisation reserves RMB | Merger reserves RMB | Statutory reserves RMB | Foreign currency translation reserves RMB | Total RMB |
|---|---|---|---|---|---|
| **At 1 July 2016 (Restated)** | **2,335,540** | **33,028,254** | **13,891,385** | **11,774,047** | **61,029,226** |
| Translation differences | **–** | **–** | **–** | **1,098,634** | **1,098,634** |
| Appropriation to statutory reserves | **–** | **–** | **3,739,800** | **–** | **3,739,800** |
| **At 30 June 2017** | **2,335,540** | **33,028,254** | **17,631,185** | **12,872,681** | **65,867,660** |
| **At 1 July 2015 (Restated)** | 2,335,540 | 33,028,254 | 10,687,484 | 6,462,792 | 52,514,070 |
| Translation differences | – | – | – | 5,311,255 | 5,311,255 |
| Appropriation to statutory reserves | – | – | 3,203,901 | – | 3,203,901 |
| **At 30 June 2016 (Restated)** | 2,335,540 | 33,028,254 | 13,891,385 | 11,774,047 | 61,029,226 |

## 27. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2017 and 30 June 2016 are summarised as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| No later than 1 year | **541,089** | 523,268 |
| Later than 1 year and no later than 5 years | **–** | 541,089 |
| | **541,089** | 1,064,357 |

## 27. OPERATING LEASE ARRANGEMENTS *(Continued)*

### (b) As lessee

The Group leases a warehouse, an office and motor vehicles under non-cancellable operating leases agreements. The lease terms are within 3 years, and the majority of lease agreements are renewable at the end of the lease period at the market rate. The minimum lease payments under operating leases as at 30 June 2017 and 30 June 2016 are summarised as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| No later than 1 year | **2,803,227** | 1,226,205 |
| Later than 1 year and no later than 5 years | **1,177,428** | 1,782,024 |
| | **3,980,655** | 3,008,229 |

## 28. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 30 June 2017 and 30 June 2016, and balances arising from related party transactions as at 30 June 2017 and 30 June 2016.

### (a) Name and relationship with related parties

| Company name | Relationships |
|---|---|
| Mr. Zhu Gen Rong ("Mr. Zhu") (i) | One of the controlling shareholders, chairman of the Company |
| Mr. Wang Ai Yan ("Mr. Wang") (i) | One of the controlling shareholders, executive Director |
| Mr. Liu Chuan Jiang ("Mr. Liu") (i) | One of the controlling shareholders, deputy general manager |
| Mr. Zhu Gen Yi | Brother of Mr. Zhu |
| Mr. Zhong Xin Gang | Executive Director |
| Mr. Jin Hao | Executive Director |
| Mr. Chan So Kuen | Chief Financial Officer |
| Huazhang Overseas Holding, Inc. ("Huazhang Overseas") | The former parent company, controlled by the Controlling Shareholders |
| Mr. Ma Dai Yong and Mr. He Min Jun | Non-controlling shareholders of Wukong, one of the subsidiaries under the Group |

(i) Mr. Zhu, Mr. Wang, and Mr. Liu are bound to act in concert by contracts and collectively are regarded as the 'Controlling Shareholders' of the Group.

On 8 November 2015, Ms. Zhu Ling Yun ("Ms. Zhu") sold her 7.52% interests in Lian Shun Limited to Mr. Zhu for a cash consideration of approximately RMB30.3 million. Accordingly, Ms. Zhu has ceased to hold any share or interest in Lian Shun. As the Company has not yet obtained confirmation from the executive director of the Corporate Finance Division of the Securities and Futures Commission that it can be accepted that they are no longer acting in concert pursuant to note 3 to the definition of 'acting in concert' of the Takeovers Code, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu will remain as a group of parties acting in concert within the meaning of the Takeovers Code.

## 28. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Transactions with related parties

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Key management compensation | | |
| – Salaries | **3,459,484** | 3,597,154 |
| – Bonuses | **503,484** | 386,191 |
| – Other benefits | **39,670** | 83,457 |

Further details of executive directors' emoluments are included in Note 7 to the financial statement.

### (c) Balances with related parties

(i) Due from related parties (Note 18):

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Mr. Zhu Gen Yi | | |
| – Included in other receivables | **17,428** | 17,428 |

The receivables from related parties as at 30 June 2017 and 30 June 2016 arise mainly from the ordinary course of business.

The receivables are unsecured, bear no interest and are repayable on demand. There are no provisions made against receivables from related parties.

(ii) Due to related parties:

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| Loan from non-controlling shareholders (Note 21) | **3,626,000** | 5,078,400 |

The loan was borrowed from Mr. Ma Dai Yong and Mr. He Min Jun, the non-controlling shareholders of Wukong, one of the subsidiaries under the Group. The loan was borrowed in April 2016 with an interest rate of 7.2% per annum (30 June 2016: 7.2% per annum). The Company paid off RMB1,500,000 and extended the repayment term for one more year.

## 29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2017**

| **Financial assets** | **Loans and receivables** RMB |
|---|---|
| Trade and bills receivables (Note 18) | 407,478,184 |
| Pledged deposits (Note 19) | 21,515,802 |
| Cash and cash equivalents (Note 19) | 50,554,277 |
| Total | 479,548,263 |

| **Financial liabilities** | **Financial liabilities measured at amortised cost** RMB |
|---|---|
| Interest-bearing loans (Note 21) | 8,626,000 |
| Trade and bills payables (Note 20) | 125,740,050 |
| Financial liabilities included in other payables (Note 20) | 8,784,044 |
| Convertible bonds (Note 23) | 66,821,857 |
| Total | 209,971,951 |

## 29. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### 2016 (Restated)

| Financial assets | Loans and receivables | Derivative financial instruments | Total |
|---|---|---|---|
| | RMB | RMB | RMB |
| Trade and bills receivables (Note 18) | 263,623,965 | – | 263,623,965 |
| Derivative financial instruments | – | 430,000 | 430,000 |
| Pledged deposits (Note 19) | 23,554,990 | – | 23,554,990 |
| Cash and cash equivalents (Note 19) | 63,359,071 | – | 63,359,071 |
| Total | 350,538,026 | 430,000 | 350,968,026 |

| Financial liabilities | Financial liabilities measured at amortised cost |
|---|---|
| | RMB |
| Interest-bearing loans (Note 21) | 5,078,400 |
| Trade and bills payables (Note 20) | 144,711,092 |
| Financial liabilities included in other payables (Note 20) | 17,328,851 |
| Total | 167,118,343 |

## 30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts 2017 RMB | Fair values 2017 RMB |
|---|---|---|
| Financial liabilities | | |
| Convertible bonds | **66,821,857** | **63,593,637** |
| | **66,821,857** | **63,593,637** |

| | Carrying amounts 2016 RMB (Restated) | Fair values 2016 RMB (Restated) |
|---|---|---|
| Financial assets | | |
| Derivative financial instruments | 430,000 | 430,000 |
| | 430,000 | 430,000 |

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from non-controlling shareholders approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bonds with consideration of the Group's own non-performance risk.

Derivative financial instruments derived from the business combination in 2016 are measured using valuation techniques and the carrying amounts of derivative financial instruments are the same as their fair values.

## 30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2017 and 2016:

**2017**

| | Valuation technique | Significant unobservable inputs | Ratio | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Convertible bonds Debt component | Binomial model | Risk-free rate | 1.14% | 1% increase in risk-free rate would result in decrease in fair value by RMB344; cannot run negative interest rate scenario. |
| | | Liquidity discount | 13.72% | 1% increase (i.e. 5.8%) (decrease) (i.e.3.8%) in liquidity discount would result in decrease in fair value by RMB30,200 and RMB25,582. |
| | | Volatility | 39.2% | 5% increase (decrease) in volatility would result in decrease (increase) in fair value by RMB1,892. |

**2016 (Restated)**

| | Valuation technique | Significant unobservable inputs | Range | Sensitivity of fair value of the input |
|---|---|---|---|---|
| Derivative financial instruments | Monte Carlo Simulation | Estimated standard deviation of equity value | 39.96%-42.56% | 0.2% increase (decrease) in estimated standard deviation of equity value would result in increase (decrease) in fair value by RMB5,128 |
| | | Growth rate | 2%-4% | 1% increase (decrease) in growth rate would result in increase (decrease) in fair value by RMB35,041 |
| | | Risk-free rate | 1.6%-2.1% | 0.5% increase (decrease) in risk-free rate would result in decrease (increase) in fair value by RMB19,657 |

## 30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

**Assets measured at fair value:**

As at 30 June 2017

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB | Significant observable inputs (Level 2) RMB | Significant unobservable inputs (Level 3) RMB | Total RMB |
| Convertible bonds | | | | |
| Debt component | – | – | 63,593,637 | 63,593,637 |

As at 30 June 2016 (Restated)

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB | Significant observable inputs (Level 2) RMB | Significant unobservable inputs (Level 3) RMB | Total RMB |
| Derivative financial instrument | – | – | 430,000 | 430,000 |

The movements in fair value measurements within Level 3 during the year are as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| Derivative financial instrument | | |
| At 1 July 2016 (Restated) | **430,000** | – |
| Additions | **–** | 430,000 |
| Changes in fair value of derivative financial instrument | **(430,000)** | – |
| At 30 June 2017 | **–** | 430,000 |

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivative financial instrument, comprise interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivative financial instruments are set out in note 2.5 to the financial statements.

### Foreign currency risk

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

The results and financial positions of the Company, Huazhang Electric and Likwin are translated from the functional currency of HKD into the presentation currency RMB. All resulting exchange differences are recognised as comprehensive income in equity.

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of forward currency contracts).

| | Increase/ (decrease) in RMB rate % | Increase/ (decrease) in equity RMB |
|---|---|---|
| 2017 | | |
| If the RMB weakens against the Hong Kong dollar | 5% | 11,896,730 |
| If the RMB strengthens against the Hong Kong dollar | (5%) | (11,896,730) |

| | Increase/ (decrease) in RMB rate % | Increase/ (decrease) in equity RMB |
|---|---|---|
| 2016 (Restated) | | |
| If the RMB weakens against the Hong Kong dollar | 5% | 11,386,480 |
| If the RMB strengthens against the Hong Kong dollar | (5%) | (11,386,480) |

* Excluding retained profits

### Credit risk

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

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

The Group usually requires a down payment of approximately 10% to 30% of the total contract value to be paid upon signing the relevant contract or within 30 days from the date of the contract; up to approximately 90% to 95% of the contract sum upon delivery; and the remaining 5% to 10% of the contract value normally payable 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 completion of on-site testing whichever is earlier). In this connection, the Group's credit risk in respect of trade and other receivables is limited as the Group entitled to receive up to approximately 90% to 95% of the contract sum upon delivery.

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Liquidity risk

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

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

| | Less than 1 year<br>RMB | Between 1 and 2 years<br>RMB | Between 2 and 5 years<br>RMB | Total<br>RMB |
|---|---|---|---|---|
| As at 30 June 2017 | | | | |
| Convertible bonds | **4,339,500** | **91,129,500** | **–** | **95,469,000** |
| Interest-bearing loans | **8,626,000** | **–** | **–** | **8,626,000** |
| Trade and other payables | **141,942,895** | **–** | **–** | **141,942,895** |
| | **154,908,395** | **91,129,500** | **–** | **246,037,895** |
| As at 30 June 2016 (Restated) | | | | |
| Interest-bearing loans | 5,078,400 | – | – | 5,078,400 |
| Trade and other payables | 162,039,943 | – | – | 162,039,943 |
| | 167,118,343 | – | – | 167,118,343 |

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt refers to total 'borrowings' as shown in the consolidated statement of financial position. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus total debt.

During the years ended 30 June 2017 and 2016, the Group's strategy was to maintain the gearing ratio below 50%. The gearing ratios at 30 June 2017 and 2016 were as follows:

| | **2017 RMB** | 2016 RMB (Restated) |
|---|---|---|
| Total debt – total interest-bearing loans (note 21) (a) | **8,626,000** | 5,078,400 |
| Total equity | **320,317,693** | 275,943,186 |
| Total capital (b) | **328,943,693** | 281,021,586 |
| Gearing ratio ((a)/(b)) | **2.6%** | 1.8% |

## 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2017<br>RMB | 2016<br>RMB<br>(Restated) |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | **78,125,761** | 76,934,836 |
| Total non-current assets | **78,125,761** | 76,934,836 |
| CURRENT ASSETS | | |
| Other receivables | **109,872,572** | 51,147,878 |
| Prepayments | **133,381** | 61,964 |
| Cash and cash equivalents | **26,496,364** | 9,459,970 |
| Total current assets | **136,502,317** | 60,669,812 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **7,057,857** | 6,467,381 |
| Total current liabilities | **7,057,857** | 6,467,381 |
| NET CURRENT ASSETS | **129,444,460** | 54,202,431 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **207,570,221** | 131,137,267 |
| NON-CURRENT ASSETS | | |
| Convertible bonds | **66,821,857** | – |
| Net assets | **140,748,364** | 131,137,267 |
| EQUITY | | |
| Share capital | **5,075,783** | 2,397,524 |
| Share premium | **93,615,618** | 106,985,471 |
| Equity component of convertible bonds | **23,609,589** | – |
| Retained earnings | **6,601,136** | 11,729,424 |
| Translation difference | **11,846,238** | 10,024,848 |
| Total equity | **140,748,364** | 131,137,267 |

## 33. EVENTS AFTER THE REPORTING PERIOD

(i) On 17 June 2017, the Group entered into the Sales and Purchase Agreement (the "Agreement") in relation to acquisition of 100% shares of Fu An 777 Logistics Limited and its subsidiaries (the "777 Logistics Group"). The 777 Logistics Group is currently constructing a logistics and warehouse centre in the Guangdong Province, expected to be completed in the end of financial year 2017. Upon completion of the construction, it can provide bonded logistics services of raw materials, equipment and supplies to paper-making enterprises in the PRC.

Pursuant to the Agreement, the Company will issue 80,447,059 ordinary shares, initially equivalent to HK$205,140,000, to the shareholders of the Target upon completion of the acquisition.

(ii) On 14 August 2017, the board approved an acquisition of Hangzhou MCN Paper Tech Co., Ltd and Hangzhou Haorong Technology Co., Ltd (the "MCN Group"). The initial consideration is RMB34,000,000, with RMB12,400,000 in cash consideration and RMB21,600,000 in share consideration. There is also a contingent consideration stipulated in the agreement, which is based on profit performance over next two years after acquisition with maximum amount of RMB34,000,000. The MCN Group is mainly engaged in research and development of paper-making industrial products in mainland china.

The above acquisitions are subject to the final approvals from the relevant authorities.

The Group is in the process of assessing the initial accounting for the acquisition and will incorporate the relevant financial information in financial year 2018 interim and annual financial statements.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 5 September 2017.