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

## 绿色再生 再创辉煌

## GREEN RECYCLING FOR BRIGHTER FUTURE

## 2019 Annual Report

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors

Mr. Zhu Gen Rong (Chairman)
Mr. Wang Ai Yan (Chief Executive Officer)
Mr. Jin Hao
Mr. Liu Chuan Jiang (appointed with effect from 2 January 2019)
Mr. Zhong Xin Gang (resigned with effect from 15 January 2019)
Mr. Liang Huiqun (resigned with effect from 27 September 2019)

### Independent Non-Executive Directors

Mr. Dai Tian Zhu
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng (appointed with effect from 2 January 2019)
Ms. Chen Jin Mei (resigned with effect from 2 January 2019)

## AUDIT COMMITTEE

Mr. Kong Chi Mo (Chairman)
Mr. Dai Tian Zhu
Mr. Heng, Keith Kai Neng (appointed with effect from 2 January 2019)
Ms. Chen Jin Mei (resigned with effect from 2 January 2019)

## REMUNERATION COMMITTEE

Mr. Heng, Keith Kai Neng (appointed as Chairman with effect from 2 January 2019)
Mr. Dai Tian Zhu
Mr. Kong Chi Mo
Ms. Chen Jin Mei (Chairlady) (resigned Chairlady with effect from 2 January 2019)

## NOMINATION COMMITTEE

Mr. Dai Tian Zhu (Chairman)
Mr. Zhu Gen Rong
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng (appointed with effect from 2 January 2019)
Ms. Chen Jin Mei (resigned with effect from 2 January 2019)

## COMPANY SECRETARY

Mr. Chan So Kuen

## COMPLIANCE OFFICER

Mr. Jin Hao

## AUTHORISED REPRESENTATIVES

Mr. Zhu Gen Rong
Mr. Chan So Kuen

# Corporate Information

## LEGAL ADVISOR

As to Hong Kong Law

Stevenson, Wong & Co.

## AUDITORS

PricewaterhouseCoopers

## REGISTERED ADDRESS

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
(with effect from 11 July 2019)

## STOCK CODE

1673

## WEBSITE

www.hzeg.com

# Financial Summary

| Year ended 30 June | 2019<br>RMB | 2018<br>RMB | 2017<br>RMB | 2016<br>RMB | 2015<br>RMB |
|---|---|---|---|---|---|
| **Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income** | | | | | |
| Revenue | **763,974,066** | 612,123,398 | 416,007,189 | 327,260,578 | 301,893,662 |
| Gross profit | **120,976,684** | 137,256,906 | 91,592,396 | 80,695,282 | 74,630,434 |
| Gross profit margin | **15.8%** | 22.4% | 22.0% | 24.7% | 24.7% |
| (Loss)/profit attributable to the owners of the parent | **(128,269,107)** | 48,285,144 | 30,638,948 | 28,332,245 | 27,275,045 |
| Net (Loss)/profit margin | **(17.0%)** | 7.8% | 7.3% | 8.3% | 9.0% |

| As 30 June | | | | | |
|---|---|---|---|---|---|
| **Major Items of Consolidated Statement of Financial Position** | | | | | |
| Non-current assets | **346,840,328** | 473,912,784 | 137,945,745 | 79,725,211 | 70,450,806 |
| Current assets | **938,686,140** | 927,472,642 | 489,371,916 | 434,815,090 | 196,527,637 |
| Non-current liabilities | **32,384,732** | 108,805,388 | 67,622,369 | 1,148,227 | 307,234 |
| Current liabilities | **598,568,375** | 525,977,066 | 239,377,599 | 237,448,888 | 99,570,213 |
| Capital and reserves attributable to the owners of the parent | **655,356,325** | 765,786,978 | 319,117,623 | 274,462,046 | 167,100,996 |
| Gearing ratio (Note 1) | **8.4%** | 2.8% | 2.6% | 1.8% | 9.4% |

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 present the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 30 June 2019 (the "**year under review**").

During the year under review, the Group's turnover recorded a year-on-year growth of 24.8% to RMB764.0 million. Affected by certain non-cash flow transactions, the Group experienced a net loss of RMB129.9 million for the first time, compared with the net profit of RMB47.9 in the same period last year, reflecting the change from positive to negative profitability. After excluding these effects, the Group's core recurring business still recorded a net profit of RMB22.3 million, an decrease of approximately 60.6% compared with the same period last year.

In the past year, due to the impact of the Sino-US trade conflicts, the downward pressure on the Chinese economy continued to increase. While the Sino-US trade conflicts were escalating, the United States announced in October 2018 that the initial tariff rate would be raised from 10% to 25% by January 2019, which was finally effective on 10 May 2019. On 29 June, the Chinese President Xi Jinping and the United States President Donald Trump held bilateral talks at the G20 Osaka Summit 2019. Both parties agreed to restart economic and trade consultations. Since the United States no longer imposed new tariffs on Chinese products, the Sino-US trade war had slightly relieved. With these uncertainties, many foreign enterprises planned to divest, or relocate their production lines from China. Chinese economic growth was therefore under downward pressure. According to the data announced by the National Bureau of Statistics of the People's Republic of China, the GDP in the second quarter of 2019 rose by only 6.2% year-on-year, which was 0.2 percentage points lower than the growth in the first quarter.

Currently, China is ranked as the second largest economy among the global economies, which demonstrates its economic power. Over the past four decades, Chinese economic and social development underwent earth-shaking changes. Similarly, the Chinese paper-making equipment industry benefitted from the rapid development of the Chinese economy and the Chinese paper manufacturing industry. Having faced fierce market competition, it has entered a new stage of development. Today, the Chinese domestic paper-making equipment industry has established the world's most comprehensive paper-making equipment industry chain, providing a full range of paper machines with a width of 6 meters and a speed of less than 1,000 meters/minute and substantially all slurry equipment with production of less than 1,000 tonnes/day. Basically, auxiliary equipment can be fully localized. Among the mid- to low-end markets in the world, the Chinese domestic paper-making equipment has strong competitiveness, leading the world in terms of cost-effectiveness. The paper-making equipment enterprises basically possess key core technologies and pricing rights in some areas such as drive control system, super dry press and dry press technologies. The Group has a leading position in the paper-making equipment industry in China. It has the nation's leading drive control system technology and provided the most quality comprehensive services, enabling the Group to maintain its revenue growth in the downturn of the paper manufacturing industry over the past year.

# Chairman's Statement

The "Belt and Road" initiative is a major development strategy of China and the main battlefield for the paper-making equipment industry in the future. Leveraging the advantage of its leading position in the industry, the Group will actively promote the development of the "Belt and Road" national business. At present, the "Belt and Road" countries have a population of more than 5 billion, the economy of which is generally backward. The countries are lack of capital as well as paper-making technologies and experience. Currently, the consumptions of papers and paper products in most countries and regions are still at the level of China 20 years ago, which offers the Chinese paper-making equipment enterprises attractive opportunities for development. Compared with the world's most advanced expensive equipment and technologies, cost-effective Chinese domestic paper-making equipment is more suitable for the local market. China is one of the countries with the strongest innovation driving ability in the paper-making equipment industry, and China's paper-making equipment has the most comprehensive industry chain in the world. As long as our paper-making equipment peers can increase investment in innovation, the Group believes that the performance of the Chinese domestic paper-making equipment can approximate to the world's advanced standard soon. To this end, the Group will increase its efforts in scientific research, integrate domestic resources and expand overseas markets, and continue to push forward the vision of"Integrating Together, Creating Together, Benefiting Together" proposed by the Group last year.

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*

Zhejiang Province, China
25 September 2019

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. ZHU Gen Rong (朱根荣)**, aged 56, 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 ("Zhejiang Huazhang")), the PRC operating subsidiary of our Company, in July 2001. Mr. Zhu obtained a diploma in industrial electrical automation (工業電氣自動化) from Nanjing Electrical School (南 京機電學校) in July 1984. He has been the vice president of the China Association of the Federation of Industry and Commerce (中華全國工商業聯合會紙業商會) since October 2009.

**Mr. WANG Ai Yan (王愛燕)**, aged 53, was appointed and became an executive Director on 1 October 2014. Mr. Wang has also been the chief executive officer of the Group since 1 October 2014, who is responsible to oversee the Group's daily operation and accounting and financial matters with the assistance of the chief financial officer of the Group. Mr. Wang obtained a bachelor's degree in Electrical automation and an EMBA degree from Zhejiang University (浙江大學) in 1992 and 2014, respectively. Mr. Wang has over 20 years of experience in the mechanical and engineering industry. He worked as an assistant engineer at the Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業部杭州機電設計研究所) from 1987 to 1993. From 1993 to 1996, Mr. Wang worked as the vice general manager at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司). He worked as the vice general manager at Hangzhou Yiyi Corporate Management Consultation Limited (杭州意義諮詢有限公司) (then known as Hangzhou Huazhang Electric Engineering Company Limited (杭州華章電氣工程有限公司) from December 1996 to August 2006. Mr. Wang worked as a director and general manager at Zhejiang Huazhang Automation Equipment Company Limited from September 2006 to September 2014.

# Biographical Details of Directors and Senior Management

**Mr. Liu Chuan Jiang (劉川江)**, aged 55, was appointed and become an executive Director on 2 January 2019. Mr. Liu is the deputy general manager and quality assurance director of Zhejiang Huazhang the operating subsidiary of the Company. 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 the 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 from the Department of Light Industry (中華人民共和國輕工業部) of the People's Republic of China in July 1991.

**Mr. JIN Hao (金皓)**, aged 48, 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.

**Mr. Liang Huiqun (梁惠群)**, aged 56, was appointed and become an executive Director on 11 January 2019. Mr. Liang obtained his diploma in Chinese from the Zhejiang Taizhou Teachers College (now known as Taizhou University) in 1982. From August 1988 to December 2018, Mr. Liang worked as vice president of Time Holding Group Limited, a company principally engages in investment holding, which including: financial investment, property development and hotel management. Mr. Liang has over 30 years of experience in financing and investments. Mr. Liang will be responsible for the financing and investing activities of the Group after his appointment as the Chief Investment Officer. Mr. Liang resigned as an executive director of the Company with effect from 27 September 2019.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. DAI Tian Zhu (戴天柱)**, aged 65, 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.

**Mr. Kong Chi Mo (江智武)**, aged 44, 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 (stock code: 01789), Aowei Holding Limited (stock code: 01370) and ZACD Group Ltd. (stock code: 08313) whereas in China Vanadium Titano-Magnetite Mining Company Limited ("China Vanadium") (stock code: 00893), he holds the position of company secretary and authorised representative. All these public companies are listed on the main board or growth enterprise market of the Stock Exchange.

Mr. Kong was the independent non-executive director of CAA Resources Limited (stock code: 02112) and Starlight Culture Entertainment Group Limited (stock code: 01159), both companies listed on the main board of the Stock Exchange, from April 2013 to August 2017 and from May 2017 to May 2019, respectively. 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 (an indirect wholly-owned subsidiary of Hutchison Telecommunications Hong Kong Holdings Limited (stock code: 00215), a company of which is listed on the main board of the Stock Exchange) from June 1997 to March 1998 and as a tax 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 (United Kingdom) 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 (United Kingdom) 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 also awarded the Chartered Governance Professional qualification of The Institute of Chartered Secretaries and Administrators (United Kingdom) and The Hong Kong Institute of Chartered Secretaries in September 2018.

**Mr. Heng, Keith Kai Neng (邢凱能)**, aged 40, was appointed and become an independent non-executive Director and the chairman of Remuneration Committee, and a member of the Audit Committee and the Nomination Committee, respectively on 2 January 2019. Mr. Heng obtained his bachelor of arts degree in accounting and finance degree from The University of Manchester in 2001, and a master of corporate governance from The Hong Kong Polytechnic University in 2018. Mr. Heng is a fellow and a member of the Association of Chartered Certified Accountants, member of the Hong Kong Institute of Certified Public Accountants, associate of The Hong Kong Institute of Chartered Secretaries and associate of The Institute of Chartered Secretaries and Administrators. Mr. Heng is currently a director of a secretarial firm. He has extensive experience in corporate governance, auditing and accounting in Hong Kong.

## SENIOR MANAGEMENT

**Mr. CHAN So Kuen (陳素權)**, aged 39, is company secretary, chief financial officer and authorized representative of the Company with effect from 28 February 2014. Mr. Chan has been appointed as an independent non-executive director of Link Holdings Limited (stock code: 08237) and Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (stock code: 01915) since 16 October 2014 and 15 January 2015, respectively. All these public companies are listed on the main board or GEM of the Stock Exchange. Mr. Chan has over 15 years of experience in financing, auditing and accounting. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and obtained a bachelor's degree in accountancy from The Hong Kong Polytechnic University in 2001.

# Management Discussion and Analysis

## INDUSTRY REVIEW

Over the past year, the Sino-US trade conflicts were escalating, which affected the economy and all industries in China to various extent. As reported by the National Bureau of Statistics, in 2018, the production of machine-made papers and cardboards in China declined 1.5% year-on-year to 116.6 million tonnes. Since June 2018, the cumulative production has turned to record a negative growth. For the six months ended 30 June 2019, the production of machine-made papers and cardboards in China was approximately 58.7 million tonnes, representing a year-on-year declined of 1.5%. Overall operating revenue from the paper-making industry in the year reached RMB1,300 billion, a year-on-year increase of 8.3%. Yet, under the impact of factors including rise in prices of raw materials and more stringent regulation of environmental protection, the net profit of the paper manufacturing industry in 2018 decreased by RMB7.1 billion year-on-year to RMB76.6 billion. As of 30 June 2019, operating revenue from the paper-making industry and the paper products industry in China was RMB652.83 billion, a year-on-year decrease of 2.3%; and the total profit was RMB28.15 billion, a year-on-year decrease of 25.4%.

In recent years, the state's emphasis on "lucid waters and lush mountains", together with measures such as more stringent environmental protection requirements and pollutant discharge permit system for the paper manufacturing industry have shown that stricter regulation of environmental protection has become the development trend of the industry. Due to the sharp increase in environmental protection costs in the industry, cost pressure forced outdated production capacity of small and medium-sized enterprises to withdraw from the market, leading to a significant increase in the concentration of leading paper enterprises. Meanwhile, leading paper enterprises increased investment in transforming production lines, in order to enhance operating efficiency of the enterprises and meet more stringent environmental protection requirements.

## OPERATION DISCUSSION AND ANALYSIS

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, supply chain services and renovation services

For the year ended 30 June 2019, the Group recorded a turnover of approximately RMB764.0 million, representing an increase of approximately 24.8% as compared with the same period in 2018. However, the Group recorded a loss of approximately RMB129.9 million this year, compared with a profit of approximately RMB47.9 million in the same period in 2018. The substantial loss recorded this year was mainly the effect of one-off impairment and fee. If measured at non-generally accepted accounting standards, the profit of the Group during the year was approximately RMB22.3 million.

Although the Group recorded substantial loss and the results were below expectation, during the year, the Group managed to achieve breakthrough in certain aspects. The Group still actively facilitated the corporate affairs as well as business by upholding the vision and principles 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.

# Management Discussion and Analysis

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

During the year, through the collective effort and cooperation with partners and customers, the Group completed the first entire paper machine production line transformation project during the year under review. The Group successfully completed the renovation, installation and debugging work within less than 30 days of the production line down time. The project marks an important milestone in the Group's transformation projects. The Group becomes the first domestic paper-making equipment enterprise which completed transformation services, which in turn provides great experience to improve the full-time all-encompassing services of paper manufacturing enterprises in the future.

### "Creating Together" – create new opportunities for development

The Group worked together with suppliers and service providers to create new opportunities for development. During the year, the Group began to deliver supply chain financing services to the paper-making companies to assist them in sourcing raw materials and to provide financing services through the Group's service platform and its close relationships with suppliers.

During the year, the overseas business division of the Group actively explored the overseas markets. During the year under review, the Group signed a contract with a paper manufacturing company in Vietnam for a project contract service agreement with a value of US$19.0 million (approximately RMB130.9 million) to build a 120,000 tonnes paper manufacturing production line for customers. 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.

### "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. Affected by the sluggish economic environment in China, during the year, the Group recorded negative growth for the first time, with new contract value dropped by 36.4% to approximately RMB602.0 million.

During the year under review, the Group was a title sponsor of "2018 China International Paper Innovation and Development Forum" and organised "The 4th China Pulp and Paper Machinery Development Forum", which allowed it to exchange and establish good relationship with the domestic paper-making equipment industry peers.

## FINANCIAL REVIEW

### Revenue and gross profit margin

Revenue increased by approximately 24.8% from approximately RMB612.1 million for the year ended 30 June 2018 to approximately RMB764.0 million for the year ended 30 June 2019. Gross profit margin decreased from approximately 22.4% for the year ended 30 June 2018 to approximately 15.8% for the year ended 30 June 2019.

### (i) Industrial products

Revenue from sales of industrial products increased significantly by approximately 67.1% from approximately RMB121.7 million for the year ended 30 June 2018 to approximately RMB203.3 million for the year ended 30 June 2019. Such increase was primarily attributable to the acquisition of the headbox business in September 2017 and increase in sales of industrial automation systems stimulated by supporting services amounting to approximately RMB56.0 million during the year. The revenue from sales of headbox increased from approximated RMB37.4 million for the year ended 30 June 2018 to approximately RMB52.1 million for the year ended 30 June 2019. The gross profit margin of industrial products decreased from approximately 32.3% for the year ended 30 June 2018 to approximately 26.1% for the year ended 30 June 2019. Such decrease was attributable to the Group reduced its profit margin in industrial products to support the supporting services.

### (ii) Project contracting services

Revenue from project contracting services increased by approximately 21.1% from approximately RMB215.9 million for the year ended 30 June 2018 to approximately RMB261.3 million for the year ended 30 June 2019. Such increase was mainly due to a mega project was completed for the year ended 30 June 2019, which contributed a revenue of approximately RMB245.2 million. The Group will increase its resources to provide project contracting service in overseas. The gross profit margin of project contracting services remains stable for approximately 16.5% and approximately 16.6% for the year ended 30 June 2018 and 2019, respectively.

### (iii) Environmental business

Revenue from sales of environmental business decreased significantly by approximately 51.9% from approximately RMB99.8 million for the year ended 30 June 2018 to approximately RMB48.0 million for the year ended 30 June 2019. Such decreased was primarily due to no RDF products, which had a lower profit margin, was sold for the year ended 30 June 2019 and the demand for wastewater treatment products was decreased. As a result, the gross profit margin of environmental business decreased significantly from approximately 22.7% for the year ended 30 June 2018 to approximately 3.2% for the year ended 30 June 2019 due to several projects are suspended, we recognized the loss of these projects for the year ended 30 June 2019.

### (iv) Supporting services

Revenue from provision of supporting services increased by approximately 43.8% from approximately RMB174.7 million for the year ended 30 June 2018 to approximately RMB251.3 million for the year ended 30 June 2019. The revenue from the provision of support services increased significantly mainly due to the Group provided new services to customers, including entire paper machine production line transformation projects, and supply chain financial services for the year ended 30 June 2019. The gross profit margin for the provision of supporting services decreased from approximately 22.7% for the year ended 30 June 2018 to approximately 9.1% for the year ended 30 June 2019. The gross profit margin decreased due to the new service represented over 50% of the revenue of supporting service business, but the gross profit margin of the new service was low.

### Selling and distribution expenses

The selling and distribution expenses increased by approximately 1.7% from approximately RMB13.1 million for the year ended 30 June 2018 to approximately RMB13.4 million for the year ended 30 June 2019, accounting for approximately 2.1% and approximately 1.7% of the Group's revenue for the year ended 30 June 2018 and 2019 respectively. Increase in selling and distribution expenses was primarily attributing to an increase in salaries and employee benefits of approximately RMB17.3 million for the year ended 30 June 2019 as compared with the same period of 2018. Such increase is a result of increase in number of sales personnel and sales activities.

### Administrative expenses

The administrative expenses increased by approximately 33.9% from approximately RMB42.5 million for the year ended 30 June 2018 to approximately RMB57.0 million for the year ended 30 June 2019, accounting for approximately 6.9% and approximately 7.5% of the Group's revenue for the year ended 30 June 2018 and 2019 respectively. Increase in administrative expenses is mainly attributable to an increase in salaries and employee benefits of approximately RMB6.9 million for the year ended 30 June 2019 as compared with the same period of 2018 as the Group increase over 30 employees in relation to project management and technical supports and increased staff salaries and included the share options expenses amounting to approximately RMB4.4 million during the year. Also, the Group invested amounts of approximately RMB3.2 million for the preparation work of the waste recycling and treatment project, such as doing the feasible research and hiring a project team.

### Research and development expenses

The research and development expenses increased by approximately 22.3% from approximately RMB18.7 million for the year ended 30 June 2018 to approximately RMB22.9 million for the year ended 30 June 2019, accounting for approximately 3.1% and approximately 3.0% of the Group's revenue for the year ended 30 June 2018 and 2019 respectively. Increase in research and development expenses was primarily attributing to increase in usage of materials for the research and development activities, including internet of things and headboxes etc.

### Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets increased by approximately RMB26.0 million from approximately RMB2.6 million for the year ended 30 June 2018 to approximately RMB28.6 million for the year ended 30 June 2019, which was primarily due to an increase in impairment recognized on trade and other receivables for the year ended 30 June 2019 as several customers have financial difficulties and cannot repay the receivables timely in such economic environment.

### Other income and (losses)/gains, net

Other income and (losses)/gains, net changed from a gain of approximately RMB5.5 million for the year ended 30 June 2018 to a loss of approximately RMB108.6 million for the year ended 30 June 2019. Such change mainly comprised of change in fair value of contingent consideration and impairment of goodwill, the reasons of increase are as follows:

Change in fair value of contingent consideration – For the year ended 30 June 2019, the Group recorded a one-off expenditure about the change in fair value of contingent consideration amounting to approximately RMB30.4 million in relation to acquisition of MCN Group. According to sales and purchase agreement dated 23 May 2017, if in the event that the average profits of MCN Group for the year ended 31 December 2017 and 2018 (the "Average Profits") equals to or exceeds RMB4.0 million, the Company is required to adjust the initial consideration for the acquisition of the MCN Group and will pay an additional consideration to the vendors. As the Average Profits exceeded RMB4.0 million, the Group recognised the additional consideration as the change in fair value of contingent consideration. The change in fair value is non-cash items and bear no impact on the cash flow and operation of the Group. On 20 June 2019, the Company has paid an additional consideration to the vendors at a total of approximately RMB42.3 million (equivalent to approximately HK$49.5 million) for the issuance of 11,248,224 new shares at HK$4.4 per share. For more details, please refer to the related announcements of the Company date on 29 April 2019.

Impairment of goodwill - For the year ended 30 June 2019, the Group made a one-off impairment provision for the goodwill, which was generated from the acquisition of the logistic and warehousing services business, amounting to RMB108.2 million. Impairment is determined by assessing the recoverable amount of the logistic and warehousing services business, where the recoverable amount of the logistic and warehousing services business is less than the carrying amount, due to the slow growth of the operation as the development of Yangjiang, PRC is lower than our expectation, an impairment loss is recognised. After the impairment, the goodwill generated from the acquisition of the 777 Logistics Group have been mostly impaired. The impairment is non-cash items and bears no impact on the cash flow and operation of the Group.

### Finance costs – net

The net finance costs increased significantly by approximately 113.3% from approximately RMB5.4 million for the year ended 30 June 2018 to approximately RMB11.5 million for the year ended 30 June 2019, primarily attributing to an decrease in finance income of approximately RMB9.0 million for the year ended 30 June 2019 which partially offset by a decrease in finance costs of approximately RMB2.9 million for the year ended 30 June 2019.

### Income tax expense

The income tax expense decreased by approximately 29.5% from approximately RMB12.5 million for the year ended 30 June 2018 to approximately RMB8.8 million for the year ended 30 June 2019. The decrease was mainly attributable to decrease in the operating profits of the Group for the year ended 30 June 2019.

The effective tax rates of the Group decreased from 20.7% for the year ended 30 June 2018 to 7.3% for the year ended 30 June 2019, such decreased was due to the fair value of contingent consideration and impairment of goodwill were non-deductible expenses. Excluding such non-deductible expenses, the effective tax rates of the Group for the year ended 30 June 2019 was 20.7% which was stable as compared with the effective tax rate for the year ended 30 June 2018.

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

As a result of the foregoing, the Group recorded a loss for the year of approximately RMB129.9 million for the year ended 30 June 2019 as compared with the profit for the year of approximately RMB47.9 million for the year ended 30 June 2018. Since the Group had recorded a loss for the year, the net loss margin for the year ended 30 June 2019 was approximately 17.0% as compared with the net profit margin for the year ended 30 June 2018 was approximately 7.8%.

### (Loss)/profit for the year attributable to owners of the parent

As a result of the foregoing, the Group recorded a loss for the year attributable to owners of the parent of approximately RMB128.3 million for the year ended 30 June 2019 as compared with a profit for the year attributable to owners of the parent of approximately RMB48.3 million for the year ended 30 June 2018.

### 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, (loss)/profit for the year and net (loss)/profit margin), have been presented in this report. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the non-GAAP financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of discounting of receivables from installment transactions. In addition, non-GAAP adjustments include 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 2019 and 2018:

| | Year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| (Loss)/profit for the year | **(129,868,065)** | 47,901,068 |
| Amortised costs of liability component of the convertible bond (Note 1) | **6,466,064** | 10,646,425 |
| Financial components from provision for project contracting services (Note 2) | **5,801,972** | (1,893,783) |
| Impairment of goodwill | **105,063,873** | – |
| Change in fair value of contingent consideration | **30,437,752** | – |
| Share option expenses | **4,399,960** | – |
| Adjusted profit for the year | **22,301,556** | 56,653,710 |

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 year under review. The Group was principally financed by internal resources. As at 30 June 2019, the Group have cash and cash equivalent balance amounting to approximately RMB24.2 million (30 June 2018: approximately RMB72.9 million) and interest-bearing loans amounting to approximately RMB54.8 million (30 June 2018: RMB21.9 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).

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 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, respectively.

On 25 March 2019, the Company received a notice from the Investor requesting to extend the maturity date of the Bonds for 6 months after the Maturity Date, i.e., to 29 September 2019 under the same terms and conditions of the Bonds (the "Extension"). On 21 May 2019, the Extension has been approved by extraordinary general meeting in the form of an ordinary resolution.

For more details on Extension, please refer to the related announcements of the Company dated 25 March 2019, 26 March 2019, 14 April 2019, 29 April 2019, and 21 May 2019 and the related circular of the Company dated 30 April 2019.

On 29 September 2019, the Company received a notice from the Investor requesting to further extend the maturity date of the Bonds to 28 September 2020 under the same terms and conditions of the Bonds, for more details, please refer to the related announcements of the Company dated 29 September 2019.

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

## SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals during the year ended 30 June 2019.

# Management Discussion and Analysis

### Borrowing and charges of assets

As at 30 June 2019, the Group's borrowings were approximately RMB54.8 million (30 June 2018: RMB21.9 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear interest rates ranging from 5.31% to 7.2% per annum. (30 June 2018: all denominated in RMB, and bear an interest rate of 4.35% to 10.0% per annum).

As at 30 June 2019, the Group's convertible bond was approximately RMB85.5 million (30 June 2018: RMB75.7 million) which will mature on 29 March 2019 and the interest is 5.0% per annum. The maturity date of the Bonds has been extended to 29 September 2019, as described in the section "LIQUIDITY AND FINANCIAL RESOURCES".

As at 30 June 2019, the banking facilities granted by the bank was secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB63.4 million, RMB115.9 million and RMB78.8 million respectively (30 June 2018: approximately RMB29.8 million, RMB6.0 million and RMB3.2 million, respectively).

### Gearing ratio

The gearing ratios as at 30 June 2019 and 2018 were approximately 8.4% and 2.8% respectively. The increase in gear ratio was mainly attributable to increase in the Group's interest bearing loans from approximately RMB21.9 million as at 30 June 2018 to approximately RMB54.8 million as at 30 June 2019. Based on the gearing ratio as at 30 June 2019, 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 decreased by approximately RMB86.8 million from approximately RMB580.8 million as at 30 June 2018 to approximately RMB494.0 million as at 30 June 2019, as the amounts due from contract customers amounting to approximately RMB74.9 million, which included in trade and bills receivables, as at 30 June 2018 was reclassified to the contract assets amounting to approximately RMB82.3 million as at 30 June 2019 due to the change in accounting standards. Due to overall downward economic environment, several customers delayed the settlement of the receivables, the receivables and contract assets with aged over one year increased from approximately RMB63.8 million as at 30 June 2018 to approximately RMB377.7 million as at 30 June 2019. The Group will strengthen customer credit risk management to guard against the increased in bad debt provision, and will take legal action if necessary.

### Capital Expenditure

For the year ended 30 June 2019, the Group's capital expenditure amounted to approximately RMB15.1 million (30 June 2018: RMB250.9 million).The capital expenditure of the Group for the year was mainly used to acquire the land use rights in Yangjiang.

## COMMITMENTS

As at 30 June 2019, the Group had no capital commitments.

## CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities.

## FOREIGN CURRENCY RISK

The Group's principal business is located in the PRC and its transactions are settled 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 convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group 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.

## EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2019, the Group had 314 employees (30 June 2018: 318 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2019 were approximately RMB61.2 million, as comparable to approximately RMB43.9 million for the year ended 30 June 2018. 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 to the second half of 2019, there will be more difficulties and challenges with the ongoing Sino-US trade disputes and the increasingly complicated business environment in China. 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. The Group will maintain its existing business development while actively explore new business.

During the year under review, with the support of its major shareholder, Florescent Holdings Limited, the Group plans to develop waste recycling project overseas. In recent years, China has started gradually to ban the import of waste materials (including recyclable plastics, waste paper and scrap metal). About half of the world's recyclable plastics, waste paper and scrap metal originally received by China will hence be excess. At present, most of the metals can be recycled in the form of recycled metals, including a larger output of scrap steel, recycled copper, recycled aluminum, and recycled lead etc. The comprehensive utilization of discarded resources has become an important option for the sustainable development of economic, social and environmental in various countries. Therefore, the Group has actively studied the feasibility of the project to take the chance for developing the global waste recycling. In early 2019, a new subsidiary, Huazhang Environment Resources Investment Limited(華章環境投資有限公司) ("Huazhang Environment"), was established, with the principal business as waste recycling. During the year under review, an environmental assessment of a waste recycling plant was carried out in Dubai with a goal of performing recycling in 2020. The Group expects to devote more resources in the future to support related work.

# Management Discussion and Analysis

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

From the listing date to 30 June 2019, 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 2019 RMB'000 | Actual use of proceeds from the listing date to 30 June 2019 RMB'000 | Unused proceeds RMB'000 | Expected timeline of full utiligate of the balance |
|---|---|---|---|---|
| Increase production capacity | 23,521 | 18,299 | 5,222 | 2020 |
| Cost saving construction | 15,709 | – | 15,709 | 2020 |
| Continuous product development and innovation | 5,208 | 5,208 | – | |
| Increase market awareness and image of the Group | 3,385 | 2,057 | 1,328 | 2020 |
| Improve the current information management system | 260 | 260 | – | |
| | 48,083 | 25,824 | 22,259 | |

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

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

# Environmental, Social and Governance Report

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 fifth 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 2019. 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 2.68 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**

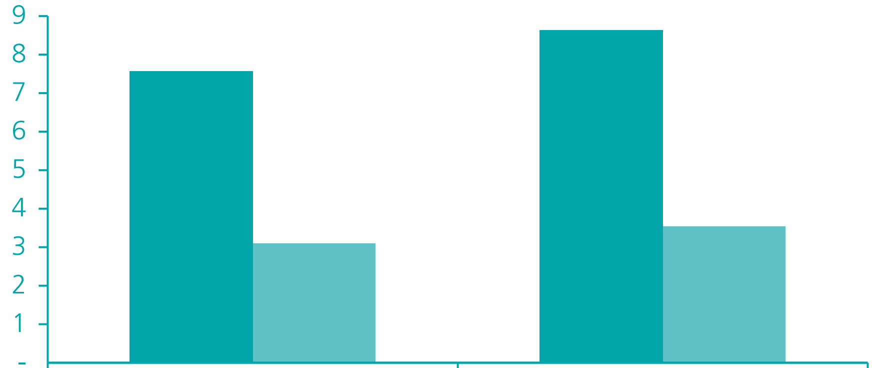

| | 2018 | 2019 |
|---|---|---|
| ■ Power consumption (kWh in '000s) | 885.3 | 769.67 |
| ■ Carbon emission (tonnes) | 690.5 | 606.31 |

During the year ended 30 June 2019, due to the Company strict implementation of the energy conservation guideline, the power consumption decreased by approximately 13.1% 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**




| | 2018 | 2019 |
|---|---|---|
| ■ Water consumption (Kiloton) | 7.57 | 8.63 |
| ■ Carbon emission (tonnes) | 3.10 | 3.54 |

During the year ended 30 June 2019, the total power consumption of the Group was approximately 769,670.0 kWh, and the density was approximately 1,007.5 kWh/output value of RMB million and total water consumption was approximately 8,633.6 tonnes and the density was approximately 11.3 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 2 injury cases in Tongxiang, it has been identified as work-related injuries and have been settled. Overtime personnel are mainly for the production workshop staff, overtime hours are substantially between 2-3 hours.

## EMPLOYMENT

### Employees Practices

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

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

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

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

### Fair Recruitment

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

### Employment

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

## EMPLOYEES

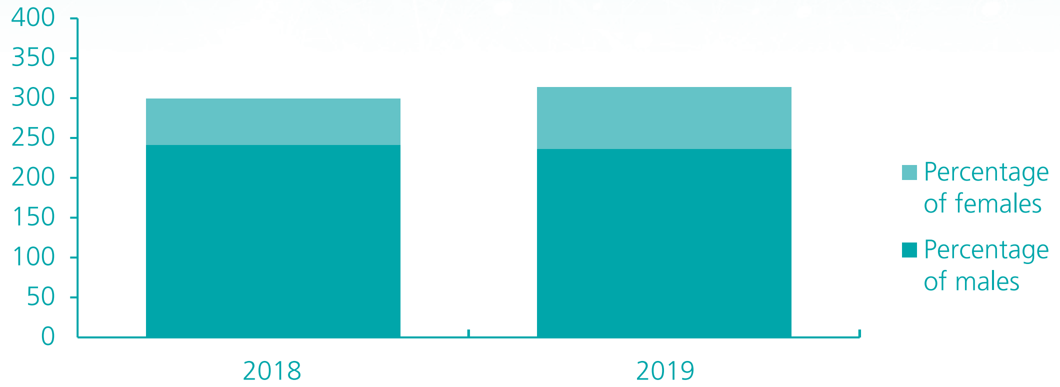
The Group believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills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

During the year, talent management was the key focus of the Group's human resources strategy. As at 30 June 2019, the Group employs 314 employee The following table sets forth the number and breakdown of our full-time employees by function as at 30 June 2019:

| | Number of employees |
|---|---|
| Production | 76 |
| Technical and Research and development | 105 |
| Sales and marketing | 34 |
| Procurement and warehouse | 18 |
| Maintenance services | 15 |
| General administration and management | 43 |
| Quality control | 8 |
| Accounting and finance | 15 |
| Total | 314 |

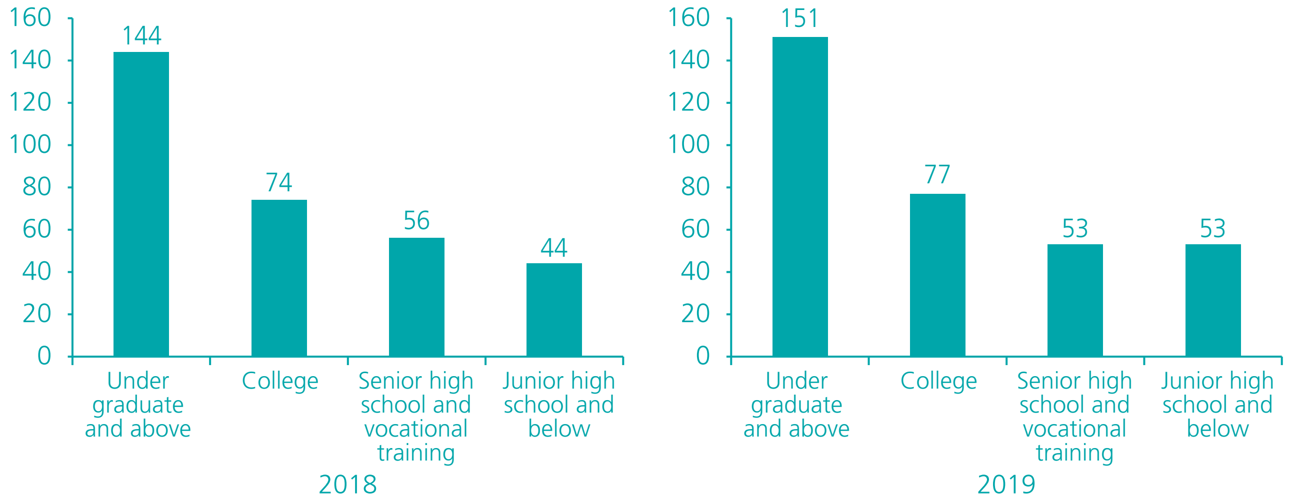
## EMPLOYMENT STATISTICS BY GENDER, AGE AND EDUCATION LEVEL

### Distribution of employees by gender



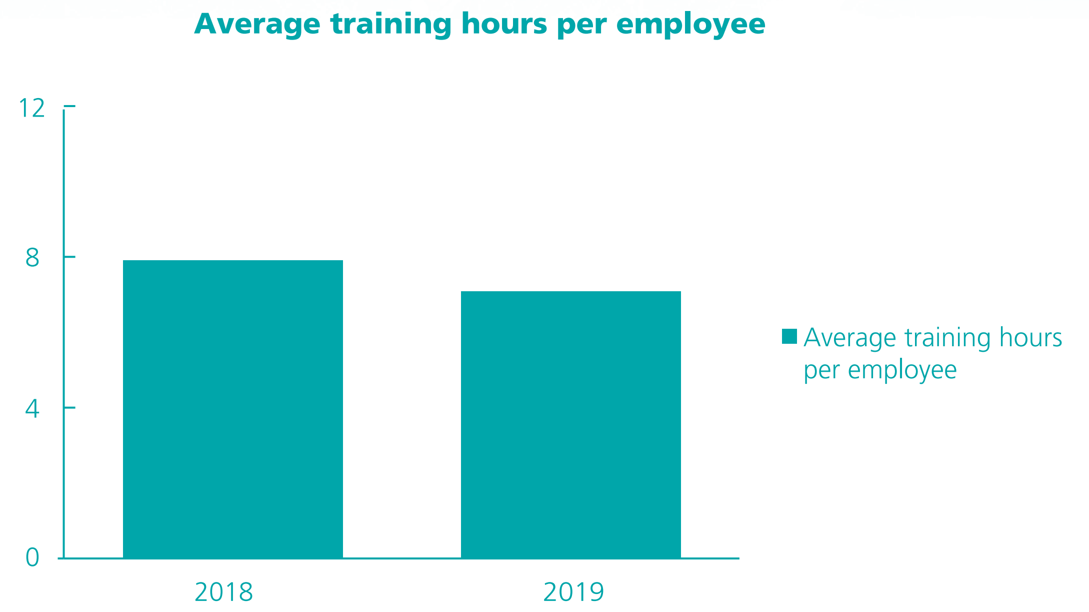

### Distribution of employees by age


### Distribution of employees by education level



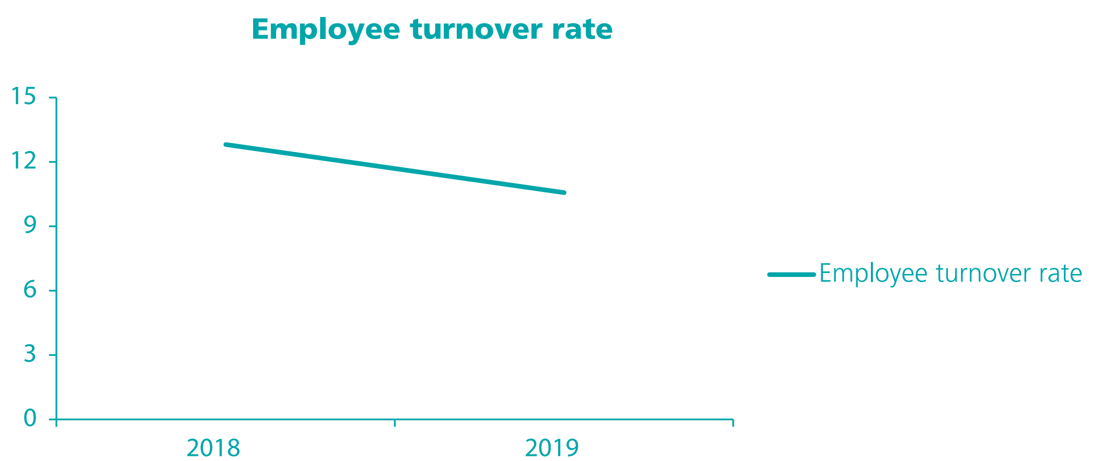
## EMPLOYEE TRAINING AND DEVELOPMENT

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




### Benefits

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



## 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 2019, the number of work place accidents (including fractures and other injuries) occurred was two.

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 2019, the Group had 218 patents in the PRC, including 114 utility model patents and 46 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 2019, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

## COMMUNITY INVOLVEMENT

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

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

## FUTURE DIRECTION

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

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

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

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

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

# 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 2019.

## PRINCIPAL ACTIVITIES

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

An analysis of the Group's performance for the year by segments is set out in note 5 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 30 June 2019 and the financial information of the Group as at 30 June 2019 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 2019 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 11 to 20 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 2019, 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 21 to 30 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 2019 (2018: Nil).

The Board does not recommend the payment of a final dividend for the year ended 30 June 2019 (2018: 3.0 HK cents per share).

## DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") to allow shareholders of the Company (the "Shareholders") to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

### Determination Mechanism

Subject to the approval of the Shareholders and requirement of the relevant laws, the Company shall pay annual dividends to the Shareholders if the Group is profitable, the market environment is stable and there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to our discretion, taking into consideration the criteria described below. The remaining net profits will be used for Group's development and operations. This dividend policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, financial position, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries and associates, as well as any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties.

### Approval and Payment Procedures

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

### Review and Monitor of this Policy

The form, frequency and amount of dividend payment by the Company are subject to any restrictions under the Cayman Islands laws and the Company's Articles of Association. The Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy at any time, and this dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 November 2019 (Wednesday) to 2 December 2019 (Monday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 26 November 2019 (Tuesday).

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

## ANNUAL GENERAL MEETING

The AGM will be held on Monday, 2 December 2019. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

## FINANCIAL SUMMARY

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

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in Note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in Note 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 2019, 256,000 of its ordinary shares were repurchased on the Stock Exchange at an aggregate price of approximately HK$0.9 million. Subsequent to these share repurchase exercises, the Company has acquired and cancelled approximately 0.03% 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$ |
| July 2018 | 200,000 | 3.52 | 3.48 | 703,560 |
| November 2018 | 56,000 | 2.95 | 2.87 | 163,326 |
| | 256,000 | | | 866,886 |

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 2019.

## 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.

# Directors' Report

As at 30 July 2019, the Company has resolved to reallocate all unutilised proceeds originally allocated for the potential acquisitions in the sum of approximately RMB37.8 million as general working capital. The Company considers that the reallocation and change in the use of proceeds would allow the Company to utilise the idle cash in a more efficient and flexible manner, which is in the interest of the Company and its shareholders as a whole.

Save for the aforementioned changes, there is no other change in the use of proceeds from the placing and the subscription.

For more details on reallocation and change in use of proceeds, please refer to the table below and the announcement dated 30 July 2019.

## Change in use of proceeds and reallocation

An analysis of the utilisation of the net proceeds and the change of the use of the unutilized net proceeds are summarised as follows:

| | Original intended use of net proceeds from the placing and the subscription | | Amount utilised during the period from 11 January 2018 to 30 June 2018 | Amount utilised during the period from 1 July 2018 to 31 December 2018 | Amount unutilized as at 31 December 2018 and the date of this report | Reallocation of unutilised net proceeds | Unutilised net proceeds after reallocation |
|---|---|---|---|---|---|---|---|
| | HK$'000 | RMB'000<br>Note | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| General working capital: | | | | | | | |
| – Purchase raw material for the supporting services | 11,360 | 9,456 | 9,456 | – | – | 37,823 | 37,823 |
| Repayment of loan | 56,800 | 47,280 | 34,853 | 12,427 | – | – | – |
| Potential acquisitions | 45,440 | 37,823 | – | – | 37,823 | (37,823) | – |
| | **113,600** | **94,559** | **44,309** | **12,427** | **37,823** | **–** | **37,823** |

Note: The net proceeds from the Placing and the Subscription were converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1 to RMB0.8324 with reference to exchange rate quoted by Bank of China at www.boc.cn on 11 January 2018.

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.

# 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 and 27 to the consolidated financial statements.

As at 30 June 2019, 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 RMB485,256,000. The amount of RMB485,256,000 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 2019 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 2019 represented approximately 21.0% (30 June 2018: 10.0%) and approximately 66.0% (30 June 2018: 42.0%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 30 June 2019 represented approximately 11.1% (30 June 2018: 17.6%) and approximately 42.7% (30 June 2018: 42.8%), 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. Jin Hao
Mr. Liu Chuan Jiang (appointed with effect from 2 January 2019)
Mr. Zhong Xin Gang (resigned with effect from 15 January 2019)
Mr. Liang Huiqun (appointed with effect from 11 January 2019 and resigned with effect from 27 September 2019)

### Independent Non-Executive Directors

Mr. Dai Tian Zhu
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng (appointed with effect from 2 January 2019)
Ms. Chen Jin Mei (resigned with effect from 2 January 2019)

# Directors' Report

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

In accordance with the Articles, Mr. Zhu Gen Rong, Mr. Wang Ai Yan, Mr. Liu Chuan Jiang, and Mr. Heng, Keith Kai Neng will retire at the 2019 AGM and, being eligible, will offer themselves for re-election at the 2019 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 2019.

## DIRECTORS' SERVICE CONTRACTS

Each of executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 16 May 2013 and will continue thereafter until terminated in accordance with the terms of the contract, except that Mr. Wang Ai Yan has entered into a service contract with the Company for an initial term of three years commencing from 1 October 2014 and will continue thereafter until terminated in accordance with the terms of the contract and Mr. Liu Chuan Jiang has entered into a service contract with the Company for an initial term of three years commencing from 2 January 2019 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. Except that Mr. Heng, Keith Kai Neng has entered into a service contract with the Company for an initial term of three years commencing from 2 January 2019 and can be extended in accordance with the terms of the contract.

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

## 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 30 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.

## 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 2.20 to the consolidated financial statements.

## COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

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

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

In this regard, each of the Controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the Deed for the year ended 30 June 2019. 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 2019 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). The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the Scheme is 27,200,000 shares, representing 3.71% of the issued shares of the Company as at the date of this report.

### 4. Maximum entitlement of each participant

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

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

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

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

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

## 7. Basis of determining the subscription price

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

## 8. Life of the Share option Scheme

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

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

| Name or category of participants | Exercise price | Number of share option | Approximate percentage of shareholding as at 30 June 2019 |
|---|---|---|---|
| *Executive directors:* | | | |
| Jin Hao | HK$4.04 | 450,000 | 0.06% |
| Other Employees | HK$4.04 | 18,550,000 | 2.53% |
| In aggregate | | 19,000,000 | 2.59% |

Validity period of the Share Options:

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

A. 9,000,000 Share Options

(1) 3,000,000 Share Options to be vested from 15 January 2020 to 14 January 2021 (both dates inclusive) and are exercisable from 15 January 2021 to 14 January 2031 (both dates inclusive);

(2) 3,000,000 Share Options to be vested from 15 January 2021 to 14 January 2022 (both dates inclusive) and are exercisable from 15 January 2022 to 14 January 2032 (both dates inclusive);

(3) 3,000,000 Share Options to be vested from 15 January 2022 to 14 January 2023 (both dates inclusive) and are exercisable from 15 January 2023 to 14 January 2033 (both dates inclusive); and

B. 10,000,000 Share Options

10,000,000 Share Options to be vested from 15 January 2020 to 14 January 2023 (both dates inclusive) and are exercisable within 10 years commencing from the date of vesting;

provided always that the Grantee shall remain as a Director, or an employee of the Group at the time of the exercise of the Share Options and satisfy certain performance criteria.

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

If all such share options is exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 2.59% as at 30 June 2019.

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

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

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

## SHARE AWARD SCHEME

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

For more detail and the principal terms of the Share Award Scheme are disclosed in the announcement of the Company dated on 11 January 2019.

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

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

As at 30 June 2019, 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 | Share Options | Approximate percentage of shareholding |
|---|---|---|---|---|---|
| Mr. Zhu Gen Rong | The Company | Interest of a controlled corporation | 411,328,000 shares (Note 1) | – | 56.05% |
| | | Beneficial owner | 1,462,000 shares (Note 2) | | 0.20% |
| | | Interest of people acting in concert | 354,000 shares (Note 1) | | 0.05% |
| | 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 | 411,328,000 shares (Note 5) | – | 56.05% |
| | | Beneficial owner | 354,000 shares (Note 6) | | 0.05% |
| | | Interest of people acting in concert | 1,462,000 shares (Note 5) | | 0.20% |
| | 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% |
| Mr. Liu Chuan Jiang (Note 4) | The Company | Interest of a controlled corporation | 411,328,000 shares (Note 7) | – | 56.05% |
| | | Interest of people acting in concert | 354,000 shares (Note 7) | | 0.05% |
| | | | 1,462,000 shares (Note 7) | | 0.20% |
| | Florescent Holdings Limited | Interest of a controlled corporation | 7,790 shares (Note 3) | | 77.90% |
| | Lian Shun Limited | Beneficial interest | 1,670,000 shares (Note 4) | | 17.95% |
| M. Jin Hao | – | Beneficial interest | – | 450,000 | 0.06% |

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 1,462,000 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 Gen Rong under the Takeovers Code and is deemed to be interested in the Shares held by Florescent Holdings Limited. He is also deemed to be interested in 1,462,000 shares held in the personal name of Mr. Zhu Gen Rong.

6. The 354,000 shares which Mr. Wang Ai Yan is interested in as beneficial owner.

7. 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 17.95% by Mr. Liu Chuan Jiang. Mr. Liu is regarded as one of the parties acting in concert with Mr. Zhu Gen Rong and Mr. Wang Ai Yan 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 1,462,000 shares and 354,000 shares held in the personal name of Mr. Zhu Gen Rong and Mr. Wang Ai Yan, respectively.

Save as disclosed above, as at 30 June 2019, 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 2019, 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 | 411,328,000 | 56.05% |
| Lian Shun Limited | Interest of a controlled corporation | 411,328,000 (Note 1) | 56.05% |
| Mr. Zhu Gen Rong | Interest of a controlled corporation/Beneficial owner, person acting in concert | 413,144,000 (Note 2) | 56.30% |
| Mr. Wang Ai Yan | Interest of a controlled corporation/Beneficial owner, person acting in concert | 413,144,000 (Note 3) | 56.30% |
| Mr. Liu Chuan Jiang | Interest of a controlled corporation/person acting in concert | 413,144,000 (Note 4) | 56.30% |
| Ms. Zhu Ling Yun | Person acting in concert | 413,144,000 (Note 5) | 56.30% |
| Mr. Fang Hui | Interest of a controlled corporation | 47,440,000 (Note 6) | 6.46% |
| Creation Best Investment Limited | Beneficial owner | 40,000,000 (Note 6) | 5.45% |
| Li Chao Wang | Interest of a controlled corporation | 60,335,294 (Note 7) | 8.22% |
| Rosy Ease Limited | Interest of a controlled corporation | 60,335,294 (Note 7) | 8.22% |
| Swift Fortune Holdings Limited | Beneficial owner | 60,335,294 (Note 7) | 8.22% |
| Gain Channel Limited | Interest of a controlled corporation | 60,335,294 (Note 7) | 8.22% |
| Song Min | Interest of spouse | 60,335,294 (Note 8) | 8.22% |
| F & L Holding (HK) Limited | Contract of transfer | 170,000,000 (Note 9) | 23.17% |

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 1,462,000 shares which Mr. Zhu is interested in as beneficial owner and include 354,000 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 47,440,000 Shares consist of 40,000,000 Shares in which Creation Best Investment Limited is interested and 7,440,000 Shares in which Mr. Fang Hui is interested. Creation Best Investment Limited is owned as to 100.00% by Mr. Fang Hui. Under the SFO, Mr. Fang is deemed to be interested in the shares held by Creation Best Investment 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.

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

Save as disclosed above, as at 30 June 2019, 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 2019 was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## AUDIT COMMITTEE

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

The audit committee of the Company has discussed with the management and external auditors about the accounting principles and policies adopted by the Group and discussed risk management, internal controls and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 30 June 2019.

## 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

PricewaterhouseCoopers was appointed by the Directors as the auditors of the Company. PricewaterhouseCoopers will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM. The consolidated financial statements for the year ended 30 June 2019 have been audited by PricewaterhouseCoopers. Ernst & Young resigned as the auditor of the Company with effect from 21 December 2018 while PricewaterhouseCoopers has been appointed as the new auditor immediately to fill the casual vacancy following the resignation of Ernst & Young.

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

Zhejiang Province, China
25 September 2019

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

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

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

The Board is pleased to report compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 30 June 2019.

## 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 2019 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## BOARD OF DIRECTORS

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

| | |
|---|---|
| Executive Directors: | Mr. Zhu Gen Rong (Chairman)<br>Mr. Wang Ai Yan (Chief Executive Officer)<br>Mr. Jin Hao<br>Mr. Zhong Xin Gang (resigned with effect from 15 January 2019)<br>Mr. Liu Chuan Jiang (appointed with effect from 2 January 2019)<br>Mr. Liang Huiqun (resigned with effect from 27 September 2019) |
| Independent Non-Executive Directors: | Ms. Chen Jin Mei (resigned with effect from 2 January 2019)<br>Mr. Dai Tian Zhu<br>Mr. Kong Chi Mo<br>Mr. Heng, Keith Kai Neng (appointed with effect from 2 January 2019) |

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 | 1/1 |
| Mr. Wang Ai Yan (Chief Executive Officer) | 4/4 | 1/1 | 1/1 |
| Mr. Zhong Xin Gang | 2/4* | 1/1 | N/A |
| Mr. Jin Hao | 4/4 | 1/1 | 1/1 |
| Ms. Chen Jin Mei | 2/4* | 1/1 | N/A |
| Mr. Dai Tian Zhu | 4/4 | 1/1 | 0/1 |
| Mr. Kong Chi Mo | 4/4 | 1/1 | 1/1 |
| Mr. Liu Chuan Jiang | 2/4* | N/A | 1/1 |
| Mr. Liang Huiqun | 2/4* | N/A | 1/1 |
| Mr. Heng, Keith Kai Neng | 2/4* | N/A | 1/1 |

* Attendance record during the appointment period for the year.

## 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 2019 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. Liu Chuan Jiang | ✔ |
| Mr. Liang Huiqun | ✔ |
| Mr. Jin Hao | ✔ |
| Ms Chen Jin Mei | ✔ |
| Mr. Dai Tian Zhu | ✔ |
| Mr. Kong Chi Mo | ✔ |
| Mr. Heng, Keith Kai Neng | ✔ |

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

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 6 May 2013 comprising 3 independent non-executive Directors namely, Mr. Kong Chi Mo, Mr. Dai Tian Zhu and Mr. Heng, Keith Kai Neng. 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 2019. 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 | 1/2* |
| Mr. Dai Tian Zhu | 2/2 |
| Mr. Heng, Keith Kai Neng | 1/2* |

* Attendance record during the appointment period for the year.

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors. Mr. Heng, Keith Kai Neng is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

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

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

During the year, the Remuneration Committee held one meeting. The Remuneration committee has reviewed and approved the remuneration package of the Executive Directors. Details of the directors' emolument are set out in note 8 to the financial statements.

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

| Name of Director | No. of Attendance/ No. of Meetings |
|---|---|
| Ms. Chen Jin Mei (Chairlady) | 1/1 |
| Mr. Dai Tian Zhu | 1/1 |
| Mr. Kong Chi Mo | 1/1 |
| Mr. Heng, Keith Kai Neng (Chairman) | N/A |

## NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 6 May 2013 comprising the 3 independent non-executive directors and Mr. 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 |
| Mr. Heng, Keith Kai Neng | N/A |

## NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 (the "Nomination Policy") which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

### 1. Selection Criteria

(a) The Nomination Committee is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.

(b) In assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria such as the Company's need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in industrial automation systems, sludge treatment products and paper-making industrial, and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

(c) Where necessary, the Nomination Committee should seek independent professional advice to access a wider range of potential candidates.

(d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.

(e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

### 2. Nomination Procedures

The secretary of the Nomination Committee shall invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members.

Any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 87 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedure has been set out in the "Procedure for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

### 3. Review and Monitor of this Policy

(a) The Nomination Committee shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.

(b) The Nomination Committee shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.

(c) The Nomination Committee shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

## BOARD DIVERSITY POLICY

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

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

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

# Corporate Governance Report

As at the date of this report, the Board comprises 8 directors. Three of the directors are independent non-executive directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of 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 2019. 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 2019.

## AUDITORS' REMUNERATION

During the financial year ended 30 June 2019, the fees paid/payable to the Company's auditors are set out as follows:

| Services rendered | Fees paid/ payable (RMB'000) |
|---|---|
| Annual audit services | 1,400 |
| Interim review services | 430 |
| | 1,830 |

## 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 2019.

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 2019, there had been no significant change in the Company's constitutional documents.

# Independent Auditor's Report

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

## OPINION

### What we have audited

The consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 69 to 156, which comprise:

- the consolidated statement of profit or loss for the year ended 30 June 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 30 June 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## KEY AUDIT MATTERS

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

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

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Recognition of revenue from sales of goods and project contracting services over time* | |
| Refer to Note 2.24 "Accounting policy – Revenue recognition", Note 4.2(c) "Critical accounting judgements – Revenue recognition" and Note 5 "Segment information" to the consolidated financial statements.<br><br>Revenue from sales of goods and project contracting services is recognised over time when the Group's performance under a sales contract creates or enhances an asset that the customer controls as the asset is created or enhanced, otherwise, the revenue is recognised at a point in time when the buyer obtains control of the asset. For the year ended 30 June 2019, revenue of the Group from sales of goods and projecting contract service was totaled RMB 763,974,066, of which RMB 269,640,275 was recognised on the over time basis.<br><br>For the revenue from sales of goods and project contracting services recognised over time, the Group recognised revenue by applying an input method to measure the progress towards complete satisfaction of the performance obligation. The input method recognised revenue based on the proportion of the actual costs incurred to the estimated total costs for satisfaction of the performance obligation. Significant judgements and estimations were required in determining the estimated total costs and the estimation of progress towards complete satisfaction of the performance obligation at the year end. Given the involvement of significant management's judgements and estimations, recognition of revenue from sales of goods and project contracting services over time is considered a key audit matter. | We understood, evaluated and tested key controls, on a sample basis, over revenue recognition over time, including the controls related to recording of the actual cost incurred and the estimation of total costs.<br><br>In respect of actual cost incurred, we checked actual costs incurred to supporting documents on a sample basis, including suppliers' invoices, customers' acceptance of production progress and contracts with suppliers.<br><br>In respect of estimated total costs, we checked the components of the estimated total costs to the supporting documents including the purchase contracts and approved budgets, on a sample basis.<br><br>We performed site visit of projects, on a sample basis, to evaluate the ongoing status of the projects.<br><br>We checked the mathematical accuracy of management's calculation of the revenues recognised over time using the input method.<br><br>Based on our work performed, we found that management's judgements and estimations used in the Group's revenue recognised from sales of goods and project contracting services over time were supported by the available evidence. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Provision for impairment of trade and other receivables and contract assets* | |
| Refer to Note 2.10 "Summary of significant accounting policies – Financial assets", Note 2.12 "Summary of significant accounting policies – Trade and other receivables", Note 4.1(a) "Critical accounting estimates – Impairment of trade and other receivables and contract assets", and Note 19 "Trade and other receivables, contract assets and prepayments" to the consolidated financial statements.<br><br>As at 30 June 2019, the net carrying amounts of the Group's trade receivables, other receivables and contract assets were RMB 473,757,350, RMB119,853,646 and RMB 82,261,590, respectively, after netting off accumulated allowance for impairment provision of RMB 39,538,917, RMB 5,981,394 and RMB 971,472, respectively.<br><br>The Group provided impairment of trade and other receivables and contract assets based on the expected credit loss ("ECL") model. The Group grouped these trade and other receivables and contract assets in accordance with credit risk characteristics and calculated the ECL based on groups, by considering the experience of historical credit losses, together with current market situation and forward looking factors. The trade and other receivables and contract assets with objective evidence of impairment were further assessed individually, and an impairment assessment is conducted to calculate the ECL and to provide an individual impairment allowance. | We understood, evaluated and tested the key controls, on a sample basis, over the estimations adopted in the ECL assessment.<br><br>We checked, on a sample basis, the accuracy of ageing profile on trade and other receivables and contract assets.<br><br>We assessed the appropriateness of the Group's grouping by considering the credit risk characteristics.<br><br>We evaluated the historical default rates of different groups by comparing with the actual losses recorded during the prior and current financial years.<br><br>We evaluated the adjustment to the historical default rates by considering the forward looking factors and other relevant information, such as the Group's future business relationship with these customers, evidence from external sources including the publicly available information relating to the financial circumstances of the customers and their expected behaviour including method of payments or payments period.<br><br>For those subject to further individual assessment for impairment provision, we understood and evaluated management's assessment of the collectability by considering both current situation and economic situation in the future and corroborated management's explanations with available evidences, including interviewing with sales personnel, checking subsequent settlements, credit history and financial capability of these customers on a sample basis.<br><br>We checked, on a sample basis, the accuracy of ageing profile on trade and other receivables and contract assets to supporting documents, including sales invoices, delivery notes, customer's receipts and payment demand notes. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Goodwill impairment assessment* | |
| **We considered assessment of impairment provision of trade and other receivables and contract assets a key audit matter because significant management's judgements and estimations are involved.**<br><br>Referring to Note 2.7 "Summary of significant accounting policies – Goodwill", Note 4.1(b) "Critical accounting estimates – Estimation of goodwill impairment" and Note 17 "Goodwill" to the consolidated financial statements.<br><br>As at 30 June 2019, the net carrying amount of goodwill of the Group was RMB 39,934,884, after netting off impairment for goodwill of RMB 105,063,873. In 2019, the amount of impairment for goodwill charged to the consolidated statement of profit or loss was RMB 105,063,873.<br><br>The impairment charged was recognised based on the excess of the carrying value over the recoverable amount of the relevant cash generating unit ("CGU") for which goodwill has been allocated. The recoverable amount of CGU is determined by using value-in-use calculations based on the future discounted cash flows. The key assumptions involved in the calculation of value-in-use of the Group's CGUs include annual growth rate, budgeted gross margin, long term growth rate and pre-tax discount rate. | We checked the mathematical accuracy of management's ECL calculation.<br><br>Based on our work performed, we found that management's judgements and estimations adopted in the assessment of provision for impairment of trade and other receivables and contract assets were supported by the available evidence.<br><br>We understood, evaluated and tested the key controls, on a sample basis, over goodwill impairment assessment, including the review and approval of the key assumptions used and the impairment provision made.<br><br>We compared the current year actual financial results of the relevant CGUs to previous year forecast to evaluate the historical accuracy of management's estimations.<br><br>We assessed the valuation approaches and methodologies adopted in the cash flow forecasts by reference to industry practice.<br><br>We compared the annual growth rate and budgeted gross margin to the approved budget and historical data taking into consideration of the overall operation of the CGUs and the impact of the market trends.<br><br>We evaluated the long term growth rate by considering economic data including consumer price index of China and long-term economic development indicator of China with the involvement of internal valuation experts.<br><br>We assessed the pre-tax discount rate by considering the weighted average cost of capital for the individual CGUs and comparable companies in the same industry, and territory specific factors, such as risk free interest rate and debt ratio prevailing in relevant market with the involvement of internal valuation experts. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Goodwill impairment assessment* | |
| We considered goodwill impairment assessment a key audit matter because the assessment involved significant judgements and estimations. | We evaluated management's sensitivity analysis against reasonably possible changes on key assumptions used in the cash flow forecasts of the CGUs.<br><br>Based on the work we performed, we found that the judgements and estimations applied in the goodwill impairment assessment were supported by the available evidence. |

## OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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 Tang Wai Tung.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 25 September 2019

# Consolidated Statement of Profit or Loss

For the year ended 30 June 2019

| | Notes | 2019 RMB | 2018 RMB |
|---|---|---|---|
| | | For the year ended 30 June | |
| Revenue | 5 | **763,974,066** | 612,123,398 |
| Cost of sales | 5, 7 | **(642,997,382)** | (474,866,492) |
| **Gross profit** | | **120,976,684** | 137,256,906 |
| Selling and distribution expenses | 7 | **(13,361,947)** | (13,132,905) |
| Administrative expenses | 7 | **(56,982,127)** | (42,541,892) |
| Research and development expenses | 7 | **(22,924,758)** | (18,747,547) |
| Net impairment losses on financial and contract assets | | **(28,602,266)** | (2,560,211) |
| Other income and (losses)/gains, net | 6 | **(108,630,916)** | 5,548,305 |
| **Operating (loss)/profit** | | **(109,525,330)** | 65,822,656 |
| Finance income | 9 | **1,258,747** | 10,278,815 |
| Finance costs | 9 | **(12,777,131)** | (15,679,199) |
| Finance costs – net | | **(11,518,384)** | (5,400,384) |
| **(Loss)/profit before income tax** | | **(121,043,714)** | 60,422,272 |
| Income tax expense | 10 | **(8,824,351)** | (12,521,204) |
| **(Loss)/profit for the year** | | **(129,868,065)** | 47,901,068 |
| (Loss)/profit is attributable to: | | | |
| Owners of the parent | | **(128,269,107)** | 48,285,144 |
| Non-controlling interests | | **(1,598,958)** | (384,076) |
| | | **(129,868,065)** | 47,901,068 |
| **(Losses)/earnings per share attributable to the ordinary equity holders of the parent** | | | |
| Basic (losses)/earnings per share (RMB cents) | 11 | **(17.61)** | 7.16 |
| Diluted (losses)/earnings per share (RMB cents) | 11 | **(17.61)** | 7.14 |

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

| | Notes | 2019<br>RMB | 2018<br>RMB |
|---|---|---|---|
| | | For the year ended 30 June | |
| **(Loss)/profit for the year** | | **(129,868,065)** | 47,901,068 |
| **Other comprehensive loss** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | **(3,111,103)** | (259,464) |
| **Other comprehensive loss for the year, net of tax** | | **(3,111,103)** | (259,464) |
| **Total comprehensive (loss)/income for the year** | | **(132,979,168)** | 47,641,604 |
| Total comprehensive (loss)/income for the year is attributable to: | | | |
| Owners of the parent | | **(131,380,210)** | 48,025,680 |
| Non-controlling interests | | **(1,598,958)** | (384,076) |
| | | **(132,979,168)** | 47,641,604 |

The notes on pages 75 to 156 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 30 June 2019

| | Notes | As at 30 June<br>2019<br>RMB | <br>2018<br>RMB |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **81,993,507** | 199,586,539 |
| Investment properties | 15 | **115,929,946** | 5,989,795 |
| Prepaid land lease payments | 16(i) | **78,799,512** | 72,045,656 |
| Goodwill | 17 | **39,934,884** | 144,998,757 |
| Other intangible assets | 16(ii) | **14,557,893** | 14,846,912 |
| Deferred tax assets | 23 | **8,353,095** | 4,212,878 |
| Trade and other receivables | 19(i) | **7,075,588** | 32,023,284 |
| Prepayments | 19(iii) | **195,903** | 208,963 |
| Total non-current assets | | **346,840,328** | 473,912,784 |
| **Current assets** | | | |
| Prepaid land lease payments | 16 | **–** | 1,292,172 |
| Inventories | 18 | **86,875,342** | 80,188,203 |
| Trade and other receivables | 19(i) | **606,753,581** | 574,743,632 |
| Prepayments | 19(iii) | **79,861,762** | 128,671,118 |
| Financial assets at fair value through other comprehensive income | 2.1(e)(i) | **28,760,512** | – |
| Pledged deposits | 20 | **29,976,599** | 69,697,182 |
| Contract assets | 19(ii) | **82,261,590** | – |
| Cash and cash equivalents | 20 | **24,196,754** | 72,880,335 |
| Total current assets | | **938,686,140** | 927,472,642 |
| **Total assets** | | **1,285,526,468** | 1,401,385,426 |

# Consolidated Statement of Financial Position

As at 30 June 2019

| | Notes | As at 30 June 2019 RMB | 2018 RMB |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 23 | **6,847,232** | 7,594,890 |
| Deferred income | 24 | **25,537,500** | 25,500,000 |
| Convertible bonds | 25 | **–** | 75,710,498 |
| Total non-current liabilities | | **32,384,732** | 108,805,388 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **305,179,522** | 489,903,745 |
| Contract liabilities | | **141,166,067** | – |
| Interest-bearing loans | 22 | **54,785,664** | 21,857,880 |
| Income tax payable | | **11,911,209** | 6,675,441 |
| Convertible bonds | 25 | **85,525,913** | – |
| Contingent consideration arose from business acquisition | | **–** | 7,540,000 |
| Total current liabilities | | **598,568,375** | 525,977,066 |
| **Total liabilities** | | **630,953,107** | 634,782,454 |
| **Net assets** | | **654,573,361** | 766,602,972 |
| **EQUITY** | | | |
| Share capital | 26 | **6,203,955** | 6,107,141 |
| Share premium | 26 | **509,708,723** | 491,227,935 |
| Equity component of convertible bonds | 25 | **23,609,589** | 23,609,589 |
| Other reserves | 27 | **78,411,838** | 73,713,139 |
| Retained earnings | | **37,422,220** | 171,129,174 |
| Capital and reserves attributable to the owners of the parent | | **655,356,325** | 765,786,978 |
| Non-controlling interests | | **(782,964)** | 815,994 |
| **Total equity** | | **654,573,361** | 766,602,972 |

The notes on pages 75 to 156 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

| | | Attributable to the 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 |
| **Balance at 30 June 2018 as originally presented** | | 6,107,141 | 491,227,935 | 23,609,589 | 73,713,139 | 171,129,174 | 765,786,978 | 815,994 | 766,602,972 |
| Change in accounting policy | 2.1(e) | – | – | – | – | (2,028,005) | (2,028,005) | – | (2,028,005) |
| **Restated balance at 1 July 2018** | | 6,107,141 | 491,227,935 | 23,609,589 | 73,713,139 | 169,101,169 | 763,758,973 | 815,994 | 764,574,967 |
| Loss for the year | | – | – | – | – | (128,269,107) | (128,269,107) | (1,598,958) | (129,868,065) |
| Other comprehensive loss | | – | – | – | (3,111,103) | – | (3,111,103) | – | (3,111,103) |
| **Total comprehensive loss for the year** | | – | – | – | (3,111,103) | (128,269,107) | (131,380,210) | (1,598,958) | (132,979,168) |
| Dividends paid | 12 | – | (18,994,497) | – | – | – | (18,994,497) | – | (18,994,497) |
| Shares repurchased | 26 | (2,197) | (743,103) | – | – | – | (745,300) | – | (745,300) |
| Issue of shares | 26 | 99,011 | 38,218,388 | – | – | – | 38,317,399 | – | 38,317,399 |
| Employee share option | 27 | – | – | – | 4,399,960 | – | 4,399,960 | – | 4,399,960 |
| Profit appropriation to statutory reserves | | – | – | – | 3,409,842 | (3,409,842) | – | – | – |
| | | 96,814 | 18,480,788 | – | 7,809,802 | (3,409,842) | 22,977,562 | – | 22,977,562 |
| **Balance at 30 June 2019** | | 6,203,955 | 509,708,723 | 23,609,589 | 78,411,838 | 37,422,220 | 655,356,325 | (782,964) | 654,573,361 |
| **Balance at 1 July 2017** | | 5,075,783 | 93,615,618 | 23,609,589 | 65,867,660 | 130,948,973 | 319,117,623 | 1,200,070 | 320,317,693 |
| Profit/(loss) for the year | | – | – | – | – | 48,285,144 | 48,285,144 | (384,076) | 47,901,068 |
| Other comprehensive income | | – | – | – | (259,464) | – | (259,464) | – | (259,464) |
| Total comprehensive (loss)/income for the year | | – | – | – | (259,464) | 48,285,144 | 48,025,680 | (384,076) | 47,641,604 |
| Dividends paid | 12 | – | (12,438,575) | – | – | – | (12,438,575) | – | (12,438,575) |
| Issue of shares | 26 | 1,041,650 | 413,659,578 | – | – | – | 414,701,228 | – | 414,701,228 |
| Shares repurchased | 26 | (10,292) | (3,608,686) | – | – | – | (3,618,978) | – | (3,618,978) |
| Profit appropriation to statutory reserves | 27 | – | – | – | 8,104,943 | (8,104,943) | – | – | – |
| | | 1,031,358 | 397,612,317 | – | 8,104,943 | (8,104,943) | 398,643,675 | – | 398,643,675 |
| **Balance 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 |

The notes on pages 75 to 156 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2019

| | Notes | For the year ended 30 June 2019 RMB | 2018 RMB |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 28(a) | **(26,215,947)** | (38,794,436) |
| Income tax paid | | **(7,888,803)** | (9,912,274) |
| **Net cash outflow from operating activities** | | **(34,104,750)** | (48,706,710) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(12,943,421)** | (17,114,145) |
| Proceeds from disposals of property, plant and equipment | 28(b) | **241,001** | – |
| Purchase of other intangible assets | 16(ii) | **(1,857,594)** | – |
| Purchase of prepaid land lease payments | 16(i) | **(7,459,413)** | – |
| Acquisition of a subsidiary | | **–** | 43,410,909 |
| Interest received | 9 | **737,621** | 9,209,918 |
| **Net cash (outflow)/inflow from investing activities** | | **(21,281,806)** | 35,506,682 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | **–** | 94,558,646 |
| Proceeds from interest – bearing loans | 22 | **37,338,800** | 9,415,303 |
| Repayment of interest – bearing loans | 22 | **(6,400,000)** | (45,330,576) |
| Dividends paid to the owners of the Company | 12 | **(18,994,497)** | (12,438,575) |
| Interest paid | | **(2,531,656)** | (5,083,014) |
| Repurchase of shares | 26 | **(745,300)** | (3,618,978) |
| **Net cash inflow from financing activities** | | **8,667,347** | 37,502,806 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(46,719,209)** | 24,302,778 |
| Cash and cash equivalents at beginning of the year | 20 | **72,880,335** | 50,554,277 |
| Effect of exchange rate changes on cash and cash equivalents | | **(1,964,372)** | (1,976,720) |
| **Cash and cash equivalents at end of the year** | 20 | **24,196,754** | 72,880,335 |

The notes on pages 75 to 156 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION

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

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

On 25 September 2017, the Group acquired 100% of the equity interest of Hangzhou Haorong Technology Co., Ltd. and Hangzhou MCN Paper Tech Co., Ltd. (together, the "MCN Group"). As part of the sale and purchase agreement of MCN Group, contingent consideration is payable to former shareholders of MCN Group, which was calculated based on its profit for the calendar years 2017 and 2018. The initial contingent consideration of RMB7,617,422 was recognised as liability in prior year. As of the reporting date, the criteria of adjustment to the initial contingent consideration had been fulfilled and a fair value change of RMB30,437,752 was recognised in other income and gains/(losses), net (Note 6) during this year.

This consolidated financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. These consolidated financial statements were approved and authorised for issue by the Company's Board of Directors (the "Board") on 25 September 2019.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

#### (a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

#### (b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income ("FVOCI") and contingent consideration arose from business acquisition, which are carried at fair value.

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

### 2.1 Basis of preparation *(Continued)*

#### (c) New and amended standards adopted by the Group

The following new standards and amendments and interpretation to standards are mandatory for the Group's financial year beginning 1 July 2018.

| | |
|---|---|
| HKFRS 2 (Amendment) | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 4 (Amendment) | Insurance Contracts "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts" |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HKAS 28 (Amendment) | Investments in Associates and Joint Ventures |
| HKAS 40 (Amendment) | Transfers of Investment Property |
| HK (IFRIC) Interpretation 22 | Foreign Currency Transactions and Advance Consideration |
| Annual Improvements | 2014-2016 Cycle |

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. Other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

#### (d) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations that are relevant to the Group but not yet effective for the financial year beginning at 1 July 2018 and have not been early adopted by the Group are as follows:

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

### 2.1 Basis of preparation *(Continued)*

#### (d) New standards and interpretations not yet adopted *(Continued)*

| Standards/Interpretation | Subject of standards/ amendment | Effective for annual years beginning on or after |
|---|---|---|
| HKFRS 16 | Leases | 1 January 2019 |
| HK (IFRIC) Interpretation 23 | Uncertainty over Income Tax Treatment | 1 January 2019 |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material | 1 January 2020 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| Amendments to HKFRS 3 | Definition of a Business | 1 January 2020 |
| Revised Conceptual Framework | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| HKFRS 17 | Insurance Contracts | 1 January 2021 |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation | 1 January 2019 |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| Amendments to HKAS 28 | Long-term Interests in an Associate or Joint Venture | 1 January 2019 |
| Annual Improvements to HKFRS Standards 2015-2017 Cycle | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 | 1 January 2019 |

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

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

### 2.1 Basis of preparation *(Continued)*

#### (d) New standards and interpretations not yet adopted *(Continued)*

*IFRS 16 Leases*

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of RMB1,162,053 (Note 29). The Group expects that there will be an increase in total assets and liabilities due to the recognition of right-of-use assets and lease liabilities.

The Group will also recognise amortisation of the right-of-use assets and interest expenses on the lease liabilities in the statement of profit or loss in the financial year ending 30 June 2020.

The Group's operating cash flows will increase and the financing cash flows will decrease as the repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Group's leasing activities as a lessor and lessee are not material and hence, the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 July 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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

### 2.1 Basis of preparation *(Continued)*

#### (e) Changes in accounting policy

As explained in notes 2.10 and 2.24 below, HKFRS 9 and HKFRS 15 were generally adopted by the Group without restating comparative information. As a result of the changes in the entity's accounting policies, adjustments are therefore not reflected in the statement of financial position as at 30 June 2018, but are recognised in the opening balance as at 1 July 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

| Consolidated statement of financial position (extract) | 30 June 2018 As originally presented RMB | HKFRS 9 RMB | HKFRS 15 RMB | 1 July 2018 Restated RMB |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Deferred tax assets | 4,212,878 | 587,655 | – | 4,800,533 |
| **Current assets** | | | | |
| Trade and other receivables | 574,743,632 | (6,163,055) | (186,754,410) | 81,826,167 |
| FVOCI | – | 3,989,783 | – | 3,989,783 |
| Contract assets | – | (442,388) | 186,754,410 | 86,312,022 |
| **Current liabilities** | | | | |
| Trade and other payables – advances from customers | 229,297,919 | – | (229,297,919) | – |
| Contract liabilities | – | – | 229,297,919 | 229,297,919 |
| **Equity** | | | | |
| Retained earnings | 171,129,174 | (2,028,005) | – | 169,101,169 |

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

### 2.1 Basis of preparation *(Continued)*

#### (e) Changes in accounting policy *(Continued)*

*(i) HKFRS 9 Financial Instruments – Impact of adoption*

HKFRS 9 replaces the provisions of HKAS 39 Financial Instruments ("HKAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.10 below.

The total impact on the Group's retained earnings as at 1 July 2018 is as follows:

| | RMB |
|---|---|
| Closing retained earnings at 30 June 2018 – HKAS 39 | 171,129,174 |
| Increase in provision for trade and other receivables and contract assets | (2,615,660) |
| Increase in deferred tax assets relating to impairment provisions | 587,655 |
| Adjustment to retained earnings from adoption of HKFRS 9 on 1 July 2018 | (2,028,005) |
| **Opening retained earnings at 1 July 2018 – HKFRS 9** | 169,101,169 |

Classification and measurement

On 1 July 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 measurement categories, which are those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss) and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

| | **FVOCI (Trade and other receivables)** RMB | **Amortised Cost (Trade and other receivables)** RMB |
|---|---|---|
| Closing balance 30 June 2018 – HKAS 39 | – | 83,702,261 |
| Reclassify bills receivable from trade and other receivables to FVOCI | 3,989,783 | (3,989,783) |
| **Opening balance 1 July 2018 – HKFRS 9** | 3,989,783 | 79,712,478 |

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

### 2.1 Basis of preparation *(Continued)*

#### (e) Changes in accounting policy *(Continued)*

*(i) HKFRS 9 Financial Instruments – Impact of adoption (Continued)*

Impairment of financial assets

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and other receivables and FVOCI.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial and contract assets.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets. Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group established ECL model based on historical settlement records, past experience and available forward-looking information. The impact of the change in impairment methodology on the Group's retained earnings is disclosed in the table above. While cash and cash equivalents, pledged deposits and FVOCI are also subject to the impairment requirements of HKFRS 9, the identified impairment losses were immaterial.

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

### 2.1 Basis of preparation *(Continued)*

#### (e) Changes in accounting policy *(Continued)*

*(i) HKFRS 9 Financial Instruments – Impact of adoption (Continued)*

Impairment of financial assets *(Continued)*

The loss allowances for trade and other receivables, and contract assets as at 30 June 2018 reconcile to the opening loss allowances on 1 July 2018 as follows:

| | **Trade and other receivables and contract assets** |
|---|---|
| | RMB |
| At 30 June 2018 – calculated under HKAS 39 | 15,312,397 |
| Amounts restated through opening retained earnings | 2,615,660 |
| **Opening loss allowance as at 1 July 2018 – calculated under HKFRS 9** | 17,928,057 |

Trade and other receivables, and contract assets are written off when there is no reasonable expectation of recovery.

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

### 2.1 Basis of preparation *(Continued)*

#### (e) Changes in accounting policy *(Continued)*

*(ii) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption*

HKFRS 15 replaces the provisions of HKAS 18 Revenue and HKAS 11 Construction contracts that relate to the recognition, classification and measurement of revenue and costs.

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policy. The Directors consider that the changes in accounting policy of revenue recognition pursuant to HKFRS 15 do not have significant impact on the revenue recognised in the statement of profit or loss.

The following reclassifications were made as at 1 July 2018 to be consistent with the terminology used under HKFRS 15:

| | **HKAS 11 and 18 carrying amount 30 June 2018** RMB | **Reclassification** RMB | **HKFRS 15 carrying amount 1 July 2018** RMB |
|---|---|---|---|
| Trade and other payables – advances from customers | 229,297,919 | (229,297,919) | – |
| Contract liabilities | – | 229,297,919 | 229,297,919 |
| Trade and other receivables | 622,079,313 | (186,754,410) | 435,324,903 |
| Contract assets | – | 186,754,410 | 186,754,410 |

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

### 2.2 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

#### (i) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Impairment testing of the investments in subsidiaries is also required according to Note 2.9.

#### (ii) Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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

### 2.2 Consolidation *(Continued)*

#### (ii) Business combination *(Continued)*

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating sources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

### 2.4 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, the Company's functional currency is Hong Kong Dollar ("HKD").

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

### 2.4 Foreign currency translation *(Continued)*

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit and loss, within finance income or costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within other income and (losses)/gains, net.

#### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

### 2.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs that are incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

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

### 2.5 Investment property *(Continued)*

After initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation of investment properties is calculated using the straight-line method to allocate their costs over their estimated useful lives of 20 years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

### 2.6 Property, plant and equipment

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

Property, plant and equipment include buildings, machinery and vehicles, furniture, fittings and equipment. All property, plant and equipment is stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| • Buildings | 20 years |
| • Machinery and vehicles | 5-10 years |
| • Furniture, fittings and equipment | 3-5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within other income and (losses)/gains, net in the consolidated statement of profit or loss.

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

### 2.7 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, being the operating segments.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### 2.8 Intangible assets

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

#### Research and development

Research expenditure and development expenditure that do not meet the criteria in below are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

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

### 2.8 Intangible assets *(Continued)*

Amortisation methods and periods

The group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Patents 8 years
- Software 10 years
- Prepaid land lease payments 50 years

### 2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.10 Financial assets

Accounting policies applied from 1 July 2018

#### 2.10.1 Classification

The Group classifies all its financial assets in the following measurement categories:

(i) those to be measured subsequently at fair value (either through OCI or through profit or loss), and

(ii) those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

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

### 2.10 Financial assets *(Continued)*

#### 2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### 2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

*Debt instruments*
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income and (losses)/gains, net using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented other income and (losses)/gains, net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

(ii) FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income and (losses)/gains, net. Interest income from these financial assets is included in other income and (losses)/gains, net using the effective interest rate method. Foreign exchange gains and losses are presented in other income and (losses)/gains, net and impairment expenses are presented as separate line item in the consolidated statement of profit or loss.

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

### 2.10 Financial assets *(Continued)*

#### 2.10.3 Measurement *(Continued)*

*Debt instruments (Continued)*

(iii) FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income and (losses)/gains, net in the period in which it arises. Interest income from these financial assets is included in other income and (losses)/gains, net.

#### 2.10.4 Impairment

From 1 July 2018, the Group assesses on a forward looking basis the ECL associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

The measurement of ECL reflects:

– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

– The time value of money; and

– Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**Accounting policies applied until 30 June 2018**

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 30 June 2018, the Group classifies all its financial assets under the category of loans and receivables, and derivative financial instruments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

### 2.10 Financial assets *(Continued)*

**Accounting policies applied until 30 June 2018** *(Continued)*

*(i) 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 FVPL.

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.

*(ii) Subsequent measurement*

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

Financial assets at FVPL

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 FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as other income and (losses)/gains, net. 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 Note 2.26 and Note 2.27.

Financial assets designated upon initial recognition as at FVPL 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets *(Continued)*

**Accounting policies applied until 30 June 2018** *(Continued)*

*(ii) Subsequent measurement (Continued)*

Loans and receivables

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

*(iii) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Financial assets *(Continued)*

**Accounting policies applied until 30 June 2018** *(Continued)*

*(iv) 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 net impairment losses on financial and contract assets in the consolidated statement of profit or loss.

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

### 2.10 Financial assets *(Continued)*

**Accounting policies applied until 30 June 2018** *(Continued)*

*(v) 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.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### 2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Other receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. See Note 19 for further information about the Group's accounting for trade and other receivables, and Note 2.10.4 for the description of the Group's impairment policies.

### 2.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

### 2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

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

### 2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.16 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

### 2.18 Convertible bonds

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

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

### 2.18 Convertible bonds *(Continued)*

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

### 2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

### 2.19 Current and deferred income tax *(Continued)*

#### (b) Deferred income tax *(Continued)*

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss.

### 2.20 Employee benefits – pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap per person per month and any excess contributions are voluntary (if any).

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join the defined contribution retirement benefit plans organised by PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 8. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are charged to the consolidated statement of profit or loss as incurred. The Group has no further payment obligations once the contributions have been paid.

### 2.21 Share-based payments

The Group operates an equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments ("options") of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

(i) including any market performance conditions (for example, the entity's share price);

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

### 2.21 Share-based payments *(Continued)*

(ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

(iii) including the impact of any non-vesting conditions (for example, the requirement for employees to save or holdings shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The options granted by the Company over its equity instruments to the employees of subsidiary undertakings in the Group are treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

### 2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

### 2.23 Government grants

Government grants are recognised at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised as income in the consolidated statement of profit or loss income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are recognised as income in the consolidated statement of profit or loss on a straight line basis over the expected lives of the related assets.

Government grants that are not related to future costs nor purchase of property, plant and equipment are recognised directly as income in the consolidated statement of profit or loss.

### 2.24 Revenue recognition

**Accounting policies applied from 1 July 2018**

*(a)* *Sale of goods – industrial products, sludge treatment products and spare parts*
Sales are recognised when control of the goods has transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

When the Group provides installation services for the sale of industrial products, sludge treatment product. The goods or services are highly related that the Group would not be able to fulfil its promises by transferring each of the goods or services independently. Thus installation services bundled together with the sale of machinery are not considered distinct. Revenue from sales of goods is recognised when the control of the asset has been transferred to the customer, which is usually upon the installation services are completed.

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

### 2.24 Revenue recognition *(Continued)*

**Accounting policies applied from 1 July 2018** *(Continued)*

*(b) Sale of project contracting services*

The Group provides project contracting services for the customers. The main sales contract can be divided into design, procurement and installation while the performance obligations of the three parts of the contract are closely related and cannot be separated. Revenue from the sale of project contracting services will be recognised as one performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. The management of the Group considers that input method would faithfully depict the Group's performance towards satisfaction of performance obligation under HKFRS 15.

*(c) Sale of goods – wastewater treatment products*

The Group provides total wastewater treatment solution to customers, the goods or services provided during the contractual period are highly related that the Group would not be able to fulfil its promises by transferring each of the goods or services independently. Thus the services bundled together with the sale of machinery are not considered distinct. Revenue from the construction contracts will be recognised as one performance obligation satisfied over time as the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the construction costs incurred up to the end of reporting period as a percentage of total estimated construction costs for each contract. The management of the Group considers that input method would faithfully depict the Group's performance towards satisfaction of performance obligation under HKFRS 15.

*(d) Rental income*

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

*(e) Warranty*

For warranty embedded to the contracts, the Group accounts for the warranty in accordance with HKAS 37, "Provision, Contingent Liabilities and Contingent Assets" as the warranty provides the customer with assurance that the contracting work complies with the agreed-upon specifications.

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

### 2.24 Revenue recognition *(Continued)*

**Accounting policies applied from 1 July 2018** *(Continued)*

*(f) Existence of significant financing component*

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customers or the Group with a significant benefit of financing. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed by the parties of the contracts.

Notwithstanding the above, a contract does not have a significant financing component in circumstances where payments are in accordance with the typical payment terms of the relevant industry, which has a primary purpose other than financing.

*(g) Contract assets and contract liabilities*

A contract asset represents the Group's right to consideration from customers in exchange for goods or services that the Group has transferred to the customers that is not yet unconditional. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point when the Group's right to payment becomes unconditional other than passage of time.

A contract liability represents the Group's obligation to transfer the goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

### 2.24 Revenue recognition *(Continued)*

**Accounting policies applied until 30 June 2018**

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.

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.

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

### 2.24 Revenue recognition *(Continued)*

**Accounting policies applied until 30 June 2018** *(Continued)*

*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.

The Group presents unconditional rights to consideration as trade receivables. In other conditions that the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised. Net value of contract assets and liabilities is presented regarding one 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.

### 2.25 Earnings per share

**(i) Basic earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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

### 2.26 Dividend income

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

### 2.27 Interest income

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

### 2.28 Operating leases

#### (a) The Group's company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged as expenses to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

#### (b) The Group's company is the lessor

Properties leased out under operating leases are included in investment properties in the consolidated statement of financial position (Note 15). See Note 2.24(d) for the recognition of rental income.

### 2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's statement of financial position in the period in which the dividends are approved by the Company's shareholders.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### (a) Market risk

*(i) Foreign exchange risk*

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

Foreign exchange risk arises when transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in mainland China with most of the Group's transactions denominated and settled in RMB, except that certain trade receivables, trade payables and bank deposits are denominated in US dollar ("USD") which are exposed to foreign currency translation risk. If the USD had strengthened/ weakened by 5% against the RMB while all other variables had been held constant, the Group's net result for the year ended 30 June 2019 would have been approximately RMB114,874 better/worse (2018: RMB161,128), for various financial assets denominated in USD.

*(ii) Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Borrowings at floating rates expose the Group to cash flow interest-rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in Note 20 and Note 22 respectively.

As at 30 June 2019 and 2018, the Group has no interest-bearing loans with floating rate.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (b) Credit risk

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

To manage the risk with respect to cash and cash equivalents, pledged deposits and FVOCI, they are either placed with or issued by highly reputable financial institutions.

The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- Internal credit rating;
- External credit rating;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- Actual or expected significant changes in the operating results of the debtors.

Management performs ongoing credit evaluations of the counterparties. The credit quality of these customers are assessed, which takes into account their financial position, past experience and available forward-looking information.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and available forward-looking information.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work done and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the expected loss rates for the contract assets.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (b) Credit risk *(Continued)*

Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL. For other receivables, the impairment provision were determined as the 12 months expected credit loss, as there was no significant increase of credit risk since the initial recognition. The Group has performed the assessment for other receivables and concluded that no material financial impact exists.

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 30 June 2019 or 1 July 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables and contract assets:

| 30 June 2019 | Not due | Up to 3 months past due | 3 months to 6 months past due | 6 months to 1 year past due | 1 year to 2 years past due | Over 2 years past due | Total |
|---|---|---|---|---|---|---|---|
| Trade receivables | | | | | | | |
| Gross carrying amount | 38,536,280 | 238,066,464 | 33,350,026 | 20,551,133 | 160,951,617 | 21,840,747 | 513,296,267 |
| Expected loss rate | 0.5%-6.1% | 0.5%-6.6% | 0.5%-11.5% | 0.5%-12.2% | 0.5%-33.3% | 0.5%-100.0% | |
| Loss allowance | 2,072,685 | 15,482,126 | 2,227,562 | 2,486,874 | 4,470,866 | 12,798,804 | 39,538,917 |
| Contract assets | | | | | | | |
| Gross carrying amount | 83,233,062 | – | – | – | – | – | 83,233,062 |
| Expected loss rate | 0.5%-6.1% | | | | | | |
| Loss allowance | 971,472 | – | – | – | – | – | 971,472 |

| 1 July 2018 | Not due | Up to 3 months past due | 3 months to 6 months past due | 6 months to 1 year past due | 1 year to 2 years past due | Over 2 years past due | Total |
|---|---|---|---|---|---|---|---|
| Trade receivables | | | | | | | |
| Gross carrying amount | 196,827,733 | 85,315,087 | 2,605,693 | 14,466,364 | 6,780,705 | 17,523,621 | 323,519,203 |
| Expected loss rate | 0.0% | 0.3%-7.9% | 0.3%-10.2% | 0.6%-11.0% | 0.8%-100.0% | 1.5%-100.0% | |
| Loss allowance | – | 1,621,518 | 8,249 | 203,180 | 1,592,311 | 11,904,332 | 15,329,590 |
| Contract assets | | | | | | | |
| Gross carrying amount | 186,754,410 | – | – | – | – | – | 186,754,410 |
| Expected loss rate | 0.0%-11.0% | | | | | | |
| Loss allowance | 442,388 | – | – | – | – | – | 442,388 |

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (c) Liquidity risk

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

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

| **As at 30 June 2019** | **Less than 1 year RMB** | **Between 1 and 2 years RMB** | **Between 2 and 5 years RMB** | **Over 5 years RMB** | **Total RMB** |
|---|---|---|---|---|---|
| Convertible bonds | 102,500,000 | – | – | – | 102,500,000 |
| Interest-bearing loans | 57,003,686 | – | – | – | 57,003,686 |
| Trade and other payables | 269,008,111 | – | – | – | 269,008,111 |
| | 428,511,797 | – | – | – | 428,511,797 |

| As at 30 June 2018 | Less than 1 year RMB | Between 1 and 2 years RMB | Between 2 and 5 years RMB | Over 5 years RMB | Total RMB |
|---|---|---|---|---|---|
| Convertible bonds | 75,710,498 | – | – | – | 75,710,498 |
| Contingent consideration arose from business acquisition | – | 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 |

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Capital risk management

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

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

Consistent with 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 the total borrowings (current and non-current) as shown in the consolidated statement of financial position. Total capital is calculated as total equity as shown in the consolidated statement of financial position plus total debt.

The gearing ratios at 30 June 2019 and 2018 were as follows:

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Total debt – interest – bearing loans and convertible bonds (Note 22, 25) | **140,311,577** | 97,568,378 |
| Total equity | **654,573,361** | 766,602,972 |
| Total capital | **794,884,938** | 864,171,350 |
| Gearing ratio | **17.7%** | 11.3% |

### 3.3 Fair value estimation

Financial instruments carried at fair value are measured by different valuation methods. The inputs to valuation methods are categorised into three levels within a fair value hierarchy, as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2019 and 30 June 2018.

| At 30 June 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| FVOCI | – | 28,760,512 | – | 28,760,512 |

| At 30 June 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Liabilities | | | | |
| Contingent consideration arose from business acquisition | – | – | 7,540,000 | 7,540,000 |

**(a) Financial instruments in level 1**

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**(b) Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The Group's FVOCI are initially recognised at fair value based on level 2 valuation method and subsequently measured at fair value.

**(c) Financial instruments in level 3**

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The Group's contingent consideration arose from business acquisition, classified as level 3 financial liabilities. The fair values are determined using discounted cash flow model, the main inputs are the expected yield rates which are an unobservable data.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 Fair value estimation *(Continued)*

#### (c) Financial instruments in level 3 *(Continued)*

*Quantitative information about fair value measurements using significant unobservable inputs (Level 3)*

| Description | Fair value at 30 June 2018 | Valuation Technique | Unobservable input | Range | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Contingent consideration arose from business acquisition | 7,540,000 | Discounted cash flow model | Discount rate | 17% | Negative correlation |
| | | | Expected cash inflows | RMB 4,292,392 – RMB 5,791,976 | Positive correlation |

For the years ended 30 June 2019 and 2018, there are no transfers among levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no changes in the classification of financial assets as a result of a change in the purpose or use of those assets.

Other than contingent consideration arose from business acquisition, the carrying amounts of the Group's financial assets (including trade and other receivables, pledged deposits and cash and cash equivalents) and financial liabilities (including trade and other payables, convertible bonds and interest-bearing loans) approximate their fair values due to their short-term maturities.

#### (d) Valuation processes

The Group engages external, independent and qualified valuer to determine the fair value of the group's contingent consideration arose from business acquisition at the end of every financial year.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Discount rates for contingent consideration arose from business acquisition are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

- Contingent consideration arose from business acquisition – expected cash inflows are estimated based on the terms of the sale contract and the entity's knowledge of the business and how the current economic environment is likely to impact it.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates

#### (a) Impairment of trade and other receivables and contract assets

For trade and other receivables and contract assets, the Group applies ECL model to provide for expected credit losses as prescribed by HKFRS 9, which requires the use of the 12-month or lifetime expected loss allowance. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at the end of each reporting period.

#### (b) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. For the 2019 and 2018 reporting period, the recoverable amount of CGU was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 17. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 17.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 4.2 Critical accounting judgements

#### (c) Revenue recognition

For the revenue from sales of goods and project contracting services recognised over time, the Group recognises revenue by applying an input method to measure the progress towards complete satisfaction of the performance obligation. The input method recognises revenue based on the proportion of the actual costs incurred to the estimated total costs for satisfaction of the performance obligation. Significant judgements and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the year end.

## 5 SEGMENT INFORMATION

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

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

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

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

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

## 5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2019

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Total RMB |
|---|---|---|---|---|---|
| Segment revenue from external customers | 203,307,550 | 261,329,219 | 48,041,591 | 251,295,706 | 763,974,066 |
| Timing of revenue recognition | | | | | |
| At a point in time | 203,307,550 | – | 39,730,535 | 251,295,706 | 494,333,791 |
| Over time | – | 261,329,219 | 8,311,056 | – | 269,640,275 |
| Segment cost of sales | (150,189,743) | (217,942,033) | (46,506,390) | (228,359,216) | (642,997,382) |
| Segment gross profit | 53,117,807 | 43,387,186 | 1,535,201 | 22,936,490 | 120,976,684 |
| Segment results | 20,749,634 | 26,257,902 | (11,247,163) | (15,519,824) | 20,240,549 |
| Common administrative expenses | | | | | (21,134,963) |
| Other income and (losses)/gains, net (Note 6) | | | | | (108,630,916) |
| Finance costs – net (Note 9) | | | | | (11,518,384) |
| Loss before income tax | | | | | (121,043,714) |
| Income tax expense (Note 10) | | | | | (8,824,351) |
| Loss for the year | | | | | (129,868,065) |

Other segment information:

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| Capital expenditure (Notes 14,16) | 2,155,231 | 75,239 | 54,687 | 12,798,487 | – | 15,083,644 |
| Depreciation of property, plant and equipment (Notes 14) | 1,452,854 | 25,146 | 1,660,317 | 3,644,361 | – | 6,782,678 |
| Amortisation of prepaid land lease payments (Notes 16(i)) | 106,539 | – | 141,355 | 1,622,361 | 127,474 | 1,997,729 |
| Depreciation of investment properties (Notes 15) | – | – | – | 6,114,005 | 310,742 | 6,424,747 |
| Amortisation of other intangible assets (Notes 16(ii)) | 2,047,850 | – | – | 98,763 | – | 2,146,613 |
| Impairment of goodwill (Note 17) | – | – | – | 105,063,873 | – | 105,063,873 |

## 5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2018:

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Total RMB |
|---|---|---|---|---|---|
| Segment revenue from external customers | 121,692,110 | 215,873,846 | 99,827,528 | 174,729,914 | 612,123,398 |
| Timing of revenue recognition | | | | | |
| At a point in time | 121,692,110 | – | 76,241,367 | 174,729,914 | 372,663,391 |
| Over time | – | 215,873,846 | 23,586,161 | – | 239,460,007 |
| 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 | | | | | (22,853,670) |
| Unallocated net impairment losses on financial and contract assets | | | | | (203,230) |
| Other income and (losses)/gains, net (Note 6) | | | | | 5,548,305 |
| Finance costs – net (Note 9) | | | | | (5,400,384) |
| Profit before income tax | | | | | 60,422,272 |
| Income tax expense (Note 10) | | | | | (12,521,204) |
| Profit for the year | | | | | 47,901,068 |

Other segment information:

| | Industrial products RMB | Project contracting services RMB | Environmental products RMB | Supporting services RMB | Unallocated RMB | Total RMB |
|---|---|---|---|---|---|---|
| Capital expenditure | 16,685,280 | – | 405,248 | 233,500,146 | 280,129 | 250,870,803 |
| Depreciation of property, plant and equipment (Notes 14) | 886,942 | – | 1,181,896 | 743 | 1,973,197 | 4,042,778 |
| Amortisation of prepaid land lease payments (Notes 16(i)) | 51,029 | – | 67,704 | 836,189 | 61,055 | 1,015,977 |
| Depreciation of investment properties (Notes 15) | – | – | – | – | 310,742 | 310,742 |
| Amortisation of other intangible assets (Notes 16(ii)) | 1,535,888 | – | – | – | – | 1,535,888 |

## 5 SEGMENT INFORMATION *(Continued)*

| Segment assets | For the year ended 30 June 2019 RMB | 2018 RMB |
|---|---|---|
| Project contracting services | **490,983,666** | 403,673,667 |
| Supporting services | **443,391,478** | 479,699,633 |
| Industrial products | **212,327,398** | 253,070,470 |
| Environmental products | **70,422,522** | 107,378,222 |
| **Total segment assets** | **1,217,125,064** | 1,243,821,992 |
| Unallocated: | | |
| Pledged deposits (Note 20) | **29,976,599** | 69,697,182 |
| Cash and cash equivalents (Note 20) | **24,196,754** | 71,832,837 |
| Deferred tax assets (Note 23) | **8,353,095** | 4,212,878 |
| Investment properties | **5,679,053** | 5,989,795 |
| Prepayments – non – current portion (Note 19)(iii) | **195,903** | 208,963 |
| Prepaid land lease payments | **–** | 5,621,779 |
| **Total assets as per the statement of financial position** | **1,285,526,468** | 1,401,385,426 |

| Segment liabilities | For the year ended 30 June 2019 RMB | 2018 RMB |
|---|---|---|
| Project contracting services | **201,993,421** | 173,632,010 |
| Supporting services | **149,700,093** | 64,919,044 |
| Industrial products | **121,413,440** | 195,202,469 |
| Environmental products | **59,759,940** | 78,785,709 |
| **Total segment liabilities** | **532,866,894** | 512,539,232 |
| Unallocated: | | |
| Convertible bonds (Note 25) | **85,525,913** | 75,710,498 |
| Income tax payable | **11,911,209** | 6,675,441 |
| Other payables | **649,091** | 32,317,283 |
| Contingent consideration arose from business acquisition | **–** | 7,540,000 |
| **Total liabilities as per the statement of financial position** | **630,953,107** | 634,782,454 |

## 5 SEGMENT INFORMATION *(Continued)*

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

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018* |
| | **RMB** | RMB |
| Contract assets (i): | | |
| Contract assets relating to sale of goods | **16,435,710** | 15,447,384 |
| Contract assets relating to sale of project contracting services | **66,797,352** | 171,307,026 |
| Less: Provision for impairment | **(971,472)** | (442,388) |
| Total Contract assets | **82,261,590** | 186,312,022 |
| Contract liabilities (ii): | | |
| Contract liabilities relating to sale of goods | **101,549,740** | 139,605,009 |
| Contract liabilities relating to sale of project contracting services | **39,616,327** | 89,692,910 |
| Total contract liabilities | **141,166,067** | 229,297,919 |

* Reclassified and remeasured amounts – see note 2.1(e) for explanations

(i) Significant changes in contract assets and liabilities

The decrease in contract assets was mainly due to reclassification to trade receivables as the rights to consideration relating to sale of project contracting services become unconditional. The decrease in contract liabilities was mainly due to revenue recognised related to those contract liabilities and less receipt in advance from customers.

(ii) Revenue recognised in relations to contract liabilities :

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

| | **For the year ended 30 June 2019 RMB** |
|---|---|
| Revenue recognised that was included in the contract liabilities balance at the beginning of the period | **215,514,462** |

## 5 SEGMENT INFORMATION *(Continued)*

(iii) Unsatisfied long-term contracts

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

| | For the year ended 30 June 2019 RMB |
|---|---|
| Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 30 June 2019 | **399,047,108** |

* As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to (partially) unsatisfied performance obligation as of 30 June 2018 is not disclosed.

Management expects that 36% of the transaction price allocated to the unsatisfied contracts as of 30 June 2019 will be recognised as revenue during the next reporting period (RMB 144,591,601). The remaining 64% (RMB 254,455,507) will be recognised in the year ended 30 June 2021.

## 6 OTHER INCOME AND (LOSSES)/GAINS, NET

| | For the year ended 30 June | |
|---|---|---|
| | **2019 RMB** | 2018 RMB |
| Interest income from customer delaying on payment | **12,670,796** | – |
| Interest income recognised from project contracting services | **4,729,429** | |
| Government grants | **3,121,071** | 1,097,122 |
| Lawsuit | **2,298,000** | – |
| Tax refund | **1,388,268** | – |
| Exhibition Service Income | **1,132,076** | – |
| Rental income | **617,554** | 381,566 |
| Interest income from loan to a customer | **368,115** | |
| Gain on scrap steel sale | **204,203** | 209,817 |
| Bidding service income | **–** | 3,363,208 |
| Change in fair value of contingent consideration (Note 1) | **(30,437,752)** | 77,422 |
| Impairment of goodwill (Note 17) | **(105,063,873)** | – |
| Others | **341,197** | 419,170 |
| | **(108,630,916)** | 5,548,305 |

## 7 EXPENSES BY NATURE

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Raw materials used | **617,448,136** | 420,660,870 |
| Employee benefit expenses (Note 8) | **61,204,032** | 43,871,276 |
| Travelling expenses | **10,304,861** | 8,603,406 |
| Depreciation of investment properties (Note 15) | **6,424,747** | 310,742 |
| Depreciation of property, plant and equipment (Note 14) | **6,782,678** | 4,042,778 |
| Outsourcing service fees | **4,160,109** | 3,449,730 |
| Professional service fees | **3,922,562** | 2,992,396 |
| Entertainment expenses | **3,587,276** | 3,118,248 |
| Office expenses | **3,280,953** | 4,209,123 |
| Addition of provision for write-down of inventories (Note 18) | **2,697,019** | 259,144 |
| Warranty expenses | **2,675,543** | 2,847,105 |
| Transportation expenses | **2,356,717** | 2,953,914 |
| Amortisation of other intangible assets (Note 16(ii)) | **2,146,613** | 1,535,888 |
| Amortisation of prepaid land lease payments (Note 16(i)) | **1,997,729** | 1,015,977 |
| Miscellaneous tax charges other than value added tax and income tax | **1,870,012** | 3,046,537 |
| Auditor's remuneration | **1,830,000** | 2,555,136 |
| Advertising costs | **653,057** | 654,615 |
| Utilities | **564,994** | 221,572 |
| Change in inventories of finished goods and work in progress (Note 18) | **(34,171)** | 34,099,739 |
| Other expenses | **2,393,347** | 8,840,640 |
| | **736,266,214** | 549,288,836 |

## 8 EMPLOYEE BENEFIT EXPENSES

| | For the year ended 30 June | |
|---|---|---|
| | 2019 RMB | 2018 RMB |
| Wages and salaries | 38,891,673 | 30,335,077 |
| Social security costs | 6,220,039 | 4,635,151 |
| Bonuses | 5,401,777 | 4,213,327 |
| Share options (Note 27) | 4,399,960 | – |
| Pension costs – defined contribution plans | 2,846,444 | 2,121,160 |
| Other benefits | 3,444,139 | 2,566,561 |
| | 61,204,032 | 43,871,276 |

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2019 include four (2018: three) directors whose emoluments are reflected in the analysis shown in Note 32. The emoluments payable to the remaining one (2018: two) individual for the year ended 30 June 2019 is as follows:

| | For the year ended 30 June | |
|---|---|---|
| | 2019 RMB | 2018 RMB |
| Salaries, allowances and benefits in kind | 522,420 | 1,098,806 |
| Share options | 143,316 | – |
| Bonuses | 65,303 | 183,134 |
| Other benefits | 15,673 | 28,349 |
| | 746,712 | 1,310,289 |

The emoluments fell within the following bands:

| | For the year ended 30 June | |
|---|---|---|
| | 2019 | 2018 |
| Emolument bands | | |
| Within HKD1,000,000 (equivalent to approximately RMB876,000) | 1 | 2 |

## 9 FINANCE COSTS – NET

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Finance costs | | |
| – Interest on convertible bonds (Note 25) | **(10,819,398)** | (14,804,185) |
| – Interest on loans | **(2,343,973)** | (1,116,317) |
| – Amount capitalised | **386,240** | 241,303 |
| | **(12,777,131)** | (15,679,199) |
| Finance income | | |
| – Interest income | **737,621** | 9,329,181 |
| – Exchange gain, net | **521,126** | 949,634 |
| | **1,258,747** | 10,278,815 |
| Finance costs – net | **(11,518,384)** | (5,400,384) |

## 10 INCOME TAX EXPENSE

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Current income tax | | |
| PRC enterprise income tax (iii) | **13,124,571** | 13,287,529 |
| Deferred income tax (Note 23) | **(4,300,220)** | (766,325) |
| Income tax expense | **8,824,351** | 12,521,204 |

### (i) Cayman Islands profits tax

Corporate income is not imposed on corporations in the Cayman Islands.

### (ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the year ended 30 June 2019 (2018: Nil), as the Group had no taxable profits earned in Hong Kong during the year.

## 10 INCOME TAX EXPENSE *(Continued)*

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

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

Zhejiang Huazhang Technology Limited ("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 2017 respectively with a validation period of three years. The applicable EIT rate of Zhejiang Huazhang is 15% from 2008 till 2019. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2019 (2018: 15%).

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

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| (Loss)/profit before income tax | **(121,043,714)** | 60,422,272 |
| Tax calculated at the statutory tax rate of 25% | **(30,260,929)** | 15,105,568 |
| Tax effects of: | | |
| Preferential income tax enjoyed by Zhejiang Huazhang | **(5,741,452)** | (3,533,345) |
| Different tax rate effect | **8,380,849** | – |
| Income not subject to tax | **(651,050)** | – |
| Provision for goodwill impairment not deductable for tax purpose | **26,265,968** | – |
| Expenses not deductible for income tax purpose | **5,095,277** | 238,086 |
| Research and development tax credit | **(1,652,199)** | (1,147,642) |
| Tax losses for which no deferred income tax asset was recognised | **8,212,054** | 1,906,891 |
| Adjustments for current tax of prior years | **(824,167)** | (48,354) |
| Income tax expense | **8,824,351** | 12,521,204 |

## 11 EARNINGS PER SHARE

For years ended 30 June 2019 and 2018, basic earnings per share are based on the (loss)/profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

## 11 EARNINGS PER SHARE *(Continued)*

The diluted earnings per share is same as the basic earnings per share for the year ended 30 June 2019 as any potential ordinary shares would have anti-dilutive effect (2018: Adjustment has been made to the basic earnings per share in respect of the impact of shares that were contingently issuable as part of the consideration for the business acquisition on 25 September 2017. Impact of convertible bonds is not adjusted as it would have an anti-dilutive effect.).

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| **Basic** | | |
| Earnings | | |
| (Loss)/profit attributable to ordinary equity holders of the parent | **(128,269,107)** | 48,285,144 |
| Number of shares | | |
| Weighted average number of ordinary shares in issue during the year | **728,246,767** | 674,223,209 |
| Basic (losses)/earnings per share (RMB cents) | **(17.61)** | 7.16 |
| **Diluted** | | |
| Earnings | | |
| (Loss)/profit attributable to ordinary equity holders of the parent | **(128,269,107)** | 48,285,144 |
| Number of shares | | |
| Weighted average number of ordinary shares in issue during the year | **728,246,767** | 674,223,209 |
| Adjustment for contingent shares | **–** | 2,017,142 |
| Weighted average number of ordinary shares in issue and potential ordinary shares issued as the denominator in calculating diluted earnings per share during the year | **728,246,767** | 676,240,351 |
| Diluted (losses)/earnings per share (RMB cents) | **(17.61)** | 7.14 |

## 12 DIVIDENDS

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Proposed final dividend | **–** | 18,953,520 |
| | **–** | 18,953,520 |

The dividends of 3.0 HK cents per share (2018: 2.4 HK cents per share), an amount of RMB18,994,497 was paid for the year ended 30 June 2019 (2018: RMB12,438,575).

On 25 September 2019, the Board resolved not to declare any dividend for the year ended 30 June 2019 (2018: RMB18,953,520).

## 13 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 30 June 2019 and 2018 are as follows:

| Company name | Place/Date of incorporation | Legal status | Registered capital | Issued and fully paid capital | Effective interest held as at 30 June 2019 | 2018 | Principal activities |
|---|---|---|---|---|---|---|---|
| Zhejiang Huazhang* | PRC/19 July 2001 | Limited Company | USD41,300,000 | USD41,300,000 | 100% | 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 | Limited Company | HKD5,000,000 | HKD3,000,002 | 100% | 100% | Investment holding and trading of electronic parts |
| Likwin Limited ("Likwin") | BVI/8 June 2012 | Limited Company | USD50,000 | USD1 | 100% | 100% | Investment holding |
| Huazhang Technology (Hangzhou) Limited ("Huazhang Hangzhou") | PRC/7 August 2014 | Limited Company | RMB30,000,000 | RMB30,000,000 | 100% | 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 | Limited Company | RMB50,000,000 | RMB8,553,000 | 70% | 70% | Wastewater treatment business |
| Hangzhou Haorong Technology Co., Ltd. ("Haorong") | PRC/21 April 2006 | Limited Company | RMB500,000 | RMB500,000 | 100% | 100% | Computer software and hardware, and technical service |
| Hangzhou MCN Paper Tech Co., Ltd. ("MCN") | PRC/5 March 2001 | Limited Company | RMB1,200,000 | RMB1,200,000 | 100% | 100% | Research, development and distribution of headboxes used in papermaking production line |
| Guangdong Huazhang Logistics Warehouse Limited ("777") | PRC/12 November 2015 | Limited Company | USD25,000,000 | USD25,000,000 | 100% | 100% | Logistics and warehousing services to papermaking factories |
| Huazhang Technology Logistics Warehouse Limited ("777 HK") | Hong Kong/9 March 2015 | Limited Company | HKD1 | HKD1 | 100% | 100% | Investment holding |
| Huazhang Technology Logistics Limited ("777 BVI") | BVI/22 April 2015 | Limited Company | USD100 | USD100 | 100% | 100% | Investment holding |
| Baoshan Jintaisheng Logistics Limited ("Jintaisheng") | PRC/1 February 2018 | Limited Company | RMB5,000,000 | – | 100% | 100% | Logistics and warehousing services |
| Fine Global Enterprises Limited ("Fine Global") | BVI/11 December 2018 | Limited Company | USD1 | USD1 | 100% | – | Investment holding |
| Huazhang Environmental Resources Investment Limited | Hong Kong/2 January 2019 | Limited Company | HKD10,000 | HKD10,000 | 100% | – | Environmental Resources |

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

## 14 PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB | Machinery and vehicles RMB | Furniture, fittings and equipment RMB | Construction in progress RMB | Total RMB |
|---|---|---|---|---|---|
| **Year ended 30 June 2019** | | | | | |
| Opening net book amount as at 1 July 2018 | **181,801,787** | **16,339,637** | **1,445,115** | **–** | **199,586,539** |
| Additions | **1,821,541** | **902,548** | **556,844** | **2,485,704** | **5,766,637** |
| Disposals (Note 28(b)) | **–** | **(208,034)** | **(4,059)** | **–** | **(212,093)** |
| Internal transfer | **636,793** | **–** | **–** | **(636,793)** | **–** |
| Transfer to investment properties (Note 15) | **(116,364,898)** | **–** | **–** | **–** | **(116,364,898)** |
| Depreciation charge (Note 7) | **(4,544,332)** | **(1,932,779)** | **(305,567)** | **–** | **(6,782,678)** |
| **Closing net book amount as at 30 June 2019** | **63,350,891** | **15,101,372** | **1,692,333** | **1,848,911** | **81,993,507** |
| **Year ended 30 June 2018** | | | | | |
| Opening net book amount as at 1 July 2017 | 32,814,849 | 5,795,907 | 1,530,558 | – | 40,141,314 |
| Additions | – | 385,803 | 327,722 | 25,040,173 | 25,753,698 |
| Internal Transfer | 151,544,294 | 10,939,559 | – | (162,483,853) | – |
| Acquisition of a subsidiary | – | 256,902 | 33,723 | 137,443,680 | 137,734,305 |
| Depreciation charge (Note 7) | (2,557,356) | (1,038,534) | (446,888) | – | (4,042,778) |
| **Closing net book amount as at 30 June 2018** | 181,801,787 | 16,339,637 | 1,445,115 | – | 199,586,539 |

For the years ended 30 June 2019 and 2018, the amounts of depreciation expenses charged to cost of sales, selling and distribution expenses, administrative expenses and research and development expenses are as follows:

| | As at 30 June 2019 RMB | 2018 RMB |
|---|---|---|
| Cost of sales | **4,535,816** | 2,560,763 |
| Administrative expenses | **2,043,786** | 1,325,810 |
| Research and development expenses | **199,498** | 156,205 |
| Selling and distribution expenses | **3,578** | – |
| Total | **6,782,678** | 4,042,778 |

As at 30 June 2019, buildings with an aggregate carrying amount of RMB63,350,891 (2018: RMB 29,820,332) were pledged as collateral for the Group's banking facilities (Note 22).

## 15 INVESTMENT PROPERTIES

| | Investment properties RMB |
|---|---|
| **Year ended 30 June 2019** | |
| Opening net book amount as at 1 July 2018 | **5,989,795** |
| Transfer from property, plant and equipment (Note 14) | **116,364,898** |
| Depreciation charge (Note 7) | **(6,424,747)** |
| **Closing net book amount as at 30 June 2019** | **115,929,946** |
| **Year ended 30 June 2018** | |
| Opening net book amount as at 1 July 2017 | 6,300,537 |
| Depreciation charge (Note 7) | (310,742) |
| **Closing net book amount as at 30 June 2018** | 5,989,795 |

Amount recognised in profit or loss for investment properties included:

| | **For the year ended 30 June** | |
|---|---|---|
| | **2019 RMB** | 2018 RMB |
| Rental income | **2,454,484** | 514,729 |
| Depreciation of investment properties | **(6,424,747)** | (310,742) |
| | **(3,970,263)** | 203,987 |

As at 30 June 2019, the fair value of the investment property, together with its connected prepaid land lease payments, was approximately RMB 250,000,000 (30 June 2018: RMB 13,667,399).

As at 30 June 2019, investment properties with an aggregate carrying amount of RMB115,929,946 (30 June 2018: RMB 5,989,795) were pledged as collateral for the Group's banking facilities (Note 22).

## 16 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

### (i) Prepaid land lease payments

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Opening net book amount | **73,337,828** | 3,353,805 |
| Additions | **7,459,413** | – |
| Acquisition of a subsidiary | **–** | 71,000,000 |
| Amortisation charge (Note 7) | **(1,997,729)** | (1,015,977) |
| Closing net book amount | **78,799,512** | 73,337,828 |
| Less: Prepaid land lease payments – current portion | **–** | (1,292,172) |
| Prepaid land lease payments – non-current portion | **78,799,512** | 72,045,656 |

Amortisation expenses of RMB 1,996,841 (2018 : RMB 1,005,914) and RMB 888 (2018 : RMB 10,063) have been charged in administrative expenses and research and development expenses, respectively for the year ended 30 June 2019.

As at 30 June 2019, prepaid land lease payments with an aggregate carrying amount of RMB 78,799,512 (30 June 2018: RMB 3,248,863) were pledged as collateral for the Group's banking facilities (Note 22).

## 16 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

*(Continued)*

### (ii) Other intangible assets

| | Patents RMB | Software RMB | Total RMB |
|---|---|---|---|
| **Year ended 30 June 2019** | | | |
| Opening net book amount as at 1 July 2018 | **14,846,912** | **–** | **14,846,912** |
| Additions | **–** | **1,857,594** | **1,857,594** |
| Amortisation charge (Note 7) | **(2,047,850)** | **(98,763)** | **(2,146,613)** |
| **Closing net book amount as at 30 June 2019** | **12,799,062** | **1,758,831** | **14,557,893** |
| **Year ended 30 June 2018** | | | |
| Opening net book amount as at 1 July 2017 | – | – | – |
| Acquisition of a subsidiary | 16,382,800 | – | 16,382,800 |
| Amortisation charge (Note 7) | (1,535,888) | – | (1,535,888) |
| **Closing net book amount as at 30 June 2018** | 14,846,912 | – | 14,846,912 |

Amortisation expenses of RMB 2,146,613 (2018 : RMB 1,535,888) have been charged to administrative expenses for the year ended 30 June 2019.

## 17 GOODWILL

| | Headbox business RMB | Logistics and warehousing services RMB | Others RMB | Total RMB |
|---|---|---|---|---|
| **Year ended 30 June 2019** | | | | |
| Opening net book amount as at 1 July 2018 | **36,155,379** | **108,247,008** | **596,370** | **144,998,757** |
| Impairment charge (Note 6) | **–** | **(105,063,873)** | **–** | **(105,063,873)** |
| **Closing net book amount as at 30 June 2019** | **36,155,379** | **3,183,135** | **596,370** | **39,934,884** |
| **Year ended 30 June 2018** | | | | |
| Opening net book amount as at 1 July 2017 | – | – | 596,370 | 596,370 |
| Goodwill on acquisition | 36,155,379 | 108,247,008 | – | 144,402,387 |
| **Closing net book amount as at 30 June 2018** | 36,155,379 | 108,247,008 | 596,370 | 144,998,757 |

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

Goodwill is allocated to the cash generating unit ("CGU") of headbox business under the business segment of industrial products and the CGU of logistics and warehousing services under the business segment of supporting services for impairment test.

## 17 GOODWILL *(Continued)*

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

| 30 June 2019 | Headbox business | Logistics and warehousing services |
|---|---|---|
| Sales (% annual growth rate) | **4%-5%** | **8%-94%** |
| Budgeted gross margin (%) | **33%-34%** | **51%-85%** |
| Long term growth rate (%) | **3%** | **3%** |
| Pre-tax discount rate (%) | **16.7%** | **16%** |
| **30 June 2018** | | |
| Sales (% annual growth rate) | 9%-10% | 15%-33% |
| Budgeted gross margin (%) | 33%-34% | 8% |
| Long term growth rate (%) | 2.5% | 3% |
| Pre-tax discount rate (%) | 14% | 16% |

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

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

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

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

As at 30 June 2019, the impairment charge of RMB105,063,873 (30 June 2018: Nil) arose in the logistics and warehousing services CGU was due to the slow growth of this operation which made the management adjust its five-year cash flow forecast.

## 18 INVENTORIES

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Raw materials | **39,943,419** | 30,525,090 |
| Work in progress | **36,711,019** | 31,839,773 |
| Finished goods | **19,010,884** | 23,916,301 |
| | **95,665,322** | 86,281,164 |
| Less: Provision | **(8,789,980)** | (6,092,961) |
| | **86,875,342** | 80,188,203 |

As at 30 June 2019, raw materials with a cost of RMB11,110,882 were considered as obsolete (30 June 2018: RMB8,770,198) and a provision of RMB8,789,980 (30 June 2018: RMB6,092,961) to write down to their net realisable value was made against those inventories.

## 19 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

### (i) Trade and other receivables

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Warranty receivables (a) | **19,906,655** | 24,294,874 |
| Amounts due from contract customers | **–** | 74,894,609 |
| Other trade receivables (b) | **493,389,612** | 411,084,130 |
| | **513,296,267** | 510,273,613 |
| Less: provision for impairment of trade receivables (c) | **(39,538,917)** | (13,156,318) |
| Trade receivables – net | **473,757,350** | 497,117,295 |
| Bills receivables | **20,218,173** | 83,702,261 |
| Trade and bills receivables | **493,975,523** | 580,819,556 |
| Payment on behalf of an independent third party | **91,449,840** | – |
| Deductible input value added tax | **9,669,086** | 8,639,801 |
| Loan deposit to an independent third party | **8,796,600** | 8,431,000 |
| Loan to a customer | **7,228,531** | – |
| Other receivables – guarantee | **3,247,643** | 5,697,560 |
| Other receivables due from a related party (Note 30(c)(i)) | **23,612** | 17,428 |
| Others | **5,419,728** | 5,317,650 |
| | **125,835,040** | 28,103,439 |
| Less: provision for impairment of other receivables (d) | **(5,981,394)** | (2,156,079) |
| Other receivables – net | **119,853,646** | 25,947,360 |
| Total trade and other receivables | **613,829,169** | 606,766,916 |
| Less: trade and other receivables – non-current portion | **(7,075,588)** | (32,023,284) |
| | **606,753,581** | 574,743,632 |

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

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

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

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

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Warranty receivables | | |
| Up to 3 months | **–** | 3,133,994 |
| 3 months to 6 months | **–** | 2,427,836 |
| 6 months to 1 year | **–** | 4,444,200 |
| 1 year to 2 years | **6,138,336** | 5,418,323 |
| Over 2 years | **13,768,319** | 8,870,521 |
| | **19,906,655** | 24,294,874 |

As at 30 June 2019 and 2018, the management expects that approximately RMB19,906,655 and RMB24,294,874 respectively, will be received within one year.

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

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Other trade receivables | | |
| Up to 3 months | **208,786,984** | 310,309,198 |
| 3 months to 6 months | **3,524,681** | 948,389 |
| 6 months to 1 year | **3,775,227** | 48,487,548 |
| 1 year to 2 years | **230,500,138** | 41,625,606 |
| Over 2 years | **46,802,582** | 9,713,389 |
| | **493,389,612** | 411,084,130 |

As at 30 June 2019 and 2018, the management expects that approximately RMB493,389,612 and RMB411,084,130 respectively, will be received within one year.

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

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

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

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

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Other trade receivables | | |
| Not due | **38,536,280** | 293,240,150 |
| Up to 3 months past due | **238,066,464** | 94,966,932 |
| 3 months to 6 months past due | **33,350,026** | 948,389 |
| 6 months to 1 year past due | **20,551,133** | 12,477,048 |
| 1 year to 2 years past due | **154,813,281** | 798,511 |
| Over 2 years past due | **8,072,428** | 8,653,100 |
| | **493,389,612** | 411,084,130 |

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

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| At beginning of the year | **13,156,318** | 6,529,385 |
| Amounts restated through opening retained earnings | **2,173,272** | – |
| Additions resulting from acquisition of subsidiaries | **–** | 5,111,746 |
| Impairment losses recognised | **24,247,867** | 2,356,981 |
| Amounts written off as uncollectible | **(38,540)** | (841,794) |
| At the end of the year | **39,538,917** | 13,156,318 |

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

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| At beginning of the year | **2,156,079** | 1,952,849 |
| Impairment losses recognised | **3,825,315** | 203,230 |
| At the end of the year | **5,981,394** | 2,156,079 |

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

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

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

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

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| RMB | **603,253,912** | 594,533,277 |
| HKD | **9,029,847** | 12,138,625 |
| USD | **1,545,410** | 95,014 |
| | **613,829,169** | 606,766,916 |

### (ii) Contract assets

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Contract assets | **83,233,062** | – |
| Less: provision for impairment of contract assets (a) | **(971,472)** | – |
| | **82,261,590** | – |

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

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| At beginning of the year | **–** | – |
| Amounts restated through opening retained earnings | **442,388** | – |
| Impairment losses recognised | **529,084** | – |
| At the end of the year | **971,472** | – |

As at 30 June 2019, all the carrying amounts of contract assets were denominated in RMB.

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

### (iii) Prepayments

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Prepayments for procurement | **79,921,802** | 128,694,966 |
| Others | **135,863** | 185,115 |
| Total prepayments | **80,057,665** | 128,880,081 |
| Less: prepayments – non-current portion | **(195,903)** | (208,963) |
| | **79,861,762** | 128,671,118 |

## 20 CASH AND CASH EQUIVALENTS

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Cash at bank and on hand | **54,173,353** | 142,577,517 |
| Less: Pledged deposits | **(29,976,599)** | (69,697,182) |
| Cash and cash equivalents | **24,196,754** | 72,880,335 |

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

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

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| RMB | **47,344,650** | 106,550,232 |
| HKD | **1,208,726** | 24,901,997 |
| USD | **5,590,308** | 9,588,837 |
| EUR | **29,669** | 1,536,451 |
| | **54,173,353** | 142,577,517 |

## 21 TRADE AND OTHER PAYABLES

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Trade payables | **129,178,810** | 136,756,489 |
| Bills payable | **110,852,396** | 67,797,047 |
| | **240,031,206** | 204,553,536 |
| Other taxes payables | **32,501,508** | 31,863,486 |
| Amount due to suppliers on a customer's behalf | **13,775,461** | - |
| Payables for property, plant and equipment | **6,487,991** | 14,051,015 |
| Accruals | **5,694,078** | 2,021,477 |
| Employee benefit payables | **3,185,326** | 2,630,637 |
| Deposits | **915,000** | 681,457 |
| Provision for warranty expenses | **484,577** | 370,008 |
| Amounts due to related parties (Note 30(c)(ii)) | **49,500** | – |
| Advances from customers | **–** | 229,297,919 |
| Others | **2,054,875** | 4,434,210 |
| | **65,148,316** | 285,350,209 |
| | **305,179,522** | 489,903,745 |

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

| | As at 30 June | |
|---|---|---|
| | **2018** | 2018 |
| | **RMB** | RMB |
| Up to 3 months | **85,129,189** | 97,406,971 |
| 3 months to 6 months | **23,254,725** | 15,447,171 |
| 6 months to 1 year | **5,631,296** | 9,856,070 |
| 1 year to 2 years | **6,264,575** | 11,053,489 |
| Over 2 years | **8,899,025** | 2,992,788 |
| | **129,178,810** | 136,756,489 |

## 21 TRADE AND OTHER PAYABLES *(Continued)*

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

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| RMB | **303,584,561** | 469,257,192 |
| HKD | **39,707** | 19,878,902 |
| USD | **1,555,254** | 767,651 |
| | **305,179,522** | 489,903,745 |

## 22 INTEREST – BEARING LOANS

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Loan from a non-controlling shareholder (Note 30(c)(ii)) | **642,151** | 1,000,000 |
| Bank borrowings | **23,000,000** | – |
| Other borrowings | **31,143,513** | 20,857,880 |
| | **54,785,664** | 21,857,880 |

## 22 INTEREST – BEARING LOANS *(Continued)*

Movement of interest – bearing loans is analysed as follows:

| | Loan from non-controlling shareholders | Loan from bank | Loan from independent third parties | Total |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| **For the year ended 30 June 2019** | | | | |
| Opening net book amount as at 1 July 2018 | **1,000,000** | **–** | **20,857,880** | **21,857,880** |
| Additions | **–** | **23,000,000** | **14,338,800** | **37,338,800** |
| Accrual of interest (Note 9) | **142,151** | **354,989** | **1,846,833** | **2,343,973** |
| Repayments | **(500,000)** | **(354,989)** | **(5,900,000)** | **(6,754,989)** |
| **Closing net book amount as at 30 June 2019** | **642,151** | **23,000,000** | **31,143,513** | **54,785,664** |
| **For the year ended 30 June 2018** | | | | |
| Opening net book amount as at 1 July 2017 | 3,626,000 | 5,000,000 | – | 8,626,000 |
| Additions | – | – | 9,415,303 | 9,415,303 |
| Acquisition of a subsidiary | – | – | 48,030,836 | 48,030,836 |
| Accrual of interest (Note 9) | 216,136 | 261 | 899,920 | 1,116,317 |
| Repayments | (2,842,136) | (5,000,261) | (37,488,179) | (45,330,576) |
| **Closing net book amount as at 30 June 2018** | 1,000,000 | – | 20,857,880 | 21,857,880 |

As at 30 June 2019, the Group's borrowings are all denominated in RMB.

The loan from a non-controlling shareholder bears interest at a rate of 7.2% per annum (30 June 2018: 7.2%).

As at 30 June 2019, the Group's loans of RMB23,000,000 from bank bears interest at an average rate of 5.31% per annum.

As at 30 June 2019, the Group's loans of RMB31,143,513 from independent third parties bears interest at an average the rate of 6.95% per annum (30 June 2018: 8.06%).

## 22 INTEREST – BEARING LOANS *(Continued)*

As at 30 June 2019 and 2018, the Group's loans are payable as follows:

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| On demand | **17,446,864** | 15,057,880 |
| Within one year | **37,338,800** | 6,800,000 |
| | **54,785,664** | 21,857,880 |

As at 30 June 2019 and 2018, the Group had the following unutilised banking facilities:

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Authorised banking facilities – expiring within one year | **230,343,735** | 76,000,000 |
| Less: utilised banking facilities | **(118,247,624)** | (38,355,456) |
| | **112,096,111** | 37,644,544 |

As at 30 June 2019, the banking facilities granted by the bank was secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB63,350,891, RMB115,929,946 and RMB78,799,512, respectively (30 June 2018: RMB29,820,332, RMB5,989,795, RMB3,248,863, respectively).

## 23 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax balances are related to the same tax authority. The Group does not have deferred tax assets and liabilities that are offset against each other and accordingly they are all stated at gross amounts. As at 30 June 2019 and 2018, the analysis of deferred tax assets and deferred tax liabilities are as follows:

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Deferred tax assets – to be recovered within 12 months | **8,353,095** | 4,212,878 |
| Deferred tax liabilities – to be settled within 12 months | **6,847,232** | 7,594,890 |

## 23 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

The movement on the income tax assets/(liabilities) – net is as follows:

| | Provision for warranty expense RMB | Provision for impairment RMB | Provision for deductible losses RMB | Changes in fair value of derivative instruments RMB | Fair value adjustments arising from acquisition of a subsidiary RMB | Others RMB | Total RMB |
|---|---|---|---|---|---|---|---|
| At 1 July 2018 | **55,502** | **3,595,144** | **497,732** | **64,500** | **(7,594,890)** | **–** | **(3,382,012)** |
| Change of accounting policy | **–** | **587,655** | **–** | **–** | **–** | **–** | **587,655** |
| Credited/(charged) to the consolidated statement of profit and loss (Note 10) | **24,610** | **1,959,470** | **1,487,467** | **(64,500)** | **747,658** | **145,515** | **4,300,220** |
| At 30 June 2019 | **80,112** | **6,142,269** | **1,985,199** | **–** | **(6,847,232)** | **145,515** | **1,505,863** |
| At 1 July 2017 | 85,571 | 2,109,513 | 503,349 | 64,500 | (800,512) | – | 1,962,421 |
| Acquisition of a subsidy | – | 1,277,937 | – | – | (7,388,695) | – | (6,110,758) |
| Credited/(charged) to the consolidated statement of profit and loss (Note 10) | (30,069) | 207,694 | (5,617) | – | 594,317 | – | 766,325 |
| At 30 June 2018 | 55,502 | 3,595,144 | 497,732 | 64,500 | (7,594,890) | – | (3,382,012) |

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at 30 June 2019, the Group did not recognise deferred tax assets of RMB8,212,054 (2018: RMB1,906,891) in respect of tax losses amounting to RMB32,848,216 (2018: RMB7,627,564) that can be carried forward to offset against future taxable income due to uncertainty of realisation.

As at 30 June 2019, losses amounting to RMB1,126,599 and RMB27,873,204 in the PRC will expire in 2023 and 2024 respectively and losses amounting to RMB22,838,355 in HK have no expiration date (As at 30 June 2018, losses amounting to RMB1,377,675 and RMB1,126,599 in the PRC will expire in 2020 and 2023 respectively and losses amounting to RMB7,762,561 in HK have no expiration date).

## 24 DEFERRED INCOME

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| At beginning of the year | **25,500,000** | – |
| Government granted during the year | **1,500,000** | – |
| Acquisition of a subsidiary | **–** | 25,500,000 |
| Amortised as income | **(1,462,500)** | – |
| At end of the year | **25,537,500** | 25,500,000 |

## 25 CONVERTIBLE BONDS

On 29 March 2017, the Company issued convertible bonds in principal amount of HKD100,000,000 (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 HKD2.50 per share (subject to adjustment) at any time on or after 29 April 2017 up to the close of business on the 30th day prior to the maturity date;

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

The 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 HKD100,000,000 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 bond without conversion option with consideration of the Group's own non-performance risk. And it will be measured on the amortised cost basis until extinguished on conversion or redemption. The remaining proceeds are allocated to the equity component of Convertible Bonds. Transaction costs 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.

## 25 CONVERTIBLE BONDS *(Continued)*

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

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

| | Liability component of Convertible Bonds RMB | Equity component of Convertible Bonds RMB | Total RMB |
|---|---|---|---|
| **At 1 July 2018** | **75,710,498** | **23,609,589** | **99,320,087** |
| Interest expense (Note 9) | **17,773,286** | **–** | **17,773,286** |
| Interest paid | **(2,176,667)** | **–** | **(2,176,667)** |
| Modification (Note 9) | **(6,953,888)** | **–** | **(6,953,888)** |
| Currency translation differences | **1,172,684** | **–** | **1,172,684** |
| **At 30 June 2019** | **85,525,913** | **23,609,589** | **109,135,502** |
| **At 1 July 2017** | 66,821,857 | 23,609,589 | 90,431,446 |
| Interest expense (Note 9) | 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

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Issued and fully paid: | | |
| 733,857,225 (30 June 2018: 722,865,001) ordinary shares | **6,203,955** | 6,107,141 |

| | Number of issued shares | Ordinary shares | Share premium | Total |
|---|---|---|---|---|
| | RMB | RMB | RMB | |
| **At 1 July 2018** | **722,865,001** | **6,107,141** | **491,227,935** | **497,335,076** |
| Issue of shares (i) | **11,248,224** | **99,011** | **38,218,388** | **38,317,399** |
| Shares repurchased (ii) | **(256,000)** | **(2,197)** | **(743,103)** | **(745,300)** |
| Dividends (iii) | **–** | **–** | **(18,994,497)** | **(18,994,497)** |
| **At 30 June 2019** | **733,857,225** | **6,203,955** | **509,708,723** | **515,912,678** |
| **At 1 July 2017** | 600,648,000 | 5,075,783 | 93,615,618 | 98,691,401 |
| Issue of shares | 123,483,001 | 1,041,650 | 413,659,578 | 414,701,228 |
| Shares repurchased | (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 |

(i) On 20 June 2019, the Company issued 11,248,224 ordinary shares at HKD3.76 each to pay for the contingent consideration arose from the acquisition of MCN Group.

(ii) In July and November 2018, the Company repurchased 200,000 and 56,000 ordinary shares respectively through purchases on Hong Kong Stock Exchange. All the repurchased ordinary shares had been cancelled as at 30 June 2019. The total amount paid to repurchase these ordinary shares was RMB 745,300 and had deducted from the share capital and share premium of shareholders' equity.

(iii) The Company distributed 3.0 HK cents per share (2018: 2.4 HK cents per share), amounting to a total dividend of RMB18,994,497 (2018: RMB12,438,575) based on the number of issued shares outstanding at relevant time to qualifying shareholders.

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 OTHER RESERVES

| | Reorganisation reserve RMB | Merger reserve RMB | Statutory reserves (i) RMB | Translation reserves RMB | Employee Share Option Scheme (ii) RMB | Total RMB |
|---|---|---|---|---|---|---|
| **At 1 July 2018** | **2,335,540** | **33,028,254** | **25,736,128** | **12,613,217** | | **73,713,139** |
| Translation differences | – | – | – | (3,111,103) | – | (3,111,103) |
| Appropriation to statutory reserves | – | – | 3,409,842 | – | – | 3,409,842 |
| Share options | – | – | – | – | 4,399,960 | 4,399,960 |
| **At 30 June 2019** | **2,335,540** | **33,028,254** | **29,145,970** | **9,502,114** | **4,399,960** | **78,411,838** |
| **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 31 June 2018** | 2,335,540 | 33,028,254 | 25,736,128 | 12,613,217 | – | 73,713,139 |

### (i) Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holder. All statutory reserves are created for specific purposes. PRC companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors of the company.

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

## 27 OTHER RESERVES *(Continued)*

### Employee Share Option Scheme

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

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

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

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

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

There was no movement of share options outstanding during the year end 30 Jun 2019.

## 28 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | Notes | For the year ended 30 June 2019 RMB | 2018 RMB |
|---|---|---|---|
| (Loss)/profit before income tax | | **(121,043,714)** | 60,422,272 |
| Adjustments for: | | | |
| Interest income | 9 | **(737,621)** | (9,209,918) |
| Finance costs | 9 | **12,777,131** | 15,679,199 |
| Depreciation of property, plant and equipment | 14 | **6,782,678** | 4,042,778 |
| Depreciation of investment properties | 15 | **6,424,747** | 310,742 |
| Amortisation of prepaid land lease payments | 16(i) | **1,997,729** | 1,015,977 |
| Amortisation of other intangible assets | 16(ii) | **2,146,613** | 1,535,888 |
| Net impairment losses on financial and contract assets | | **28,602,266** | 2,560,211 |
| Impairment of inventories | 18 | **2,697,019** | 259,144 |
| Impairment of goodwill | 17 | **105,063,873** | – |
| Amortisation of employee share option scheme | 27 | **4,399,960** | – |
| Gains on disposals of property, plant and equipment | | **(24,219)** | – |
| Change in fair value of contingent consideration | 6 | **30,437,752** | (77,422) |
| Changes in working capital: | | | |
| Pledged deposits relating to operating activities | 20 | **39,720,583** | (48,181,380) |
| Increase in inventories | 18 | **(9,384,158)** | (18,793,354) |
| Increase in prepayments and other receivables | | **(5,471,144)** | (29,278,580) |
| Increase in trade and other receivables | | **(5,157,689)** | (246,774,710) |
| (Decrease)/Increase in trade and other payables | | **(184,352,230)** | 227,694,717 |
| Increase in contract assets | | **(82,261,590)** | – |
| Increase in contract liabilities | | **141,166,067** | – |
| Cash used in operations | | **(26,215,947)** | (38,794,436) |

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

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

| | For the year ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Net book amount | | |
| – Property, plant and equipment (Note 14) | **212,093** | – |
| Gains on disposal of plant and equipment, net | **24,219** | – |
| Value added tax | **4,689** | – |
| Proceeds from disposal of property, plant and equipment | **241,001** | – |

### (c) Net debt reconciliation

| | For the year ended 30 June | |
|---|---|---|
| **Net debt** | **2019** | 2018 |
| | **RMB** | RMB |
| Cash and cash equivalents (Note 20) | **24,196,754** | 72,880,335 |
| Borrowings – repayable within one year (Note 22) | **(54,785,664)** | (21,857,880) |
| Net (debt)/Net cash | **(30,588,910)** | 51,022,455 |
| Cash and cash equivalents (Note 20) | **24,196,754** | 72,880,335 |
| Gross debt – fixed interest rates (Note 22) | **(54,785,664)** | (21,857,880) |
| Net (debt)/Net cash | **(30,588,910)** | 51,022,455 |

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (c) Net debt reconciliation *(Continued)*

| | Other assets | Liabilities from financing activities | |
|---|---|---|---|
| | Cash and cash equivalents | Interest - bearing loans | Total |
| | RMB | RMB | RMB |
| Net cash as at 1 July 2018 | **72,880,335** | **(21,857,880)** | **51,022,455** |
| Cash flows | | | |
| – Outflow from operating activities | **(34,104,750)** | **–** | **(34,104,750)** |
| – Outflow from investing activities | **(21,281,806)** | **–** | **(21,281,806)** |
| – Inflow from financing activities | **8,667,347** | **(37,338,800)** | **(28,671,453)** |
| – Outflow from financing activities | **–** | **6,754,989** | **6,754,989** |
| Foreign exchange adjustments | **(1,964,372)** | **–** | **(1,964,372)** |
| Other non-cash movements | | | |
| Accrual of interest | **–** | **(2,343,973)** | **(2,343,973)** |
| Net debt as at 30 June 2019 | **24,196,754** | **(54,785,664)** | **(30,588,910)** |

| | Other assets | Liabilities from financing activities | |
|---|---|---|---|
| | Cash and cash equivalents | Borrowings | Total |
| | RMB | RMB | RMB |
| Net cash as at 1 July 2017 | 50,554,277 | (8,626,000) | 41,928,277 |
| Cash flows | | | |
| – Outflow from operating activities | (48,706,710) | – | (48,706,710) |
| – Inflow from investing activities | 35,506,682 | – | 35,506,682 |
| – Inflow from financing activities | 37,502,806 | (9,415,303) | 28,087,503 |
| – Outflow from financing activities | – | 45,330,576 | 45,330,576 |
| Foreign exchange adjustments | (1,976,720) | – | (1,976,720) |
| Other non-cash movements | | | |
| – Accrual of interest | – | (1,116,317) | (1,116,317) |
| – Acquisition of a subsidiary | – | (48,030,836) | (48,030,836) |
| Net debt as at 30 June 2018 | 72,880,335 | (21,857,880) | 51,022,455 |

## 29 COMMITMENTS

### (a) As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2019 and 30 June 2018 are summarised as follows:

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| No later than 1 year | **1,623,675** | 580,675 |
| Later than 1 year and no later than 5 years | **603,743** | 1,187,600 |
| | **2,227,418** | 1,768,275 |

### (b) As lessee

The Group leases offices and motor vehicles under non-cancellable operating lease agreements. The lease terms are within 5 years, and some 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 2019 and 30 June 2018 are summarised as follows:

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| No later than 1 year | **1,027,053** | 1,905,573 |
| Later than 1 year and no later than 5 years | **135,000** | 706,748 |
| | **1,162,053** | 2,612,321 |

## 30 RELATED-PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 30 June 2019 and 30 June 2018 and balances arising from related party transactions as at 30 June 2019 and 30 June 2018.

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

| Name of related parties | Relationships |
|---|---|
| Mr. Zhu Gen Rong ("Mr. Zhu") (i) | One of the controlling shareholders, chairman of the Company, executive Director |
| Mr. Wang Ai Yan ("Mr. Wang") (i) | One of the controlling shareholders, executive Director |
| Mr. Liu Chuan Jiang ("Mr. Liu") (i) | One of the controlling shareholders, executive Director |
| Mr. Zhu Gen yi | Brother of Mr. Zhu |
| 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 period.

### (b) Transactions with related parties

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Key management compensation | | |
| – Salaries | **4,192,903** | 3,444,850 |
| – Bonus | **718,032** | 659,134 |
| – Other benefits | **395,978** | 86,023 |
| – Share options | **143,316** | – |
| | **5,450,229** | 4,190,007 |

## 30 RELATED-PARTY TRANSACTIONS *(Continued)*

### (c) Balances with related parties

(i) Due from a related party (Note 19):

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Mr. Zhu Genyi | | |
| – Included in other receivables | **23,612** | 17,428 |

The receivables from related party as at 30 June 2019 and 2018 arose mainly from the ordinary course of businesses.

The receivables are unsecured, non-interest bearing and are repayable on demand. There are no provisions made against receivables from related party.

(ii) Due to related parties:

| | As at 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB** | RMB |
| Loan from a non-controlling shareholder (Note 22) | **642,151** | 1,000,000 |
| Mr. Jin Hao (Note 21) | **25,500** | – |
| Mr. Wang (Note 21) | **24,000** | – |

The loan was borrowed from Mr. He Min Jun, the non-controlling shareholder of Wukong, one of the subsidiaries of the Group. The loan was borrowed in April 2016 with an interest rate of 7.2% per annum (30 June 2018: 7.2% per annum) and was payable on demand.

## 31 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### Statement of financial position of the Company

| | As at 30 June 2019 RMB | As at 30 June 2018 RMB |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investments in subsidiaries | **484,150,072** | 459,810,972 |
| | **484,150,072** | 459,810,972 |
| **Current assets** | | |
| Trade and other receivables | **293,351,534** | 304,419,003 |
| Prepayments | **135,863** | 129,568 |
| Cash and cash equivalents | **256,092** | 1,723,226 |
| | **293,743,489** | 306,271,797 |
| **Total assets** | **777,893,561** | 766,082,769 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Other payables | **172,897,691** | 173,118,271 |
| Convertible bonds | **85,525,913** | – |
| | **258,423,604** | 173,118,271 |
| **Non-current liabilities** | | |
| Convertible bonds | **–** | 75,710,498 |
| | **85,525,913** | 75,710,498 |
| **Total liabilities** | **258,423,604** | 248,828,769 |
| **Total equity and liabilities** | **777,893,561** | 766,082,769 |
| **EQUITY** | | |
| **Capital and reserves attributable to the owners of the Company** | | |
| Share capital | **6,203,955** | 6,107,141 |
| Share premium | **509,459,198** | 490,978,409 |
| Equity component of convertible bonds | **23,609,589** | 23,609,589 |
| Accumulated loss | **(52,988,513)** | (10,356,412) |
| Other reserves (a) | **33,185,728** | 6,915,273 |
| **Total equity** | **519,469,957** | 517,254,000 |

The statement of financial position of the Company was approved by the Board of Directors on 25 September 2019 and was signed on its behalf by:

| Director | Director |
|---|---|
| **Zhu Gen Rong** | **Wang Ai Yan** |

## 31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

### Balance sheet of the Company *(continued)*

(a) Reserve movement of the Company

| | Other reserve RMB | Accumulated losses RMB |
|---|---|---|
| At 1 July 2018 | **6,915,273** | **(10,356,412)** |
| Translation differences | **21,870,495** | **–** |
| Employee share option | **4,399,960** | **–** |
| Loss for the year | **–** | **(42,632,101)** |
| At 30 June 2019 | **33,185,728** | **(52,988,513)** |
| At 1 July 2017 | 11,846,238 | 6,601,136 |
| Translation differences | (4,930,965) | – |
| Loss for the year | – | (16,957,548) |
| At 30 June 2018 | 6,915,273 | (10,356,412) |

## 32 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and chief executive's emoluments

The remuneration of each director and the chief executive of the Company for the year ended 30 June 2019 is set out as follows:

| Name | Salaries, allowances and benefits in kind RMB | Bonuses RMB | Other benefits RMB | Share options RMB | Total remuneration RMB |
|---|---|---|---|---|---|
| Mr. Zhu Gen Rong (Chairman) | **864,413** | **214,242** | **10,448** | **–** | **1,089,103** |
| Mr. Wang Ai Yan (Chief Executive Officer) | **816,398** | **168,535** | **10,448** | **–** | **995,381** |
| Mr. Jin Hao | **469,430** | **120,000** | **–** | **143,316** | **732,746** |
| Mr. Liu Chuan Jiang | **613,520** | **125,000** | **–** | **–** | **738,520** |
| Mr. Liang Huiqun | **417,936** | **–** | **15,673** | **–** | **433,609** |
| | **3,181,697** | **627,777** | **36,569** | **143,316** | **3,989,359** |

## 32 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

### (a) Directors' and chief executive's emoluments *(continued)*

The remuneration of each director and the chief executive of the Company for the year ended 30 June 2018 is set out as follows:

| Name | Salaries, allowances and benefits in kind<br>RMB | Bonuses<br>RMB | Other benefits<br>RMB | Total remuneration<br>RMB |
|---|---|---|---|---|
| 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 |