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

INTEGRATING TOGETHER
CREATING TOGETHER
BENEFITING TOGETHER

2018
ANNUAL REPORT

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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

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Tongxiang Economic & Technical Development Zone
Tongxiang, Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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75 Mody Road, Tsim Sha Tsui
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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	2018 RMB	2017 RMB	2016 RMB	2015 RMB	2014 RMB
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**612,123,398**	416,007,189	327,260,578	301,893,662	244,715,266
Gross profit	**137,256,906**	91,592,396	80,695,282	74,630,434	68,312,056
Gross profit margin	**22.4%**	22.0%	24.7%	24.7%	27.9%
Profit attributable to the owners of the Parent	**48,285,144**	30,638,948	28,332,245	27,275,045	22,574,206
Net profit margin	**7.8%**	7.3%	8.3%	9.0%	9.2%
As 30 June					
Major Items of Consolidated Statement of Financial Position					
Non-current assets	**473,912,784**	137,945,745	79,725,211	70,450,806	49,713,037
Current assets	**927,472,642**	489,371,916	434,815,090	196,527,637	252,240,600
Non-current liabilities	**108,805,388**	67,622,369	1,148,227	307,234	1,079,500
Current liabilities	**525,977,066**	239,377,599	237,448,888	99,570,213	144,869,783
Capital and reserves attributable to the owners of the Parent	**765,786,978**	319,117,623	274,462,046	167,100,996	156,004,354
Gearing ratio (Note 1)	**2.8%**	2.6%	1.8%	9.4%	10.1%

Notes:

(1) 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 of directors (the "**Board**") of Huazhang Technology Holding Limited ("**Huazhang Technology**" or the "**Company**"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 30 June 2018 (the "**year under review**"). The Group continued to capitalize on the development opportunities arising from the consolidation of the paper-making industry in China over the past year and its overall performance during the year under review achieved solid growth on the back of successful mergers and acquisitions as well as innovative developments, bringing promising returns to our shareholders.

Huazhang Technology was listed on the Growth Enterprise Market of Hong Kong in May 2013 and switched its trading to the Hong Kong Main Board in January 2015. Huazhang Technology has been listed for five years by 2018 and has embarked on a new journey, with the joint efforts of all of our employees and the strong support of all of our customers and business partners. From automation to intelligent manufacturing, from project constructing services to all-encompassing services for the paper-making industry, from spare parts and components services to supply chain management, from environmental-friendly products to clean production and from the domestic market to the "Belt and Road" initiative, Huazhang Technology has painted, by means of innovative actions and spirit of originality, a beautiful picture that depicts how China equipped itself independently and struggled to progress, and has played beautiful music that describes how we served the paper-making industry wholeheartedly.

Over the past five years since the listing, we have completed the mergers and acquisitions of Wukong Control System Engineering, Hangzhou MCN Paper Tech Co., Ltd (together, the "MCN Group") and Huazhang Technology Logistics Warehouse Limited (together, the "777 Logistic Group") in Yangjiang, and improved the industry chain services for the entire paper-making industry. Huazhang Technology is currently the only supplier in China that can provide a complete set of solutions to wastewater, waste gas, waste residue and sludge treatment for the paper-making industry all at one time. It is also one of the few suppliers in the world that can deliver solutions to automation systems and intelligent manufacturing across plants for the paper-making industry. We are accelerating the mergers and acquisitions of companies engaged in the core key components of the paper-making equipment, with the aim of intelligentizing these key components and providing all-encompassing services for the paper-making industry by means of big data and the Internet of Things to enhance efficiency, reduce energy consumption and raise quality.

During the year under review, the Group reaped encouraging results as well while expanding its business layout. Turnover and profit amounted to RMB612.1 million and RMB47.9 million respectively, an increase of 47.1% and 57.8% year-on-year. Contracts already signed up by the Group totalled approximately RMB1,141.3 million, an increase of approximately 51.4% compared to the figure for the same period last year.

Paper-making technology was invented in China, but less than 1% of the world's top ten paper-making companies nowadays opt for Chinese paper-making equipment, and almost none of these companies chooses Chinese core equipment. As the only listed company among the paper-making equipment companies in China, Huazhang Technology has a financing platform for the international capital market. The Group has good collaboration with major equipment companies around the world and has the best professionals in paper-making automation and mechanical technology design in the country. Although there is still a big gap between Chinese paper-making equipment companies and international paper-making equipment giants, we believe since the paper-making equipment market is in China, this is an

Chairman's Statement

opportunity for Huazhang Technology to grow. Huazhang Technology will further step up its commitment by focusing on the core key equipment that requires a lot of capital and technology commitment. Huazhang Technology aims to become one of the world's paper-making equipment companies. This is the mission and responsibility of Huazhang Technology.

Huazhang Technology's vision is to "integrate together, create together, generate profits together". Huazhang Technology has to play a good role of delivering all-encompassing services to the paper-making industry to maximize the value by sharing, creating together and working together for win-win situation. For these reasons, Huazhang Technology began to provide supply chain services in 2018 by recommending quality equipment suppliers to customers through its platform, and collaborated with suppliers to achieve integration. Moreover, during the year under review, the Group secured a master contractor contract in respect of slurry and automation equipment project in Vietnam. It is an example of the Group's achievement in exporting an equipment under China's "Belt and Road" initiative, which has strengthened the Group's determination to go global.

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

Zhu Gen Rong
Chairman

Yunnan Province, China
21 September 2018

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr ZHU Gen Rong (朱根荣), aged 55, 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 over 25 years of experience in the mechanical and engineering industry. Prior to founding our Group, Mr Zhu worked at Hangzhou Project and Research Institute of Electro mechanic in Light Industry (輕工業杭州機電設計研究院) from 1984 to 1993, a state-owned entity principally engaged in the business of, among others, researches in the technology for pulp, paper-making and the automation of electric instruments and he took up several positions including the deputy head of the product development department. He then worked as general manager at Hangzhou Microelectronics Company Limited (杭州華章微電子公司) from 1993 to 1996, a company principally engaged in the business of manufacturing of mixed integrated circuit and electrical ballast, projects of industrial automation system, and the purchasing of materials and equipment for industrial automation systems. He also founded Hangzhou Yiyi Consultation (then known a Hangzhou Huazhang Electric Engineering Company Limited) in December 1996, Hangzhou Rongtai Electric in December 1998 and Shanghai Yunjie Consultation (then known as Shanghai Huazhang Electric Control Engineering Company Limited) in May 1999, of which the businesses of all three companies were then transferred to Huazhang Automation (Zhejiang) in November 2006. Hangzhou Rongtai Electric has been deregistered. Mr Zhu founded Zhejiang Huazhang Technology Limited (浙江華章科技有限公司), 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 52, 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.

Mr ZHONG Xin Gang (鍾新鋼), aged 49, 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 over 27 years of experience in the filter and engineering industry. Mr Zhong joined our Group in March 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 July 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), sixth (from 2012 to 2015) and seventh (from 2016 to 2020)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 47, 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 major project contracting division. Mr Jin has over 25 years of experience in the paper-making 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 major project contracting 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 64, 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.

Biographical Details of Directors and Senior Management

Ms CHEN Jin Mei (陳錦梅), aged 66, 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), aged 43, was appointed as our independent non-executive Director on 6 May 2013. Mr. Kong is also the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company. Mr. Kong is primarily responsible for providing independent advice and guidance to the Board.

Mr. Kong has over 20 years of experience in accounting, auditing, financial management, corporate finance, investor relations, company secretarial affairs and corporate governance. Presently, Mr. Kong holds the position of independent non-executive director in AK Medical Holdings Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 01789), Aowei Holding Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 01370), ZACD Group Ltd. (a company whose shares are listed on the growth enterprise market of the Stock Exchange, stock code: 08313) and Starlight Culture Entertainment Group Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 01159), whereas in China Vanadium Titano-Magnetite Mining Company Limited ("China Vanadium") (a company whose shares are listed on the main board of the Stock Exchange, stock code: 00893), he holds the position of company secretary and authorised representative.

Prior to this, he was the independent non-executive director of CAA Resources Limited (a company whose shares are listed on the main board of the Stock Exchange, stock code: 02112) from April 2013 to August 2017. 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 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's Degree in Business Administration from The Chinese University of Hong Kong in December 1997. Mr. Kong has been a fellow of The Association of Chartered Certified Accountants since February 2008, a member of The Hong Kong Institute of Directors since May 2010, a fellow of each of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators since February 2012, an ordinary member of Hong Kong Securities and Investment Institute since October 2017 and a full member of Hong Kong Investor Relations Association since November 2017. Mr. Kong was awarded the Chartered Governance Professional qualification of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries on 30 September 2018.

SENIOR MANAGEMENT

Mr LIU Chuan Jiang (劉川江), aged 55, is the deputy general manager and quality assurance director of Zhejiang Huazhang Technology Limited ("Zhejiang"). Mr Liu has over 25 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 38, 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 (a company whose shares are listed on the growth enterprise market of the Stock Exchange, stock code: 08237) and Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (a company whose shares are listed on the growth enterprise market of the Stock Exchange, 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:

Industrial Products

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.

Environmental Products

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.

Management Discussion and Analysis

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.

Supporting Service

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 overall economic situation of China improved steadily, which boosted the steady development of the paper-making industry so that the paper-making industry in China reaped a bumper harvest. The paper-making industry continued to benefit from an array of economic and environmental reform and development policies of the Chinese government. The demand-supply relationship further improved and the prices of paper-making rose, which provided great support to the performance of leading paper-making companies. The paper-making industry has been subject to more stringent environmental protection regulations since the second half of 2017. Under the regulations of the Provisions on the Environmental Protection Administration of Imported Waste Paper and the Implementation Plan on Advancing Reform of the Administration System on Import of Solid Wastes through Prohibiting Import of Foreign Rubbish, a great number of paper-making plants with outdated production capacity or which were not compliant with environmental protection standards were phased out or voluntarily withdrawn from the market. As market demand is growing steadily and outdated production capacity is being phased out, the paper-making companies have to continue to put new capacity into operation to satisfy market demand, and hence industry concentration will be further enhanced. Therefore, paper-making plants have to improve the existing production equipment, which includes equipment upgrading or retrofitting, in a bid to enhance the existing production capacity and product quality, while the market demand for paper-making equipment is also increasing.

Although the paper-making industry was subject to increasingly stringent environmental protection regulations, for the first half of 2018, the production of machine-made papers and cardboards in China grew 1.3% year-on-year to approximately 59.6 million tonnes, as reported by the National Bureau of Statistics. Operating revenue from the paper-making industry and the paper products industry for the six months ended 30 June 2018 was approximately RMB733.30 billion, a year-on-year increase of 12.5%; revenue from the principal business was approximately RMB721.07 billion, a year-on-year increase of 12.5%; and total profit was approximately RMB43.26 billion, a year-on-year increase of 13.5%. All these growth data indicate that the paper-making industry continues to maintain thriving growth momentum in 2018.

Management Discussion and Analysis

OPERATION DISCUSSION AND ANALYSIS

During the year, the Group actively facilitated the corporate affairs as well as business by upholding the policy principles of "New Huazhang, New Development, New Dream" and creating a new vision of "Integrating Together, Creating Together, Benefiting Together". The Group played the role of providing all-encompassing services to maximize the interests by sharing, creating together and working together for win-win situation. For the year ended 30 June 2018, the Group recorded a turnover and profit of approximately RMB612.1 million and approximately RMB47.9 million, respectively, representing an increase of approximately 47.1% and approximately 57.8% as compared with the same period in 2017. With such results, the Group accomplished various performance and financial indicators set at the beginning of the year.

The Group's business segments can be classified as four types:

Industrial products – including industrial automation systems, headboxes

Project contracting services – including design services, project management services and installation services

Environmental products – including sludge treatment products, wastewater treatment products and refuse derived fuel products ("RDF products")

Supporting services – including after-sales services, machine running services, warehouse and logistic services and renovation services

"Integrating Together" – optimize the role of providing all-encompassing services for the paper-making industry

During the year, the Company continued to integrate suppliers and service providers from all sectors of the paper-making industry, and optimized the role of providing all-encompassing services for the paper-making industry through the acquisition of the headbox and logistics businesses. In September 2017, the Group completed the acquisition of Hangzhou MCN Paper Technology Co., Ltd. and Hangzhou Haorong Technology Co., Ltd. (together, the "MCN Group"). MCN Group owns patents and know-how in the headbox production. In November 2017, the Group completed the acquisition of Fu An 777 Logistics Limited ("777 Logistics", together with its subsidiaries, collectively known as the "777 Logistics Group"). The 777 Logistics Group is principally engaged in the logistics and warehouse businesses, and has established a logistics and warehouse centre in Yangjiang City, Guangdong Province, China, which officially commenced operation from July 2018.

To optimize the role of providing all-encompassing services, the Group worked together with a software company to launch an information-based project, in a bid to link up the entire process for sales, research and development, design, manufacturing, finance and office so as to integrate design and production for transparent management. To achieve the goal of "Made in China 2025", the Group continued to step up the research and development of information-based software by collaborating with suppliers on MES and PTC systems to be well prepared for the information-based management, upgrading and transformation in follow-up production for its customers.

Management Discussion and Analysis

"Creating Together" – create new opportunities for development

The Group worked together with suppliers and service providers to create new opportunities for development. Taking the headbox business as an example, its headbox products maintained advantages in the sector of printing paper, specialty paper and household paper by relying on the technology and service advantages of the MCN Group. The Group even succeeded in introducing its headbox in the market for packaging paper to strengthen its advantages. During the year, in addition to delivering the previous businesses for sludge treatment products and wastewater treatment, the Group also undertook a project involving reverse hanging membrane sealing and deodorization for the sewage tank of a paper-making plant, and a RDF product project for a paper-making plant. Upon completion of these projects, the Group possessed the technology in solving the odor problem of paper-making plants and in converting waste residue from paper-making as raw materials into fuel rods. These projects were demonstration projects of the Group and can be further promoted to existing customers in the future. Moreover, the Group began to deliver supply chain financing services to the paper-making companies in March 2018 to assist them in sourcing raw materials and to provide financing services through the Group's platform and its close relationships with suppliers.

During the year, the overseas business division of the Group actively explored the overseas markets. In the second half of 2017, the Group secured a master contractor contract in respect of slurry, flowing white water recovery system and automation equipment for the 250,000 tonnes paper machine project of a paper-making plant in Vietnam. In the past year, the Group's sales personnel visited a lot of customers in overseas countries or invited overseas customers to conduct site visits to the Company. The Group believes that the overseas markets are full of opportunities. For the year ended 30 June 2018, the new contract value of the overseas business division was RMB5.6 million.

"Benefiting Together" – collaborate for common benefits

The Group created common benefits by working with all parties to optimize its role of providing all encompassing services. During the year, the Group's new contract value increased by more than 51.4% to approximately RMB1,141.3 million, thanks to the contribution by the headbox business, in addition to the market boom. For the year ended 30 June 2018, revenue from industrial products increased by approximately 57.9% to RMB121.7 million, of which revenue from the headbox business was approximately RMB32.1 million. Moreover, in terms of project contracting services, with the efforts made by the Group over the past few years, it manages to undertake projects with increasing degree of complexity and increasing contract value. For the year ended 30 June 2018, the new contract value of major projects was RMB794.4 million, an increase of 55.1% over 2017. For the year ended 30 June 2018, the new contract value of environmental products was RMB102.5 million, an increase of 27.1% over 2017.

Common benefits are not only reflected in the performance, but "Integrating Together" and "Creating Together" have also kept the Group's competitiveness and awareness enhancing, which are recognized by the industry. In May 2018, with the unremitting efforts of our team, the Company won the "Quam IR Awards 2017 under Main Board Category", which indicated that the Group's outstanding performance in investor relations and corporate governance is highly endorsed and recognized by the market. Moreover, the Group also organized the "Working Conference on the Automation Professional Committee of the China Technical Association of Paper Industry（中國造紙學會自動化專業委員會工作會議）", and participated in a number of nationwide conferences during the year, such as the "China International Paper

Technology Exhibition and Conference (中國國際造紙展及會議)", the "2017 China International Specialty Papers Expo (2017中國國際特種紙展覽會)" as well as the "4th General Assembly of the China Paper and Pulp Industry Chamber of Commerce cum the 10th China Paper Industry Development Conference (全國工商聯紙業商會第四次會員大會暨第十屆中國紙業發展大會)".

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased significantly by approximately 47.1% from approximately RMB416.0 million for the year ended 30 June 2017 to approximately RMB612.1 million for the year ended 30 June 2018. Gross profit margin increased from approximately 22.0% for the year ended 30 June 2017 to approximately 22.4% for the year ended 30 June 2018.

Industrial products

Revenue from sales of industrial products increased by approximately 57.9% from approximately RMB77.1 million for the year ended 30 June 2017 to approximately RMB121.7 million for the year ended 30 June 2018. Such increase was primarily attributable to acquisition of head-box business in September 2017 and sales of industrial automation systems stimulated by project contracting services. The revenue from sales of headbox is approximated RMB32.1 million for the period from acquisition date to 30 June 2018. The gross profit margin of industrial products decreased from approximately 34.2% for the year ended 30 June 2017 to approximately 32.3% for the year ended 30 June 2018. Such decrease was attributable to sales of industrial automation systems to non-paper industries at a lower gross profit margin in order to explore new markets.

Project contracting services

Revenue from project contracting services remain decreased by 8.3% from approximately RMB235.5 million for the year ended 30 June 2017 to approximately RMB215.9 million for the year ended 30 June 2018. The gross profit margin of project contracting services increased from approximately 15.2% for the year ended 30 June 2017 to approximately 16.5% for the year ended 30 June 2018 due to the Group undertake new projects of the project contracting services which increase a higher profit margin.

Environmental products

Revenue from sales of environmental business was increased by 105.3% from approximately RMB48.6 million for the year ended 30 June 2017 to approximately RMB99.8 million for the year ended 30 June 2018, respectively. The revenue from sales of environmental products increased by sales of RDF products for the year ended 30 June 2018, which partially offset by decrease in sales of sludge treatment products as the Group currently operated with a Japanese company to develop new products. The gross profit margin of environmental business decreased from approximately 31.2% for the year ended 30 June 2017 to approximately 22.7% for the year ended 30 June 2018 due to the Group promoted the new RDF products which had a lower profit margin.

Management Discussion and Analysis

Supporting services

Revenue from provision of supporting services increased by approximately 218.6% from approximately RMB54.8 million for the year ended 30 June 2017 to approximately RMB174.7 million for the year ended 30 June 2018. The revenue from the provision of support services increased significantly mainly due to the Group provided new services to customers, including machine operation services and large paper company production line transformation projects and supply chain financial services for the year ended 30 June 2018. The gross profit margin for provision of supporting services decreased from approximately 26.1% for the year ended 30 June 2017 to approximately 22.7% for the year ended 30 June 2018. The gross profit margin decrease due to the amount of new business was large, but the gross profit margin decreased.

Other income and other gains

Other income and other gains decreased by approximately 6.1% from approximately RMB5.9 million for the year ended 30 June 2017 to approximately RMB5.5 million for the year ended 30 June 2018. As compared with 30 June 2017, decrease in other income and other gains for the year ended 30 June 2018 was primarily due to the increase in bidding service income of approximately RMB1.8 million, which offset by decrease in consultation income of approximately RMB2.2 million.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 35.1% from approximately RMB9.7 million for the year ended 30 June 2017 to approximately RMB13.1 million for the year ended 30 June 2018, accounting for approximately 2.3% and approximately 2.1% of the Group's revenue for the year ended 30 June 2017 and 2018, respectively. Increase in selling and distribution expenses was primarily attributing to an increase in transportation costs, traveling expenses and exhibitions costs to develop and visit the customers for maintenance and exploration of the client relationship.

Administrative expenses

The administrative expenses increased by approximately 31.6% from approximately RMB32.3 million for the year ended 30 June 2017 to approximately RMB42.5 million for the year ended 30 June 2018, accounting for approximately 7.8% and approximately 6.9% of the Group's revenue for the year ended 30 June 2017 and 2018, respectively. The increase in administrative expenses is mainly attributable to (i) administrative expenses contributed by subsidiaries from the new acquisitions during the period, which was amounting to RMB7.6 million; and (ii) increase in professional fee for provision of advisory service in relation to the acquisitions.

Management Discussion and Analysis

Research and development expenses

The research and development expenses significantly increased by approximately 29.7% from approximately RMB14.5 million for the year ended 30 June 2017 to approximately RMB18.7 million for the year ended 30 June 2018, accounting for approximately 3.5% and approximately 3.1% of the Group's revenue for the year ended 30 June 2017 and 2018, respectively. Increase in research and development expenses was primarily attributing to increase in headcount and usage of materials for the research and development activities, including RDF technology, internet of things, headboxes etc.. In addition, the Group co-operated with a Japanese company to develop a new sludge treatment products.

Finance expenses – net

The net finance expenses increased by approximately 1.5 times from approximately RMB2.2 million for the year ended 30 June 2017 to approximately RMB5.4 million for the year ended 30 June 2018. Increase in net finance costs was as a result of an increase in finance expenses in relation to the issuance of convertible bonds with a coupon rate of 5.0% with 2 years maturity from March 2017, which offset by an increase in finance income in relation to discounting the installments receivable in prior years.

Income tax expense

The income tax expense significantly increased by approximately 97.1% from approximately RMB6.4 million for the year ended 30 June 2017 to approximately RMB12.5 million for the year ended 30 June 2018. The increase was mainly attributable to an increase in the assessable profits as well as an increase in the revenue.

The effective tax rates of the Group for the year ended 30 June 2017 and 2018 were 17.3% and 20.7% respectively. Increase in effective tax rates is attributable to (i) increase in non-deductible expenses in relation to finance costs of the convertible bond for the year ended 30 June 2018, and (ii) profits contributed by some operating subsidiaries which tax rate is 25%.

Profit for the year and net profit margin

Profit for the year significantly increased by approximately 57.8% from approximately RMB30.4 million for the year ended 30 June 2017 to approximately RMB47.9 million for the year ended 30 June 2018. The net profit margin rose approximately 0.5% from approximately 7.3% for the year ended 30 June 2017 to approximately 7.8% for the year ended 30 June 2018. Such improvement is primarily attributable to the improvement of the gross profit margins.

Profit attributable to the owners of the parent

Profit for the period attributable to owners of the parent amounted to approximately RMB48.3 million, representing an increase of approximately RMB17.6 million or approximately 57.6% as compared with approximately RMB30.6 million for the corresponding period of last year.

Management Discussion and Analysis

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 period, net margin, profit attributable to equity holders of the Company, basic earnings per share and diluted earnings per share), have been presented in this announcement. 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 HKFRS for the year ended 30 June 2018 and 2017:

	Year ended 30 June 2018			
	As reported	**Amortised costs of liability component of the Convertible Bond** (Note 1)	**Financial components from provision for project contracting services** (Note 2)	**Non-GAAP**
	RMB	RMB	RMB	RMB
Profit for the year	47,901,068	10,646,425	(1,893,783)	56,653,710
Profit attributable to owners of the Company	48,285,144	10,646,425	(1,893,783)	57,037,786
Earning per shares (RMB cents per share)				
– basic	7.18	–	–	8.48
– diluted	7.18	–	–	8.48

Management Discussion and Analysis

	Year ended 30 June 2017			
	As reported RMB	As reported RMB	As reported RMB	As reported 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
Earning per shares (RMB cents per share)				
– basic	5.11	–	–	6.38
– diluted	5.11	–	–	6.38

Note:

(1) Amortised costs of liability component of convertible bonds is the amount at which the convertible bonds were 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 period under review. The Group was principally financed by internal resources, interest-bearing loans, issuance of convertible bonds and new shares. As at 30 June 2018, the Group have cash and cash equivalent balance amounting to approximately RMB72.9 million (30 June 2017: approximately RMB50.6 million), interest-bearing loans amounting to approximately RMB21.9 million (30 June 2017: RMB8.6 million) and convertible bonds amounting to approximately RMB75.7 million (30 June 2017: RMB66.8 million). Cash and cash equivalents increased due to the Group issued a new shares in January 2018 to raise a fund of RMB98.6 million.

Convertible Bonds

On 29 March 2017, the Company issued Convertible Bonds in principal amount of HK$100.0 million (equivalent to approximately RMB88.8 million) to Kaiser Asset Management Limited, which can be convertible into 40,000,000 ordinary shares. As at 30 June 2018, no Convertible Bonds were converted to the ordinary shares.

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;

The Directors are of the view that the issue of the Convertible Bonds represents a good opportunity for the Company to raise funds to strengthen its financial position as well as to provide further funding to the Group for its development.

Details of the Convertible Bonds have been disclosed in note 25 to the financial statements and the announcements of the Company dated 29 March 2017 and 15 January 2018.

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

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

Significant investments

The Group had no significant investments held and disposals during the year ended 30 June 2018, except for the followings:

Acquisitions

MCN Group

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. As at 25 September 2017, the transaction is completed and the Group has paid RMB9.0 million to the vendors in cash and allotted and issued 9,588,622 new Shares at an issue price of HK$2.55 per Share.

Management Discussion and Analysis

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, 31 August 2017 and 25 September 2017 and the circular of the Company dated 28 July 2017.

777 Logistics Group

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 Fu An 777 Logistics Limited and the shareholders loans due from the 777 Logistics 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. As at 15 November 2017, the transaction is completed and the Group has allotted and issued 80,447,059 new Shares at an issue price of HK$2.55 per Share.

For more details of the transaction, please refer to the announcements of the Company dated 18 June 2017, 21 July 2017, 31 August 2017 and 15 November 2017 and the circular of the Company dated 10 October 2017.

Save as disclosed herewith, the Group did not make any other material mergers or acquisitions for the year ended 30 June 2018.

Borrowing and charges of assets

As at 30 June 2018, the Group's borrowings were approximately RMB21.9 million (30 June 2017: RMB8.6 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear interest rates ranging from 4.35% to 10.0% per annum. (30 June 2017: all denominated in RMB, and bear an interest rate of 7.2% per annum).

As at 30 June 2018, the unused banking facilities of the Group were approximately RMB37.6 million in aggregate (30 June 2017: approximately RMB53.8 million). The banking facilities granted by the bank was secured by prepaid land lease payments, property, plant and equipment and investment properties of the Group amounting to approximately RMB3.2 million and RMB29.8 million and RMB6.0 million respectively (30 June 2017: approximately RMB3.4 million and RMB32.2 million and RMB6.3 million respectively).

Gearing ratio

The gearing ratios as at 30 June 2017 and 2018 were approximately 2.6% and 2.8% respectively. The increase in gear ratio was mainly attributable to increase in the Group's interest bearing loans from approximately RMB8.6 million as at 30 June 2017 to approximately RMB21.9 million as at 30 June 2017. Based on the gearing ratio as at 30 June 2018, 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 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 RMB181.3 million from approximately RMB399.5 million as at 30 June 2017 to approximately RMB580.8 million as at 30 June 2018. The increase was mainly attributable to an increase in the provision of project contracting service, such revenue was approximately RMB215.9 million and RMB235.5 million for the years ended 30 June 2018 and 2017, respectively. The repayment period for the provision of project contracting service is around 2-3 years. The customers settle the receivable by installments through the finance lease companies. The Group believes that this model will enable the Group to improve market competitiveness, to provide more flexible services to customers. In addition, the Group begun to deliver supply chain financing services to the paper-making companies in March 2018 to assist them in sourcing raw materials and to provide financing services through the Group's platform which generated a trade receivables of approximately RMB70.6 million. The Group will strengthen customer credit risk management to guard against the increased in bad debt provision.

Capital Expenditure

For the year ended 30 June 2018, the Group's capital expenditure amounted to approximately RMB25.8 million (30 June 2017: RMB0.8 million).The capital expenditure of the Group for the year was mainly used to build a warehouse logistics center located in Yangjiang.

Commitments

As at 30 June 2018, the Group had no capital commitments.

Contingent liabilities

As at 30 June 2018, the Group had no other material contingent liabilities besides disclosed.

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.

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.

Management Discussion and Analysis

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 318 employees (30 June 2017: 285 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2018 were approximately RMB47.1 million, as comparable to approximately RMB37.0 million for the year ended 30 June 2017.

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 period, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

Looking ahead, economic restructuring in China will continue to deepen. Under the general direction of sustainable development, certain companies which are ill-managed, are not compliant with environmental protection standards and have outdated production capacity will be shut down one after another. The paper-making companies have to enhance production capacity to provide more high-quality products to replace low-quality products in the market. The Group is confident in and capable of playing a good role of providing all-encompassing services for the industry by recommending quality equipment suppliers to customers through the platform of Huazhang Technology so as to facilitate the deep integration of industrialization and intelligentization of the production and manufacturing industries, to switch the model and to modify the structure further for overall enhancement of quality and efficiency.

As a leading paper-making equipment supplier in China, the Group will step up its efforts in innovation as well as research and development, enabling "Made in China" to include more China created elements and rely more on Chinese equipment and Chinese brands, so that apart from being a large producer of paper, China will become one of the nations that provides complete equipment for the paper-making industry. Against this backdrop, China will enjoy a greater competitive advantage in the development of the papermaking industry under the "Belt and Road" initiative.

Looking ahead, the paper-making industry is expected to continue its positive momentum. The Group will seize the opportunities and challenges encountered by the paper-making companies, make timely response to the new direction of "Integrating Together, Creating Together, Benefiting Together" with appropriate adjustment of strategies so as to take the lead in the market.

Management Discussion and Analysis

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

From the listing date to 30 June 2018, 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 2018	Actual use of proceeds from the listing date to 30 June 2018	Unused proceeds
	RMB'000	RMB'000	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	2,057	1,328
Improve the current information management system	260	76	185
	48,083	25,640	22,443

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 Fourth 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 2018. 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.

ENERGY CONSERVATION AND EMISSION REDUCTION

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

Wastes Control

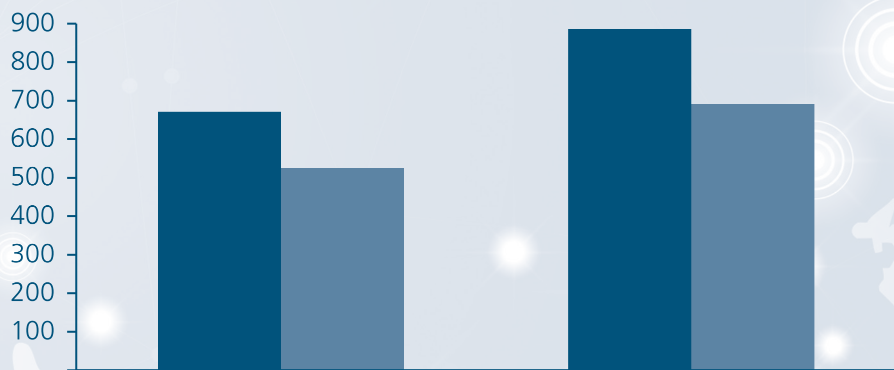
The Group produced various hazardous liquid waste and solid wastes in the course of manufacturing, which amounted to approximately 1.5 tonnes for the year, consisting of various chemicals and wastes, such as spray water of paint room, scraps and waste packaging used in the manufacture of products. For such hazardous substance, the Group primarily cooperated with qualified units for its centralized and regular treatment.

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

Power Consumption Control

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

Power consumption and corresponding carbon emission



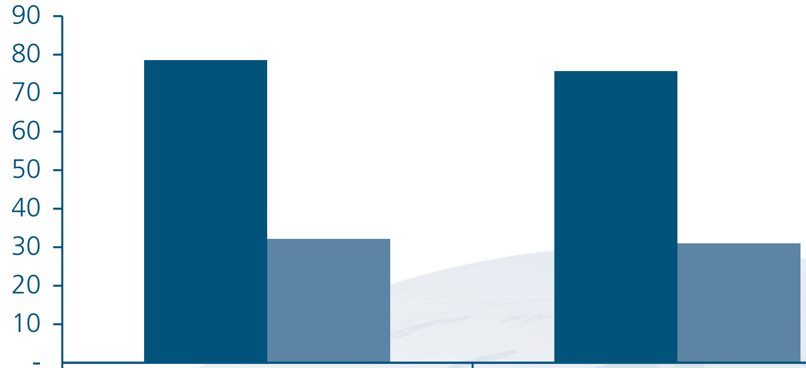
	2017	2018
■ Power consumption (kWh in '000s)	671.7	885.3
■ Carbon emission (tonnes)	523.9	690.5

During the year ended 30 June 2018, due to the Company completed the acquisition of two subsidiaries, the power consumption increased by approximately 31.8% compared with previous years.

Water Consumption Control

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

Water consumption and corresponding carbon emission



	2017	2018
Water consumption (Kiloton)	78.6	75.7
Carbon emission (tonnes)	32.2	31.0

During the year ended 30 June 2018, the total power consumption of the Group was approximately 885,290 kWh, and the density was approximately 1,446.3 kWh/output value of RMB million and total water consumption was approximately 7,569.3 tonnes and the density was approximately 12.4 kg/output value of RMB million.

Packaging materials

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

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

Environmental, Social and Governance Report

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 3 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

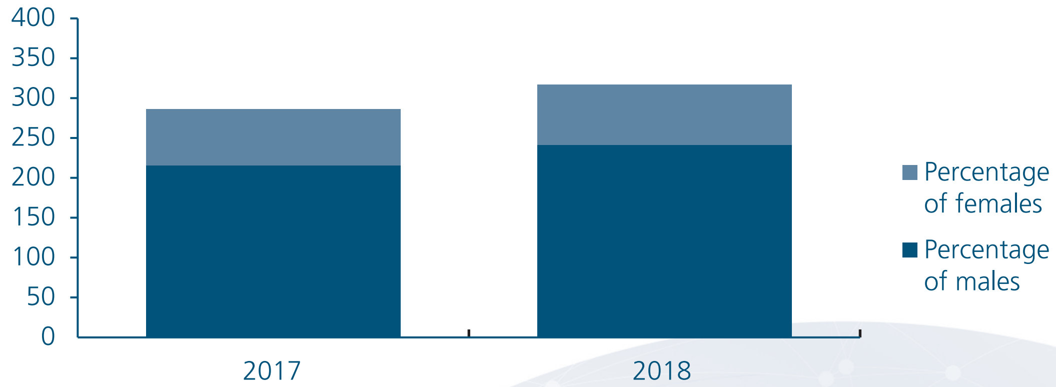
The Group believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills 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. As at 30 June 2018, the Group employs 318 employee The following table sets forth the number and breakdown of our full-time employees by function as at 30 June 2018:

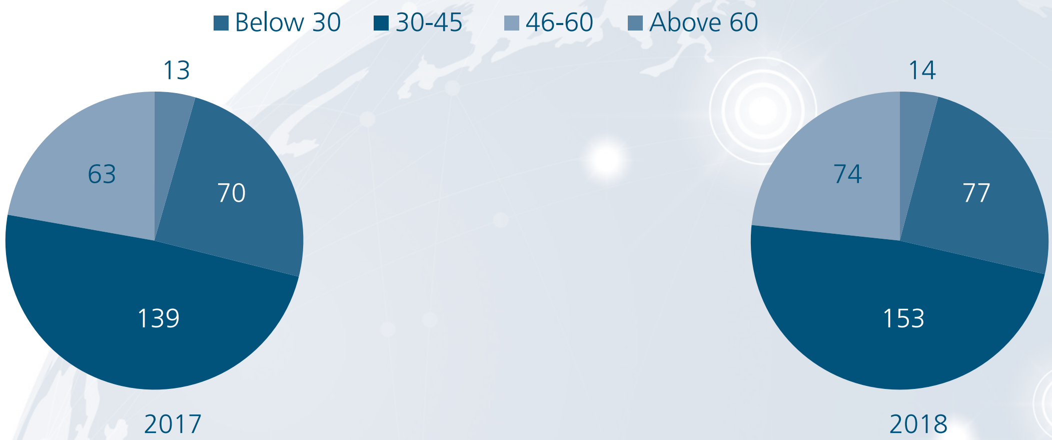
	Number of employees
Production	101
Technical and Research and development	90
Sales and marketing	36
Procurement and warehouse	15
Maintenance services	15
General administration and management	40
Quality control	8
Accounting and finance	13
Total	318

EMPLOYMENT STATISTICS BY GENDER, AGE AND EDUCATION LEVEL

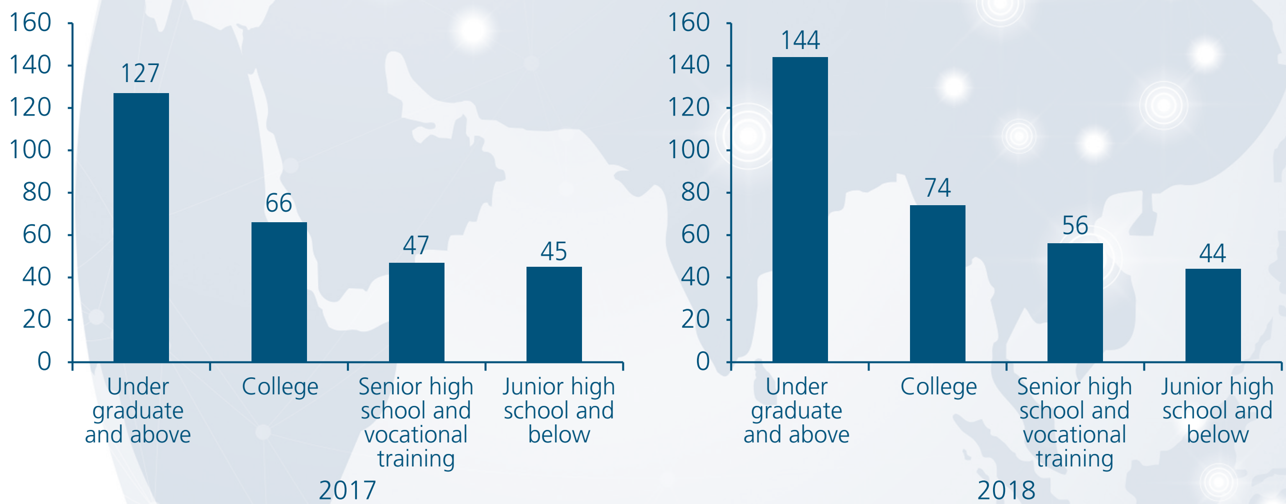
Distribution of employees by gender



Distribution of employees by age



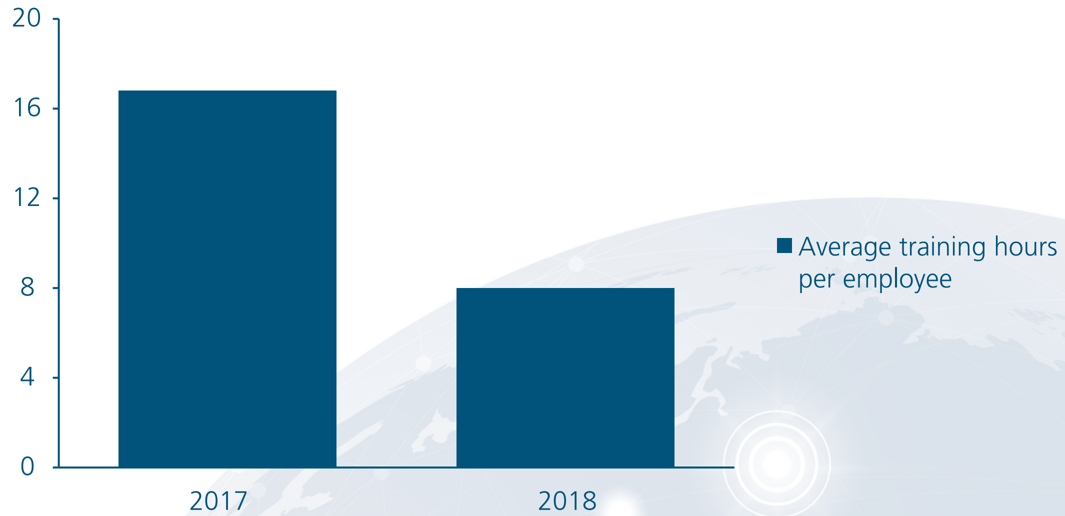
Distribution of employees by education level



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.

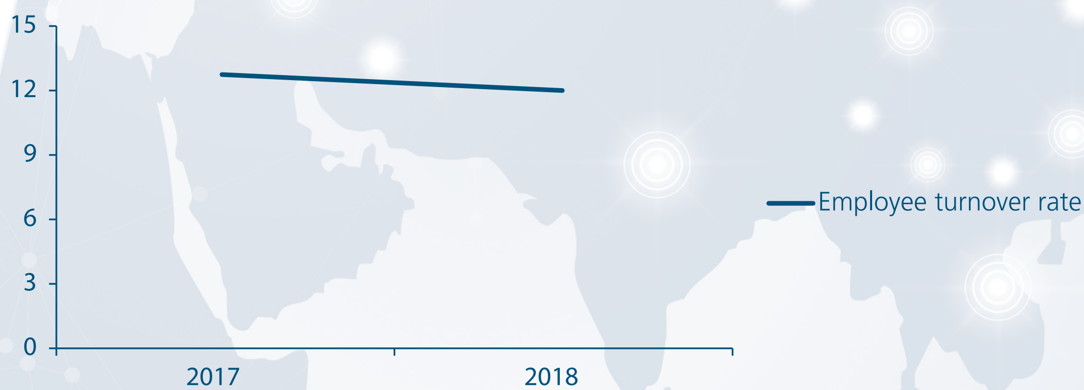
Average training hours per employee



Benefits

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

Employee turnover rate



OCCUPATIONAL HEALTH AND SAFETY

Safety Management System

The Group is subject to various production safety rules and regulations in the PRC.

The Group has implemented various safety guidelines and operating procedures for our production process to ensure safe operation of our production facilities and to prevent injuries. The Group conducts regular and thorough worksite inspection to eliminate potential hazards in our work environment. The Group also provides mandatory safety training to all new employees prior to commencement of work. Furthermore, the Group provides our employees with occupational safety education and training to enhance their awareness of safety issues from time to time.

As at 30 June 2018, the number of work place accidents (including fractures and other injuries) occurred was three.

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

Supply Chain Management

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

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

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

QUALITY CONTROL AND MANAGEMENT PRODUCT RESPONSIBILITY

Quality Control

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

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

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

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

Warranty period

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

Procurement and receipt of raw materials

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

INTELLECTUAL PROPERTIES

Since the intellectual property rights authorized for our use are material and consist mainly of trade secrets, to guard our interests, we require all of our employees, including management personnel, research and development personnel, technical personnel, sales personnel and production workers to execute a confidentiality agreement which covers a wide range of confidential information including technical plans and reports, project design, circuit design, manufacturing methods, commercial secrets, industrial processes, technical standards, measurement software, database, product designs, and records of research design and development. As at 30 June 2018, the Group had 107 patents in the PRC, including 68 utility model patents and 24 invention patent.

Bribery, corruption and other misconduct

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

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

During the year ended 30 June 2018, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

COMMUNITY INVOLVEMENT

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

During the year, the Group sent the employee representatives to the local primary school to give lectures on the papermaking principles and the importance of waste paper recycling. In addition, the Group launched a charitable donation actively an injured employee and raised a total of approximately RMB40,000.

FUTURE DIRECTION

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

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

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

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

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

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 2018.

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 2018 and the financial information of the Group as at 30 June 2018 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 2018 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 2018, 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 2017 (2016: Nil).

The board of directors now recommend to pay the final dividend for 2018 at 3.0 HK cents per share (2017: 2.4 HK cents per share) payable to shareholders of the Company whose names are on the register of members on 12 December 2018. It is expected that the final dividend will be paid on 28 December 2018. 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 November 2018 (Tuesday) to 23 November 2018 (Friday), 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 November 2018 (Monday); and

(ii) from 10 December 2018 (Monday) to 12 December 2018 (Wednesday), 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 7 December 2018 (Friday).

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 Friday, 23 November 2018. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in Note 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 26 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 30 June 2018, 1,266,000 of its ordinary shares were repurchased on the Stock Exchange at an aggregate price of approximately HK$4.5 million. Subsequent to these share repurchase exercises, the Company has acquired and cancelled approximately 0.175% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations.

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
May 2018	742,000	3.53	3.47	2,609,700
June 2018	524,000	3.52	3.42	1,840,920
	1,266,000			4,450,620

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

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2018.

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

On 22 December 2017, the Company and the Joint Placing Agents entered into a Placing Agreement about placing a maximum of 14,000,000 ordinary shares (the "Placing Shares") of the Company at a placing price of HK$3.60 per share. At the same day, the Company and Fortune Ever Holdings Limited entered into the Subscription Agreement in relation to the issue of 18,056,000 Ordinary Shares to the Subscriber at the Subscription Price of HK$3.6 per share.

On 11 January 2018, a total of 13,882,000 Placing Shares (with aggregate nominal value of HK$138,820) and a total of 18,056,000 subscription shares (with aggregate nominal value of HK$180,560) have been successfully placed by the joint placing agents to two placees, Mr. Li Hongxin (李洪信) and Mr. Li Gueihua (黎桂華), and allotted to the subscriber, Fortune Ever Holdings Limited, respectively, at the share price of HK$3.6 per share pursuant to the terms and conditions of the placing agreement and subscription agreement.

The placing and subscription price of HK$3.60 per share (exclusive of stamp duty, brokerage (if any), Stock Exchange trading fees and SFC transaction levy) represents:

(i) a discount of approximately 4.8% to the closing price of HK$3.78 per share as quoted on the Stock Exchange on 22 December 2017, being the date of the placing and subscription agreement; and

(ii) a discount of approximately 5.0% to the average closing price of approximately HK$3.79 per Share as quoted on the Stock Exchange for the five consecutive trading days 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 expenses for the placing and the subscription, the net price is approximately HK$3.56 per share.

The Directors consider that the placing and the subscription would be a good opportunity to raise additional funds to strengthen its financial position and to broaden its shareholder base.

The gross proceeds and net proceeds from the Placing are approximately HK$50.0 million and approximately HK$48.6 million respectively while the gross proceeds and net proceeds from the Subscription are approximately HK$65.0 million and approximately HK$65.0 million respectively. The total net proceeds of approximately HK$113.6 million from the Placing and the Subscription are intended to be used: (i) approximately 10.0% for general working capital; (ii) approximately 50.0% for the repayment of debts including that arising from the acquisition of the entire share capital in Fu An 777 Logistics Limited as disclosed in the announcement of the Company dated 15 November 2017; and (iii) approximately 40.0% for potential acquisitions of the Group including but not limited to those disclosed in the announcements of the Company dated on 31 May 2017 and 2 October 2017.

None of the placees or the subscriber has become a substantial shareholder (as defined under the Listing Rules) as a result of the placing or the subscription.

As at 30 June 2018, the net proceeds from the Placing and the Subscription were used as follows:

	Use of proceeds HK$ million	**Actual use of proceeds** RMB million	**Unused proceeds** RMB million
General working capital:			
– Purchase raw material for the supporting services	11,360,000	9,455,865	–
Repayment of Loan	56,800,000	47,279,323	12,426,880
Potential acquisitions	45,440,000	37,823,458	37,823,458
	113,600,000	94,558,646	50,250,338

As at 30 June 2018, the unused balance of approximately RMB50.3 million was currently placed into deposits and/or money market instruments, which will be remains to use for potential acquisition of the Group in the future.

Directors' Report

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 26, 27 and 28 to the consolidated financial statements.

As at 30 June 2018, 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 RMB488,613,000. The amount of RMB488,613,000 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 2018 are set out in Note 22 and Note 25 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 2018 represented approximately 10.0% (30 June 2017: 32.9%) and approximately 42.0% (30 June 2017: 56.6%), 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 2018 represented approximately 17.6% (30 June 2017: 14.9%) and approximately 42.8% (30 June 2017: 35.9%), 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

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 Zhu Gen Rong, Mr. Jin Hao, Mr Dai Tian Zhu and Mr Kong Chi Mo will retire at the 2018 AGM and, being eligible, will offer themselves for re-election at the 2018 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 2018.

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 2018 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 2021.

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.

RELATED PARTY TRANSACTION

Details of the related party transactions are provided under note 31 to the consolidated financial statements of this annual report, and none of which constitutes a discloseable continuing connected transaction as defined under the Listing Rules.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

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

Except for Ms Chen Jin Mei, no Director has waived or has agreed to waive any emoluments during the year ended 30 June 2018.

EMOLUMENT POLICY

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

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

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

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

Details of the retirement benefit schemes of the Group are set out in Note 2.4 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 2018. 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 2018 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 3.76% 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 2018, 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 2018, 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)	56.98%
		Beneficial owner	608,000 shares (Note 2)	0.08%
		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)	56.98%
		Beneficial owner	200,000 shares (Note 6)	0.03%
		Interest of people acting in concert	608,000 shares (Note 5)	0.08%
	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 2018, 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 2018, so far as the Directors are aware, the interests and short positions owned by the following persons or institutions in the shares and underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the shares

Name of Substantial Shareholders	Capacity/Natural of interest	Number of Shares directly or indirectly held	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owner	411,854,000	56.98%
Lian Shun Limited	Interest of a controlled corporation	411,854,000 (Note 1)	56.98%
Mr Zhu Gen Rong	Interest of a controlled corporation/Beneficial owner, person acting in concert	412,662,000 (Note 2)	57.09%
Mr Wang Ai Yan	Interest of a controlled corporation/Beneficial owner, person acting in concert	412,662,000 (Note 3)	57.09%
Mr Liu Chuan Jiang	Interest of a controlled corporation/person acting in concert	412,662,000 (Note 4)	57.09%
Ms Zhu Ling Yun	Person acting in concert	412,662,000 (Note 5)	57.09%
Mr Yan Kam Cheong	Interest of a controlled corporation	42,360,000 (Note 6)	5.86%
Kaiser Asset Management Limited	Beneficial owner	40,000,000 (Note 6)	5.53%
Oceanic Boom Limited	Beneficial owner	2,360,000 (Note 6)	0.33%
Li Chao Wang	Interest of a controlled corporation	60,335,294 (Note 7)	8.35%
Rosy Ease Limited	Interest of a controlled corporation	60,335,294 (Note 7)	8.35%
Swift Fortune Holdings Limited	Beneficial owner	60,335,294 (Note 7)	8.35%
Gain Channel Limited	Interest of a controlled corporation	60,335,294 (Note 7)	8.35%
Song Min	Interest of spouse	60,335,294 (Note 8)	8.35%

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 42,360,000 Shares consist of 40,000,000 Shares in which Kaiser Asset Management Limited is interested and 2,360,000 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.

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

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

Save as disclosed above, as at 30 June 2018, the Directors are not aware of any interests or short positions owned by any persons in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 30 June 2018 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 2018.

SUFFICIENCY OF PUBLIC FLOAT

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

PERMITTED INDEMNITY PROVISION

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

AUDITORS

Ernst & Young were first appointed as auditors of the company in 2016 in place of PricewaterhouseCoopers.

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 2018 have been audited by Ernst & Young.

On behalf of the Board
Zhu Gen Rong
Chairman

Yunnan Province, China
21 September 2018

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 2018.

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 2018 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

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

Executive Directors:	Mr Zhu Gen Rong (Chairman) Mr Wang Ai Yan (Chief Executive Officer) Mr Zhong Xin Gang Mr Jin Hao
Independent Non-executive Directors:	Ms Chen Jin Mei Mr Dai Tian Zhu 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 and in all general meetings are as follows:

Name of Director	Meeting of the Board of Directors No. of Attendance by Directors/No. of Meetings	Annual general meeting No. of Attendance by Directors/No. of Meetings	Extra ordinary general meeting No. of Attendance by Directors/No. of meetings
Mr Zhu Gen Rong (Chairman)	4/4	1/1	2/2
Mr Wang Ai Yan (Chief Executive Officer)	4/4	1/1	2/2
Mr Zhong Xin Gang	4/4	1/1	2/2
Mr Jin Hao	4/4	1/1	2/2
Ms Chen Jin Mei	4/4	1/1	2/2
Mr Dai Tian Zhu	4/4	1/1	2/2
Mr Kong Chi Mo	4/4	1/1	2/2

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 2018 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 2018. 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 paper-making industry, industrial automation systems and sludge treatment products and/or other professional areas.

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

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

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

Name of Director	No. of Attendance/ No. of Meetings
Mr 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 Group and reviewing their effectiveness. The Board oversees the overall risk management of the Group and endeavours to identify, control impact of the identified risks and facilitate implementation of coordinated mitigating measures. The risks have been disclosed in the report of the directors of this annual report. The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failures to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

Also, the Board engaged an external independent consultant to assess the effectiveness of the Group's risk management, internal control systems and perform an internal audit function which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 30 June 2018. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness and adequacy of the risk management and internal control systems and the internal audit function for the year ended 30 June 2018.

AUDITORS' REMUNERATION

During the financial year ended 30 June 2018, the fees paid/payable to the Company's auditors are set out as follows:

Services rendered	Fees paid/ payable (RMB'000)
Annual audit services	1,000
Interim review services	800
Other audit fees – acquisition	753
	2,553

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 2018.

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 2018, there had been no significant change in the Company's constitutional documents.

Independent Auditors' Report

Ernst & Young
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Central, Hong Kong

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

OPINION

We have audited the consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 144, which comprise the consolidated statement of financial position as at 30 June 2018, 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 2018, 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.

Independent Auditors' Report

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 based 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 involves 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 a key matter to our audit. 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 5 – 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 documentations of construction costs and comparing the actual construction costs incurred with the estimated budget costs to validate the accuracy of POC. 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 recoverable 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 as a key matter to our audit. 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 19 – 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 year end. We reviewed the reliability of management's estimate. 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
Business combinations	
During the year ended 30 June 2018, the Group completed two acquisitions at considerations of RMB56,698,852 and RMB280,061,152, respectively. The accounting for these business combinations involved significant estimation of the management for the purchase price allocation to the assets and liabilities acquired. The Group engaged an external independent appraiser to perform the valuation to determine the fair values of the assets and liabilities acquired and to identify intangible assets and provisional goodwill in connection with the acquisitions. The Group's disclosures about acquisition are included in Note 29 to the consolidated financial statements.	Our audit procedures include, among others, reviewing the sales and purchase agreements to obtain an understanding of the transactions and the key terms. We assessed management's identification and fair value measurement of the acquired assets and liabilities. We reviewed the valuation reports and evaluated the competence, capabilities and objectivity of the external appraiser. We involved our internal valuation specialist to assist us in reviewing the valuation methodologies used by management and the external valuation expert in assessing the fair values of the acquired assets and liabilities. We assessed the key assumptions and inputs in measuring the fair values of the net identifiable assets by reference to the business plan prepared by management.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
The goodwill of the Group arose from business combinations, amounted to RMB144,998,757 as at 30 June 2018, which represented 10% of the total assets. RMB144,402,387 of the total goodwill generated from business combinations of MCN Group and 777 Logistic Group during the year ended 30 June 2018. The Group performs goodwill impairment testing annually. The management's assessment process involves significant estimates and judgements, including assessing expected future cash flow forecasts, associated growth rates and the discount rates applied. The Group engaged an external independent appraiser to perform goodwill impairment assessment, which 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 applied to the cash flow forecast of goodwill impairment consideration. The Group's disclosures about goodwill are included in Note 2.4 – Summary of significant accounting policies, Note 3 – Significant accounting judgements and estimates, as well as in Note 16 – Goodwill to the consolidated financial statements.	Our audit procedures include, among others, an assessment of the evaluation and testing of the methodologies, key assumptions, and determination of cash-generating units, cash flow forecast and other data used by the Group. In addition, we assessed the competence, capabilities and objectivity of the external valuation expert. We further involved our internal specialists to assist us in assessing the assumptions and methodologies used by the management, and the discount rate applied to the cash flow forecast. Furthermore, we assessed the basis of preparing the cash flow forecasts and the growth rate used to extrapolate the cash flow.

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.

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.

Independent Auditors' Report

- 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 Ricky Shun.

Ernst & Young
Certified Public Accountants

Hong Kong
21 September 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2018

	Notes	2018 RMB	2017 RMB
REVENUE	5	**612,123,398**	416,007,189
Cost of sales		**(474,866,492)**	(324,414,793)
Gross profit		**137,256,906**	91,592,396
Other income and gains	5	**5,548,305**	5,906,585
Selling and distribution expenses		**(13,132,905)**	(9,721,324)
Administrative expenses		**(42,541,892)**	(32,323,830)
Research and development expenses		**(18,747,547)**	(14,458,386)
Other expenses		**(2,560,211)**	(2,127,619)
OPERATING PROFIT		**65,822,656**	38,867,822
Finance income	9	**10,278,815**	2,164,023
Finance expense	9	**(15,679,199)**	(4,322,196)
Finance expense – net	9	**(5,400,384)**	(2,158,173)
PROFIT BEFORE TAX	6	**60,422,272**	36,709,649
Income tax expense	10	**(12,521,204)**	(6,351,771)
PROFIT FOR THE YEAR		**47,901,068**	30,357,878
Attributable to:			
Owners of the parent		**48,285,144**	30,638,948
Non-controlling interests		**(384,076)**	(281,070)
		47,901,068	30,357,878
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences related to foreign operations		**(259,464)**	1,098,634
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(259,464)**	1,098,634

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2018

	Notes	2018 RMB	2017 RMB
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**47,641,604**	31,456,512
Attributable to:			
Owners of the parent		**48,025,680**	31,737,582
Non-controlling interest		**(384,076)**	(281,070)
		47,641,604	31,456,512
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic earnings per share (RMB cents)		**7.18**	5.10
– Diluted earnings per share (RMB cents)		**7.18**	5.10

Consolidated Statement of Financial Position

30 June 2018

	Notes	2018 RMB	2017 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	13	**199,586,539**	40,141,314
Investment properties	14	**5,989,795**	6,300,537
Prepaid land lease payments	15	**72,045,656**	3,248,863
Goodwill	16	**144,998,757**	596,369
Other intangible assets	17	**14,846,912**	–
Deferred tax assets	24	**4,212,878**	2,762,933
Trade and other receivables	19	**32,023,284**	84,673,706
Prepayments	19	**208,963**	222,023
Total non-current assets		**473,912,784**	137,945,745
CURRENT ASSETS			
Prepaid land lease payments	15	**1,292,172**	104,942
Inventories	18	**80,188,203**	59,511,860
Trade and other receivables	19	**574,743,632**	322,804,478
Prepayments	19	**128,671,118**	34,880,557
Pledged deposits	20	**69,697,182**	21,515,802
Cash and cash equivalents	20	**72,880,335**	50,554,277
Total current assets		**927,472,642**	489,371,916
CURRENT LIABILITIES			
Trade and other payables	21	**489,903,745**	228,067,991
Interest-bearing loans	22	**21,857,880**	8,626,000
Income tax payable		**6,675,441**	2,683,608
Other liabilities	19	**7,540,000**	–
Total current liabilities		**525,977,066**	239,377,599
NET CURRENT ASSETS		**401,495,576**	249,994,317
TOTAL ASSETS LESS CURRENT LIABILITIES		**875,408,360**	387,940,062
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**7,594,890**	800,512
Deferred income	23	**25,500,000**	–
Convertible bonds	25	**75,710,498**	66,821,857
Total non-current liabilities		**108,805,388**	67,622,369
NET ASSETS		**766,602,972**	320,317,693

Consolidated Statement of Financial Position

30 June 2018

	Notes	2018 RMB	2017 RMB
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**6,107,141**	5,075,783
Share premium	26	**491,227,935**	93,615,618
Equity component of convertible bonds	25	**23,609,589**	23,609,589
Other reserves	28	**73,713,139**	65,867,660
Retained earnings	27	**171,129,174**	130,948,973
		765,786,978	319,117,623
Non-controlling interests		**815,994**	1,200,070
TOTAL EQUITY		**766,602,972**	320,317,693

Zhu Gen Rong
Director

Wang Ai Yan
Director

Consolidated Statement of Changes in Equity

Year ended 30 June 2018

		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 2017 (Restated)		5,075,783	93,615,618	23,609,589	65,867,660	130,948,973	319,117,623	1,200,070	320,317,693
Profit for the year		–	–	–	–	48,285,144	48,285,144	(384,076)	48,237,249
Other Comprehensive income for the year:									
Exchange differences related to foreign operations		–	–	–	(259,464)	–	(259,464)	–	(259,464)
Total comprehensive income for the year		–	–	–	(259,464)	48,285,144	48,025,680	(384,076)	47,977,785
Issue of shares	26	1,041,650	413,659,578	–	–	–	414,701,228	–	414,701,228
Dividends paid	26	–	(12,438,575)	–	–	–	(12,438,575)	–	(12,438,575)
Shares repurchased	26	(10,292)	(3,608,686)	–	–	–	(3,618,978)	–	(3,618,978)
Profit appropriation to statutory reserves		–	–	–	8,104,943	(8,104,943)	–	–	–
At 30 June 2018		6,107,141	491,227,935	23,609,589	73,713,139	171,129,174	765,786,978	815,994	766,602,972

		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	26	2,678,259	(2,678,259)	–	–	–	–	–	–
Dividends paid	26	–	(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 (Restated)		5,075,783	93,615,618	23,609,589	65,867,660	130,948,973	319,117,623	1,200,070	320,317,693

Consolidated Statement of Cash Flows

Year ended 30 June 2018

	Notes	2018 RMB	2017 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**60,422,272**	36,709,649
Adjustments for:			
Finance income	9	**(9,209,918)**	(2,164,023)
Finance expense	9	**15,679,199**	3,977,285
Depreciation of property, plant and equipment	13	**4,042,778**	4,814,205
Depreciation of investment properties	14	**310,742**	310,742
Amortisation of prepaid land lease payments	15	**1,015,977**	104,942
Amortisation of other intangible assets	17	**1,535,887**	–
Impairment of trade receivables and other receivables	19	**2,560,211**	1,622,271
Impairment of inventories	18	**259,144**	111,947
Change in fair value of contingent consideration		**(77,422)**	–
Change in fair value of a derivative financial instrument		**–**	430,000
		76,538,870	45,917,018
(Increase)/decrease in inventories		**(18,793,354)**	21,689,059
Increase in trade and bill receivables		**(246,774,710)**	(82,374,796)
Increase in prepayments and other receivables		**(29,278,580)**	(64,207,945)
Increase/(decrease) in trade and other payables		**227,694,718**	(178,033)
(Increase)/decrease in pledged deposits		**(48,181,380)**	2,039,188
Cash used in operations		**(38,794,436)**	(77,115,509)
Income taxes paid		**(9,912,274)**	(8,273,433)
Net cash flows used in operating activities		**(48,706,710)**	(85,388,942)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(17,114,145)**	(828,129)
Acquisition of a subsidiary		**43,410,909**	–
Investment down payments related to acquisition of new subsidiaries		**–**	(9,000,000)
Interest received		**9,209,918**	2,164,023
Net cash flows generated/(used in) from investing activities		**35,506,682**	(7,664,106)

Consolidated Statement of Cash Flows

Year ended 30 June 2018

	Notes	2018 RMB	2017 RMB
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	26	**94,558,646**	–
Shares repurchased	26	**(3,618,978)**	–
Proceeds from issuance of convertible bonds		**–**	88,336,100
Repayment of interest-bearing loans		**(45,330,576)**	(1,500,000)
New interest-bearing loans		**9,415,303**	5,000,000
Dividends paid to shareholders		**(12,438,575)**	(10,691,594)
Interest paid		**(5,083,014)**	(344,987)
Net cash flows generated from financing activities		**37,502,806**	80,799,519
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**24,302,778**	(12,253,529)
Cash and cash equivalents at beginning of year		**50,554,277**	63,359,071
Effect of foreign exchange rate changes, net		**(1,976,720)**	(551,265)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**72,880,335**	50,554,277
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	20	**142,577,517**	72,070,079
Pledged deposits	20	**(69,697,182)**	(21,515,802)
Cash and cash equivalents as stated in the statement of cash flows		**72,880,335**	50,554,277

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 products, project contracting services, environmental products, and the provision of supporting services in the People's Republic of China (the "PRC").

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		Principal activities
				Direct	Indirect	
Zhejiang Huazhang Technology Limited* ("Zhejiang Huazhang")	PRC, 19 July 2001	USD41,300,000 (2017: USD31,300,000)	USD41,300,000 (2017: USD31,300,000)	–	100%	Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales and other services
Huazhang Electric Holding Limited ("Huazhang Electric")	Hong Kong, 25 March 1993	HKD5,000,000	HKD3,000,002	–	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	RMB30,000,000	–	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	RMB8,553,000	–	70%	Wastewater treatment business

1. CORPORATE AND GROUP INFORMATION *(Continued)*

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
Hangzhou Haorong Technology Co., Ltd. ("Haorong")	PRC, 21 April 2006	RMB500,000	RMB500,000	–	100%	Computer software and hardware, and technical service
Hangzhou MCN Paper Tech Co., Ltd. ("MCN")	PRC, 5 March 2001	RMB1,200,000	RMB1,200,000	–	100%	Research, development and distribution of headboxes used in papermaking production line
Guangdong 777 Logistics Warehouse Limited ("777")	PRC, 12 November 2015	USD25,000,000	USD25,000,000	–	100%	Logistics and warehousing services to papermaking factories
Huazhang Technology Logistics Limited ("777 HK")	Hong Kong, 9 March 2015	HKD1	HKD1	–	100%	Investment holding
Huazhang Technology Logistics Warehouse Limited ("777 BVI")	BVI, 22 April 2015	USD100	USD100	–	100%	Investment holding
Baoshan Jintaisheng Logistics Limited ("Jintaisheng")	PRC, 1 February 2018	RMB5,000,000	–	–	100%	Logistics and warehousing services

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

During the year, the Group acquired Hangzhou Haorong Technology Co., Ltd. and Hangzhou MCN Paper Tech Co., Ltd. (together, the "MCN Group") and Guangdong 777 Logistics Warehouse Limited, Huazhang Technology Logistics Limited and Huazhang Technology Logistics Warehouse Limited (together, the "777 Logistic Group"). Further details of these acquisitions are included in notes 29 to this financial statements. Baoshan Jintaisheng Logistics Limited is a newly established subsidy of Guangdong 777 Logistics Warehouse Limited.

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 30 June 2018. 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 profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 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 HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

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

2.3 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*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

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

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 July 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 July 2018. During financial year 2018 (from 1 July 2017 to 30 June 2018) , the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not except significant change in provision of impairment of account receivables and other receivables upon the initial adoption of the standard.

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

(b) Impairment *(Continued)*

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 July 2018. The Group has performed a detailed assessment on the impact of the adoption of HKFRS 15 during financial year 2017.

The Group's principal activities consist of the manufacture and sale of industrial products, project constructing services, environmental products and the supporting services. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Sale of project contracting services

The Group provides project contracting services for the customers. The main sales contract can be divided into design, procurement and installation while the performance obligations of the three parts of the contract are closely related and cannot be separated. Upon the adoption of HKFRS 15, revenue from the sale of project contracting services will be recognised as performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group has determined that when HKFRS 15 is adopted, no change in the revenue recognition of sale of project contracting services.

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

(b) Impairment *(Continued)*

(b) Sale of industrial products, environmental products and the supporting services

The Group provides installation services for the sale of industrial products, environmental products and the supporting services. Currently, when installation services are bundled together with the sale of equipment, revenue from the sale of machinery is recognised after the installation services are completed. Upon the adoption of HKFRS 15, revenue from the sale of machinery will be recognised at a point in time when control of the asset is transferred to the customer. The Group has assessed that the goods or services are highly related that the Group would not be able to fulfill its promises by transferring each of the goods or services independently. Thus installation services bundled together with the sale of machinery are not considered distinct under HKFRS 15. Therefore, the Group recognized sales after the installation services are completed, no change in the revenue recognition of sale of industrial products, environmental products and the supporting services.

(c) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

2.4 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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 investment properties, derivative financial instruments and equity investments 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the statement of 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 the statement of 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

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 statement of profit or loss 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 the statement of 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 statement of profit or loss 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 held for trading and 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.

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 statement of profit or loss. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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:

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 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 carryforward 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 carryforward 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.

2.4 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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of 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. Proposed final dividends are disclosed in the notes to the financial statements.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into Renminbi 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 Renminbi 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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 fluctuate and may last over one year. As such, the revenue to be recognised in future periods maybe related to products delivered in earlier periods.

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

Judgements *(Continued)*

Revenue recognition *(Continued)*

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 RMB14,858,750 if the proportion performed was increased or decreased.

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.

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 2018 was RMB144,749,228 (2017: RMB596,369). Further details are given in note 16 to the financial statements.

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

Estimation uncertainty *(Continued)*

Impairment of trade receivables

Over 3% and 12% of the trade receivables were past due but not considered as impaired as at 30 June 2018 and 2017 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.

Business Combination

On 25 September 2017, the Group completed the acquisition of 100% of the equity interest in the MCN Group and on 15 November 2017, the Group completed the acquisition of 100% of the equity interest in the 777 Logistic Group. Intangible assets acquired by the Group in the acquisition include patent, prepaid land lease payment. The residual portion of the purchase consideration was allocated as goodwill, which represents the balance of the purchase consideration over the fair value of identifiable net assets acquired by the Group. The purchase price allocation has involved significant management judgement and estimation, such as the valuation methodologies, budgeted revenue, the discount rate adopted and the estimation of useful life of the intangible assets. Further details are given in note 29 to the financial statements.

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 products;

(b) project contracting services;

(c) environmental products; and

(d) supporting services;

4. OPERATING SEGMENT INFORMATION *(Continued)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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, derivative financial instruments, deferred tax assets, pledged deposits, and certain prepayments, certain other receivables, certain cash and cash equivalents, property plant and equipment and certain 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, other liabilities, deferred revenue and convertible bonds, as these liabilities are managed on a group basis.

Year ended 30 June 2018	**Industrial products** RMB	**Project contracting services** RMB	**Environmental products** RMB	**Supporting services** RMB	**Total** RMB
Segment revenue:					
Sales to external customers	121,692,110	215,873,846	99,827,528	174,729,914	612,123,398
Segment cost of sales	(82,359,528)	(180,266,556)	(77,197,909)	(135,042,499)	(474,866,492)
Segment gross profit	39,332,582	35,607,290	22,629,619	39,687,415	137,256,906
Segment results	17,409,130	29,088,968	9,203,634	27,629,519	83,331,251
Common administrative expenses					(22,734,407)
Other expenses					(203,230)
Other income and gains					5,548,305
Finance expense – net					(5,519,647)
Profit before tax					60,422,272
Income tax expense					(12,521,204)
Profit for the year					47,901,068

4. OPERATING SEGMENT INFORMATION *(Continued)*

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	302,480	–	405,248	162,500,146	280,129	163,488,003
Depreciation of property, plant and equipment	886,942	–	1,181,896	743	1,973,197	4,042,778
Amortisation of prepaid land lease payments	51,029	–	67,704	836,189	61,055	1,015,977
Depreciation of investment properties	–	–	–	–	310,742	310,742

The segment assets and liabilities as at 30 June 2018 are as follows:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Assets	253,070,470	403,673,667	107,378,222	479,699,633	157,563,434	1,401,385,426
Liabilities	195,202,469	173,632,010	78,785,709	64,919,044	122,243,222	634,782,454

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 30 June 2017	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting 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 products RMB	Project contracting services RMB	Environmental products RMB	Supporting 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 products RMB	Project contracting services RMB	Environmental products RMB	Supporting 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

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 RMB58,726,505 and RMB56,896,630 representing over 10% and 9% of the Group's total revenue for the year ended 30 June 2018, respectively. 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.

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 project contracting services; the value of services rendered during the year.

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

	2018 RMB	2017 RMB
Revenue		
Project contracting services	**215,873,846**	235,483,184
Supporting services	**174,729,914**	54,844,416
Industrial systems	**121,692,110**	77,064,124
Environmental products	**99,827,528**	48,615,465
	612,123,398	416,007,189
Other income and gains		
Bidding service income	**3,363,208**	1,466,084
Government grants*	**1,097,122**	1,051,593
Rental income	**381,566**	514,729
Scrap steel income	**209,817**	183,580
Consultation income	**–**	2,200,855
Others	**496,592**	489,744
	5,548,305	5,906,585

* Government grants mainly consist 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:

	2018 RMB	2017 RMB
Raw materials used	**441,473,641**	326,969,206
Employee benefit expenses (excluding directors' and chief executive's remuneration) (Note 7)	**43,871,196**	34,052,606
Change in inventories of finished goods and work in progress (Note 18)	**14,529,162**	(16,769,658)
Travelling expenses	**8,603,407**	6,870,719
Depreciation of property, plant and equipment (Note 13)	**4,042,778**	4,814,205
Office expenses	**4,209,112**	3,331,586
Miscellaneous tax charges other than value added tax and income tax	**3,046,537**	1,884,908
Transportation expenses	**2,953,913**	2,136,623
Professional service fees	**2,992,388**	2,046,755
Impairment of trade receivables and other receivables (Note 19)	**2,560,211**	1,622,271
Auditor's remuneration	**2,555,136**	1,450,000
Utilities	**221,571**	286,807
Change in fair value of derivative financial instrument	**–**	430,000

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:

	2018 RMB	2017 RMB
Fees	**199,522**	210,552
Other emoluments:		
Salaries, allowances and benefits in kind	**2,346,044**	2,333,104
Bonuses	**476,000**	334,527
Other benefits	**57,674**	29,370
	2,879,718	2,697,001
	3,079,240	2,907,553

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:

	2018 RMB	2017 RMB
Mr. Kong Chi Mo	99,761	105,276
Mr. Dai Tian Zhu	99,761	105,276
Ms. Chen Jin Mei	–	–
	199,522	210,552

There were no other emoluments payable to the independent non-executive directors during the year (2017: nil).

(b) Executive directors and the chief executive

Year ended 30 June 2018

	Salaries, allowances and benefits in kind RMB	Bonuses RMB	Other benefits RMB	Total remuneration RMB
Executive Directors				
Mr. Zhu Gen Rong (Chairman)	847,522	200,000	17,361	1,064,883
Mr. Wang Ai Yan (Chief Executive Officer)	799,522	132,000	17,061	948,583
Mr. Jin Hao	423,000	134,000	13,385	570,385
Mr. Zhong Xin Gang	276,000	10,000	9,867	295,867
	2,346,044	476,000	57,674	2,879,718

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

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

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 Officer)	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

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 three directors (2017: four directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining two (2017: one) highest paid employees who are neither directors nor chief executives of the Company are as follows:

	2018 RMB	2017 RMB
Salaries, allowances and benefits in kind	**1,098,806**	600,000
Bonuses	**183,134**	90,000
Other benefits	**28,349**	10,300
	1,310,289	700,300

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	
	2018	2017
Nil to RMB1,000,000	**2**	1

For the years ended 30 June 2018 and 2017, 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 – NET

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

	2018 **RMB**	2017 RMB
Finance income		
– Interest income	**9,329,181**	2,164,023
– Exchange gain	**949,634**	–
	10,278,815	2,164,023
Finance expense		
– Interest expenses on convertible bonds	**(14,804,185)**	(3,584,698)
– Interest expenses on loans	**(875,014)**	(392,587)
– Exchange loss	**–**	(344,911)
	(15,679,199)	(4,322,196)
Finance expense – net	**(5,400,384)**	(2,158,173)

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.

	2018 RMB	2017 RMB
Current – PRC		
Charge for the year	**13,287,529**	6,866,230
Deferred tax (Note 24)	**(766,325)**	(514,459)
Income tax expense	**12,521,204**	6,351,771

(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 2018 (2017: nil), as the Group had no taxable profits earned 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, 2014 and 2017 with a validation period of three years each. The applicable EIT rate of Zhejiang Huazhang is 15% from 2008 till 2020. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2018 (2017: 15%).

For Wukong, 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.

Reconciliation of the tax expense and the accounting profit multiplied by the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled for 2017 and 2018:

	2018 **RMB**	2017 RMB
Profit before tax	**60,422,271**	36,709,649
Tax at the statutory tax rate	**15,105,568**	11,373,696
Lower tax rates for specific provinces or enacted by local authority	**(3,533,345)**	(4,375,045)
Expenses not deductible for tax	**238,086**	184,589
Additional deduction of research and development costs	**(1,147,642)**	(303,829)
Unrecognised tax losses	**1,906,891**	–
Re-measurement of deferred income tax	**–**	(352,175)
Adjustments in respect of current tax of previous periods	**(48,354)**	–
Effect of withholding tax on the expected distributable profits of the subsidiary in Mainland China	**–**	(175,465)
Tax charge for the year at the effective rate	**12,521,204**	6,351,771

11. DIVIDENDS

(i) Dividends attributable to the year

	2018 RMB	2017 RMB
Proposed final – HK3.0 cents (2017: HK2.4 cents) per ordinary share	**18,953,520**	12,511,258
	18,953,520	12,511,258

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

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

	2018 RMB	2017 RMB
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.4 cents (2017: HK4.0 cents)	**12,438,575**	10,691,594

A dividend in respect of the year ended 30 June 2018 of HK3.0 cents per share, amounting to a total dividend of RMB18,953,520 based on the number of issued shares outstanding at relevant time, is to be proposed at the Board meeting on 21 September 2018. 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 amount 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 672,953,371 (2017: 600,648,000) in issue during the year, as adjusted to reflect the rights issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 30 June 2018 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 year ended 30 June 2018.

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

	2018 RMB	2017 RMB
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation:	48,285,144	30,638,948
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	672,953,371	600,648,000
Basic and diluted earnings per share (RMB cents)	7.18	5.10

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB	Machinery and vehicles RMB	Furniture, fittings and equipment RMB	Construction in progress RMB	Total RMB
30 June 2018					
At 1 July 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
Year ended 30 June 2018					
Opening net book amount	32,814,849	5,795,907	1,530,558	–	40,141,314
Additions	–	385,803	327,722	25,040,173	25,753,698
Acquisition of a subsidiary	–	256,902	33,723	137,443,680	137,734,305
Depreciation provided during the year (Note 6)	(2,557,356)	(1,038,534)	(446,888)	–	(4,042,778)
Transferred from construction in progress	151,544,294	10,939,559	–	(162,483,853)	–
Exchange realignment	–	–	–	–	–
At 30 June 2018, net of accumulated depreciation	181,801,787	16,339,637	1,445,115	–	199,586,539
At 30 June 2018:					
Cost	196,264,729	21,923,440	8,275,511	–	226,463,680
Accumulated depreciation	(14,462,942)	(5,583,803)	(6,830,396)	–	(26,877,141)
Net carrying amount	181,801,787	16,339,637	1,445,115	–	199,586,539

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

	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

As at 30 June 2018, buildings with an aggregate carrying amount of RMB29,820,332 were pledged as collateral for the Group's banking facilities (Note 22) (2017: RMB32,199,445).

14. INVESTMENT PROPERTIES

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

	2018 RMB	2017 RMB
At beginning 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
Opening net book amount	**6,300,537**	6,611,279
Depreciation	**(310,742)**	(310,742)
Closing net book amount	**5,989,795**	6,300,537
At end of year		
Cost	**8,501,625**	8,501,625
Accumulated amortisation	**(2,511,830)**	(2,201,088)
Net book amount	**5,989,795**	6,300,537

As at 30 June 2018, the fair value of the investment property was approximately RMB13,667,399 (2017: RMB14,633,190). The estimate is made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties.

Amounts recognised in profit or loss for investment properties included:

	2018 RMB	2017 RMB
Rental income	**514,729**	514,729
Depreciation of investment properties charged to profit or loss	**(310,742)**	(310,742)
	203,987	203,987

As at 30 June 2018, investment properties with an aggregate carrying amount of RMB5,989,794 were pledged as collateral for the Group's banking facilities (Note 22) (2017: RMB6,300,537).

As at 30 June 2018, the Group had no significant contractual obligations for future repairs and maintenance of the investment properties (2017: nil).

15. PREPAID LAND LEASE PAYMENTS

	2018 RMB	2017 RMB
Carrying amount as at beginning of the year	**3,353,805**	3,458,747
Acquisition of a subsidiary	**71,000,000**	–
Recognised during the year	**(1,015,977)**	(104,942)
Carrying amount as at end of the year	**73,337,828**	3,353,805
Portion classified as current assets	**(1,292,172)**	(104,942)
Non-current portion	**72,045,656**	3,248,863

As at 30 June 2018, prepaid land lease payments with an aggregate carrying amount of RMB3,248,863 were pledged as collateral for the Group's banking facilities (Note 22) (2017: RMB3,353,804).

16. GOODWILL

	RMB
At 30 June 2017:	
Cost	596,369
Accumulated impairment	–
Net carrying amount	596,369
Cost at 1 January 2017, net of accumulated impairment	596,369
Acquisition of a subsidiary (note 29)	144,402,387
Cost and net carrying amount at 30 June 2018	144,998,756
At 30 June 2017:	
Cost	144,998,756
Accumulated impairment	–
Net carrying amount	144,998,756

16. GOODWILL *(Continued)*

Goodwill of the Group mainly includes RMB36,155,379 arising from the acquisition of MCN Group and RMB108,247,008 arising from the acquisition of 777 Logistics Group in 2018. No impairment was recognised for the years ended 30 June 2018 and 2017.

Goodwill mentioned above is allocated to the CGU of headbox production line and the CGU of logistics and warehousing services CGU for impairment test.

The Group performed its annual impairment test in June 2018. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing the indicators of impairment. No indicators of impairment were noted during 2018.

In 2018, the recoverable amount of the headbox production line CGU were determined based on a value in use calculation using cash flow projections based on financial budgets covering a 3.5-year period approved by senior management. The discount rate applied to the cash flow projections was 17% and cash flows beyond the 3.5-year period were extrapolated using a growth rate of 2.5%, which was less than the long term average growth rate of headbox production industry. Management determined budgeted growth rates based on its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

In 2018, the recoverable amount of the logistics and warehousing services CGU were determined based on a value in use calculation using cash flow projections based on financial budgets covering a 40-year period approved by senior management. The discount rate applied to the cash flow projections was 13% and cash flows beyond the 40-year period were extrapolated using a growth rate of 3% which was less than the long term average growth rate of logistics and warehousing services industry. Management determined budgeted growth rates based on its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

Assumptions were used in the value in use calculation of the headbox production line CGU and logistics and warehousing services CGU as of 30 June 2018. The following describes each key assumption on which management has based its cash flow projections to undertake goodwill impairment test:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year or the gross margin based on the business plan, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Management does not foresee any significant change in the key assumptions used in the value in use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

Patents	2018 RMB	2017 RMB
Cost at 30 June, net of accumulated amortisation	–	–
Acquisition of a subsidiary (note 29)	16,382,800	–
Amortisation provided during the year	(1,535,888)	–
Closing net book amount	14,846,912	–
At end of year		
Cost	16,382,800	–
Accumulated amortisation	(1,535,888)	–
Net carrying amount	14,846,912	–

18. INVENTORIES

	2018 RMB	2017 RMB
Raw materials	24,432,129	18,284,948
Work in progress	31,839,773	23,941,706
Finished goods	23,916,301	17,285,206
	80,188,203	59,511,860

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

	2018 RMB	2017 RMB
At 1 July	5,833,817	5,721,870
Provision for write-down of inventories	259,144	111,947
At 30 June	6,092,961	5,833,817

As at 30 June 2018, raw materials with a cost of RMB8,770,198 were considered as obsolete (2017: RMB10,201,151) and a provision of RMB6,092,961 (2017: RMB5,833,817) to write down to their net realisable value was made against these raw materials as at 30 June 2018. The Group made an additional provision for inventory write-down of RMB259,144 (2017: RMB111,947) for the year ended 30 June 2018. The amount charged has been included in 'cost of sales' in profit or loss.

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(i) Trade and other receivables

	2018 RMB	2017 RMB
Warranty receivables (note a)	**24,294,874**	21,608,760
Amounts due from contract customers (note b)	**74,894,609**	72,896,612
Other trade receivables (note c)	**411,084,130**	265,060,443
	510,273,613	359,565,815
Less: provision for impairment of trade receivables (note d)	**13,156,318**	6,529,385
Trade receivables – net	**497,117,295**	353,036,430
Bills receivable (note e)	**83,702,261**	46,441,408
Trade and bills receivables	**580,819,566**	399,477,838
Other receivables due from a related party (Note 31)	**17,428**	17,428
Other receivables – performance guarantee	**5,697,560**	3,979,787
Deductible VAT input	**8,639,801**	–
Loan deposit (note f & Note 31)	**8,431,000**	–
Others	**5,317,650**	5,955,980
	28,103,439	9,953,195
Less: provision for impairment of other receivables (note g)	**2,156,079**	1,952,849
Other receivables – net	**25,947,360**	8,000,346
Total trade and other receivables (Note 32)	**606,766,926**	407,478,184
Less: trade receivables – non-current portion	**32,023,284**	84,673,706
	574,743,642	322,804,478

19. 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:

	2018 RMB	2017 RMB
Up to 3 months	**12,198,937**	7,520,636
3 months to 6 months	**770,532**	3,475,779
6 months to 1 year	**2,454,884**	2,012,519
1 year to 2 years	**1,396,772**	3,318,363
Over 2 years	**7,473,749**	5,281,463
	24,294,874	21,608,760

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

	2018 RMB	2017 RMB
Cost incurred	**198,191,505**	229,456,211
Recognised profits	**63,113,838**	90,754,994
	261,305,343	320,211,205
Less: progress billings	**186,410,734**	247,314,593
	74,894,609	72,896,612
Represented by:		
Amounts due from contract customers	**74,894,609**	72,896,612

19. 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:

	2018 RMB	2017 RMB
Other trade receivables		
Up to 3 months	**310,309,198**	102,246,206
3 months to 6 months	**948,389**	1,750,061
6 months to 1 year	**48,487,548**	125,882,640
1 year to 2 years	**41,625,606**	24,801,412
Over 2 years	**9,713,389**	10,380,124
	411,084,130	265,060,443

(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:

	2018 RMB	2017 RMB
Neither past due nor impaired	**375,169,488**	242,887,841
Past due but not impaired	**47,053,198**	37,251,977
	422,222,686	280,139,818

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.

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

Notes: *(Continued)*

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

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

	2018 RMB	2017 RMB
At beginning of the year	**6,529,385**	6,888,899
Additions resulting from acquisition of subsidiary	**5,111,746**	–
Impairment losses recognised/(reversed) (Note 6)	**2,356,981**	(330,578)
Amounts written off as uncollectible	**(841,794)**	(28,936)
	13,156,318	6,529,385

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB13,156,318 (2017: RMB6,529,385) with a carrying amount before provision of RMB13,156,318 (2017: RMB6,529,385).

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.

	2018 RMB	2017 RMB
1 year to 2 years	**1,423,980**	2,721,816
Over 2 years	**11,732,338**	3,807,569
	13,156,318	6,529,385

19. 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 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB43,272,816 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 RMB43,272,816 as at 30 June 2018.

The Group keeps monitoring the default risk of endorsed bills and as of 30 June 2018, all endorsed bills became mature except for the amount retained on the book totalling RMB43,272,816 and those bills that are derecognised as discussed below, which have a maturity from one to six months.

Transfer of financial assets that are derecognised in their entirety

At 30 June 2018, 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 RMB69,496,708. 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 2018, 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.

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

Notes: *(Continued)*

(f) Loan deposit

The loan deposit is a guarantee provided to a third party in relation to an interest bearing loan of RMB14,057,880.

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

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

	2018 RMB	2017 RMB
At beginning of the year	**1,952,849**	–
Impairment losses recognised (Note 6)	**203,230**	1,952,849
	2,156,079	1,952,849

(ii) Prepayments

	2018 RMB	2017 RMB
Prepayments for procurement	**128,694,966**	25,507,970
Investment down payment	**–**	9,000,000
Others	**185,115**	594,610
Total prepayments	**128,880,081**	35,102,580
Less: prepayments – non-current portion	**208,963**	222,023
	128,671,118	34,880,557

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB	2017 RMB
Cash at banks and on hand	**142,577,517**	72,070,079
Less: pledged deposits	**69,697,182**	21,515,802
Cash and cash equivalents	**72,880,335**	50,554,277

(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:

	2018 RMB	2017 RMB
RMB	**36,853,050**	21,949,682
HK$	**24,901,997**	28,053,168
USD	**9,588,837**	551,427
EUR	**1,536,451**	–
	72,880,335	50,554,277

21. TRADE AND OTHER PAYABLES

	2018 RMB	2017 RMB
Trade payables	136,756,489	84,326,082
Bills payable	67,797,047	41,413,968
	204,553,536	125,740,050
Advances from customers	229,297,919	66,347,155
Other taxes payables	31,863,486	18,558,419
Payables for property, plant and equipment	14,051,015	75,344
Employee benefit payables	2,630,637	5,266,456
Accrual	2,021,477	2,801,397
Deposit	681,457	2,135,426
Provision for warranty expenses	370,008	570,470
Others	4,434,210	6,573,274
	285,350,209	102,327,941
	489,903,745	228,067,991

The aged analysis of the trade payables is as follows:

	2018 RMB	2017 RMB
Up to 3 months	97,406,971	43,113,547
3 months to 6 months	15,447,171	14,216,652
6 months to 1 year	9,856,070	14,102,033
1 year to 2 years	11,053,489	8,992,629
Over 2 years	2,992,788	3,901,221
	136,756,489	84,326,082

22. INTEREST-BEARING LOANS

	2018 RMB	2017 RMB
Loan from non-controlling shareholders (Note 31)	**1,000,000**	3,626,000
Bank borrowings	**–**	5,000,000
Other borrowings	**20,857,880**	–
	21,857,880	8,626,000

As at 30 June 2018, the Group's borrowings are all denominated in RMB.

The loan from non-controlling shareholders bears interest at a rate of 7.2% per annum (30 June 2017: 7.2% per annum).

Other borrowings is the amount due to an entity controlled by a shareholder of the Group, bearing an interest rate of 10.0% per annum.

As at 30 June 2018, 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 RMB29,820,332, RMB3,248,863 and RMB5,989,794, respectively (30 June 2017: RMB32,199,445, RMB3,353,804 and RMB6,300,537, respectively).

As at 30 June 2018, the Group had the following unutilised banking facilities:

	2018 RMB	2017 RMB
Authorised banking facilities – expiring within three years	**76,000,000**	77,000,000
Less: utilised banking facilities	**38,355,456**	23,206,104
	37,644,544	53,793,896

23. DEFERRED INCOME

	2018 RMB	2017 RMB
Government grant	**25,500,000**	–

Guangdong FuAn 777 Logistics Warehouse Limited received RMB25,500,000 from Yangjiang local government to support the construction of the warehouse. The Group assumed the deferred income through its acquisition of the 777 Logistic Group.

24. 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	Changes in fair value of derivative instruments RMB	Total RMB
At 1 July 2017	**85,571**	**2,109,513**	**503,349**	**64,500**	**2,762,933**
Acquisition of a subsidy (Note 29)	**–**	**1,277,937**	**–**	**–**	**1,277,937**
Credited/(charged) to profit or loss	**(30,069)**	**207,694**	**(5,617)**	**-**	**172,008**
At 30 June 2018	**55,502**	**3,595,144**	**497,732**	**64,500**	**4,212,878**
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

	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 2017	**–**	**(800,512)**	**(800,512)**
Acquisition of a subsidy(Note 29)	**–**	**(7,388,695)**	**(7,388,695)**
Deferred tax credited to profit or loss during the year	**–**	**594,317**	**594,317**
Foreign exchange difference	**–**	**–**	**–**
At 30 June 2018	**–**	**(7,594,890)**	**(7,594,890)**
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)

25. 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 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;

(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 bond 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.

25. CONVERTIBLE BONDS *(Continued)*

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

	Liability component of Convertible Bonds RMB	Equity component of Convertible Bonds RMB	Total 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
Interest expense	14,804,185	–	14,804,185
Interest paid	(4,277,500)	–	(4,277,500)
Currency translation differences	(1,638,044)	–	(1,638,044)
At 30 June 2018	75,710,498	23,609,589	99,320,087

26. SHARE CAPITAL AND PREMIUM

	2018 RMB	2017 RMB
Issued and fully paid:		
722,865,001 (2017: 600,648,000) ordinary shares	**6,107,141**	5,075,783

26. SHARE CAPITAL AND PREMIUM *(Continued)*

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 2017	**600,648,000**	**5,075,783**	**93,615,618**	**98,691,401**
Issue of shares (i)	**123,483,001**	**1,041,650**	**413,659,578**	**414,701,228**
Shares repurchased(ii)	**(1,266,000)**	**(10,292)**	**(3,608,686)**	**(3,618,978)**
Dividends (iii)	**–**	**–**	**(12,438,575)**	**(12,438,575)**
At 30 June 2018	**722,865,001**	**6,107,141**	**491,227,935**	**497,335,076**
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

(i) During 2018, the Company issued 11,097,942 and 80,447,059 ordinary shares respectively to complete the acquisition of MCN Group and 777 Logistics Group. On 8 January 2018 and 11 January 2018 an aggregate placing shares and subscription shares of 31,938,000 at HK$ 3.60 each was subscribed for cash and duly allotted.

(ii) The Company purchased 1,266,000 of its shares on the Hong Kong Stock Exchange for a total consideration of HK$4,450,620 which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The purchased shares were cancelled during the year.

(iii) 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.

27. RETAINED EARNINGS

	2018 RMB	2017 RMB
At 1 July 2017	**130,948,973**	104,049,825
Profit for the year	**48,285,144**	30,638,948
Appropriation to statutory reserves (Note 28)	**(8,104,943)**	(3,739,800)
At 30 June 2018	**171,129,174**	130,948,973

28. OTHER RESERVES

	Reorganisation reserves RMB	Merger reserves RMB	Statutory reserves RMB	Foreign currency translation reserves RMB	Total RMB
At 1 July 2017	**2,335,540**	**33,028,254**	**17,631,185**	**12,872,681**	**65,867,660**
Translation differences	**–**	**–**	**–**	**(259,464)**	**(259,464)**
Appropriation to statutory reserves	**–**	**– -**	**8,104,943**	**–**	**8,104,943**
At 30 June 2018	**2,335,540**	**33,028,254**	**25,736,128**	**12,613,217**	**73,713,139**
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

29. BUSINESS COMBINATION

On 25 September 2017, the Group completed the acquisition of 100% of the equity interest in the MCN Group at a consideration of RMB56,698,852. MCN Group is principally engaged in the business of research, development and distribution of headboxes used in papermaking production line.

On 15 November 2017, the Group completed the acquisition of 100% of the equity interest in the 777 Logistic Group at a consideration of RMB280,061,152. 777 Logistic Group's main assets is the warehouse under construction and it is expected to provide logistics and warehousing services to papermaking factories.

The provisional fair values of the identifiable assets and liabilities of all the subsidiaries were as follows:

	MCN Group	777 Logistic Group	Total
	RMB	RMB	RMB
Property, plant and equipment	290,625	137,443,680	137,734,305
Prepaid land lease payments	–	71,000,000	71,000,000
Other intangible assets	16,382,800	–	16,382,800
Deferred tax assets	1,277,937	–	1,277,937
Cash and cash equivalents	10,453,029	32,957,880	43,410,909
Prepayments	4,761,910	176,396	4,938,306
Trade and other receivables	16,766,230	–	16,766,230
Inventories	2,142,133	–	2,142,133
Other current assets	46,992	6,863,200	6,910,192
Trade and other payables	(26,865,905)	(5,635,576)	(32,501,481)
Interest-bearing loans	–	(49,198,441)	(49,198,441)
Deferred income	–	(18,500,000)	(18,500,000)
Deferred tax liabilities	(4,095,700)	(3,292,995)	(7,388,695)
Income tax payable	(616,578)	–	(616,578)
Total identifiable net assets at provisional fair value*	20,543,473	171,814,144	192,357,617
Goodwill on acquisition	36,155,379	108,247,008	144,402,387
Satisfied by			
Cash consideration	9,000,000	–	9,000,000
Shares issued	40,081,430	280,061,152	320,142,582
Contingent consideration	7,617,422	–	7,617,422

* In accordance with HKFRS 3 (Revised) Business Combinations, the amounts recorded for the acquisitions mentioned above are provisional and are subject to adjustments during the measurement period of not exceeding one year from the acquisition date if new information is obtained about facts and circumstances that existed as of the completion dates of the acquisitions and, if known, would have affected the measurement of the amounts recognised as of those dates.

29. BUSINESS COMBINATION *(Continued)*

The fair values of the trade and other receivables as at the date of acquisition amounted to RMB16,766,230. The gross contractual amounts of trade and notes receivables and other receivables were RMB21,877,976, RMB5,111,746 of which are expected to be uncollectible.

The Group incurred transaction costs of RMB301,906 and RMB532,651 for the acquisitions of MCN Group and 777 Logistic Group, respectively. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

None of the goodwill recognised is expected to be deductible for income tax purposes.

As part of the purchase agreement of MCN Group, contingent consideration is payable to former shareholders of MCN Group, which is calculated based on its profit before tax during calendar year 2017 and 2018. The initial amount recognised in other liabilities was amounted to RMB7,617,422, using the binomial option pricing model. Its change in the fair value of RMB77,422 was recognized in profit or loss in financial year 2018.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

Projected profit before tax of MCN Group(min)	(4,784,421)
Projected profit before tax of MCN Group(max)	(13,403,182)
Risk free rate	0.82%
Discount rate	17%

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	MCN Group RMB	777 Logistic Group RMB	Total RMB
Cash consideration	(9,000,000)	–	(9,000,000)
Cash and cash equivalent acquired	10,453,029	32,957,880	43,410,909
Cash and cash equivalents	1,453,029	32,957,880	34,410,909
Cash consideration already paid in the prior year	9,000,000	–	9,000,000
Net outflow of cash and cash equivalents included in cash flows from investing activities	10,453,029	32,957,880	43,410,909
Transaction costs of the acquisition included in cash flows from operating activities	(301,906)	(532,651)	(834,557)
	10,151,123	32,425,229	42,576,352

29. BUSINESS COMBINATION *(Continued)*

Since the acquisition, MCN Group contributed RMB39,244,647 to the Group's revenue and RMB4,575,764 to the consolidated profit for the year ended 30 June 2018. 777 Logistic Group contributed RMB4,668,810 to the Group's revenue and RMB1,379,905 profit to the consolidated profit for the year ended 30 June 2018.

If MCN Group and 777 Logistic Group had the combinations taken place at the beginning of the year, the revenue of the Group and the net profit of the Group for the year ended 30 June 2018 would have been RMB623,209,951 and RMB48,410,008 respectively.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2018 and 30 June 2017 are summarised as follows:

	2018 **RMB**	2017 RMB
No later than 1 year	**580,675**	541,089
Later than 1 year and no later than 5 years	**1,187,600**	–
	1,768,275	541,089

(b) As lessee

The Group leases a warehouse, an office and motor vehicles under non-cancellable operating lease 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 2018 and 30 June 2017 are summarised as follows:

	2018 **RMB**	2017 RMB
No later than 1 year	**1,905,573**	2,803,227
Later than 1 year and no later than 5 years	**706,748**	1,177,428
	2,612,321	3,980,655

31. 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 2018 and 30 June 2017, and balances arising from related party transactions as at 30 June 2018 and 30 June 2017.

(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
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
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.

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(b) Transactions with related parties

	2018 RMB	2017 RMB
Key management compensation		
– Salaries	**3,444,850**	3,459,484
– Bonuses	**659,134**	503,484
– Other benefits	**86,023**	39,670

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

31. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

(i) Due from related parties (Note 19):

	2018 RMB	2017 RMB
Mr. Zhu Gen Yi		
– Included in other receivables	**17,428**	17,428

The receivables from related parties as at 30 June 2018 and 30 June 2017 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:

	2018 RMB	2017 RMB
Loan from non-controlling shareholders (Note 22)	**1,000,000**	3,626,000

The loan was borrowed from 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 2017: 7.2% per annum). The Company paid off RMB2,626,000 and extended the repayment term for one more year for the remaining RMB1,000,000.

32. 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:

2018

Financial assets	**Loans and receivables** RMB
Trade and other receivables (Note 19)	606,766,926
Pledged deposits (Note 20)	69,697,182
Cash and cash equivalents (Note 20)	72,880,335
Total	749,344,443

Financial liabilities	**Financial liabilities measured at amortised cost** RMB
Interest-bearing loans (Note 22)	21,857,880
Trade and bills payables (Note 21)	204,553,536
Financial liabilities included in other payables (Note 21)	19,166,682
Other liabilities	7,540,000
Convertible bonds (Note 25)	75,710,498
Total	328,828,596

32. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2017

Financial assets	**Loans and receivables** RMB
Trade and other receivables (Note 19)	407,478,184
Pledged deposits (Note 20)	21,515,802
Cash and cash equivalents (Note 20)	50,554,277
Total	479,548,263

Financial liabilities	**Financial liabilities measured at amortised cost** RMB
Interest-bearing loans (Note 22)	8,626,000
Trade and bills payables (Note 21)	125,740,050
Financial liabilities included in other payables (Note 21)	8,784,044
Convertible bonds (Note 25)	66,821,857
Total	209,971,951

33. 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 2018 RMB	Fair values 2018 RMB
Financial liabilities		
Other liabilities	**7,540,000**	**7,540,000**
Convertible bonds	**75,710,498**	**75,710,498**
	83,250,498	**83,250,498**

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

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 bond with consideration of the Group's own non-performance risk.

The fair value of the liability component of the convertible bonds is calculated by Binomial Tree Model which assumes multiple scenarios discounting at credit discount rate. It is categorised under level 3 within the fair value hierarchy.

Derivative financial instruments derived from the business combination in 2017 are measured using valuation techniques and the carrying amounts of derivative financial instruments are the same as their fair values.

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

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 2018

	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
Contingent consideration	–	–	7,540,000	7,540,000
Convertible bonds	–	75,710,498	–	75,710,498
Contingent consideration	–	75,710,498	7,540,000	83,250,498

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

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

	2018 **RMB**	2017 RMB
Derivative financial instrument		
At 1 July	–	430,000
Additions	–	–
Changes in fair value of derivative financial instrument	–	(430,000)
At 30 June	–	–

34. 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 instrument are set out in note 2.4 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, Likwin, 777 HK and 777 BVI are translated from the functional currency of HKD into the presentation currency RMB. All resulting exchange differences are recognised as comprehensive income in equity.

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
2018		
If the RMB weakens against the Hong Kong dollar	5%	30,379,615
If the RMB strengthens against the Hong Kong dollar	(5%)	(30,379,615)

	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)

* Excluding retained profits

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 is entitled to receive up to approximately 90% to 95% of the contract sum upon delivery.

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 RMB	Between 1 and 2 years RMB	Between 2 and 5 years RMB	Total RMB
As at 30 June 2018				
Convertible bonds	**75,710,498**	**–**	**–**	**75,710,498**
Other liabilities	**–**	**7,540,000**	**–**	**7,540,000**
Interest-bearing loans	**21,857,880**	**–**	**–**	**21,857,880**
Trade and other payables	**227,323,446**	**–**	**–**	**227,323,446**
	324,891,824	**7,540,000**	**–**	**332,431,824**
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

34. 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 2018 and 2017, the Group's strategy was to maintain the gearing ratio below 50%. The gearing ratios at 30 June 2018 and 2017 were as follows:

	2018 **RMB**	2017 RMB
Total debt – total interest-bearing loans (note 22) (a)	**21,857,880**	8,626,000
Total equity	**766,602,972**	320,317,693
Total capital (b)	**788,460,852**	328,943,693
Gearing ratio ((a)/(b))	**2.8%**	2.6%

35. 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:

	2018 RMB	2017 RMB
NON-CURRENT ASSETS		
Investments in subsidiaries	**459,810,972**	78,125,761
Total non-current assets	**459,810,972**	78,125,761
CURRENT ASSETS		
Other receivables	**304,419,003**	109,872,572
Prepayments	**129,568**	133,381
Cash and cash equivalents	**1,723,226**	26,496,364
Total current assets	**306,271,797**	136,502,317
CURRENT LIABILITIES		
Other payables and accruals	**173,118,271**	7,057,857
Total current liabilities	**173,118,271**	7,057,857
NET CURRENT ASSETS	**133,153,526**	129,444,460
TOTAL ASSETS LESS CURRENT LIABILITIES	**592,964,498**	207,570,221
NON-CURRENT ASSETS		
Convertible bonds	**75,710,498**	66,821,857
Net assets	**517,254,000**	140,748,364
EQUITY		
Share capital	**6,107,141**	5,075,783
Share premium	**492,054,464**	93,615,618
Equity component of convertible bonds	**22,533,534**	23,609,589
Retained earnings	**(10,356,412)**	6,601,136
Translation difference	**6,915,273**	11,846,238
Total equity	**517,254,000**	140,748,364

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 September 2018.