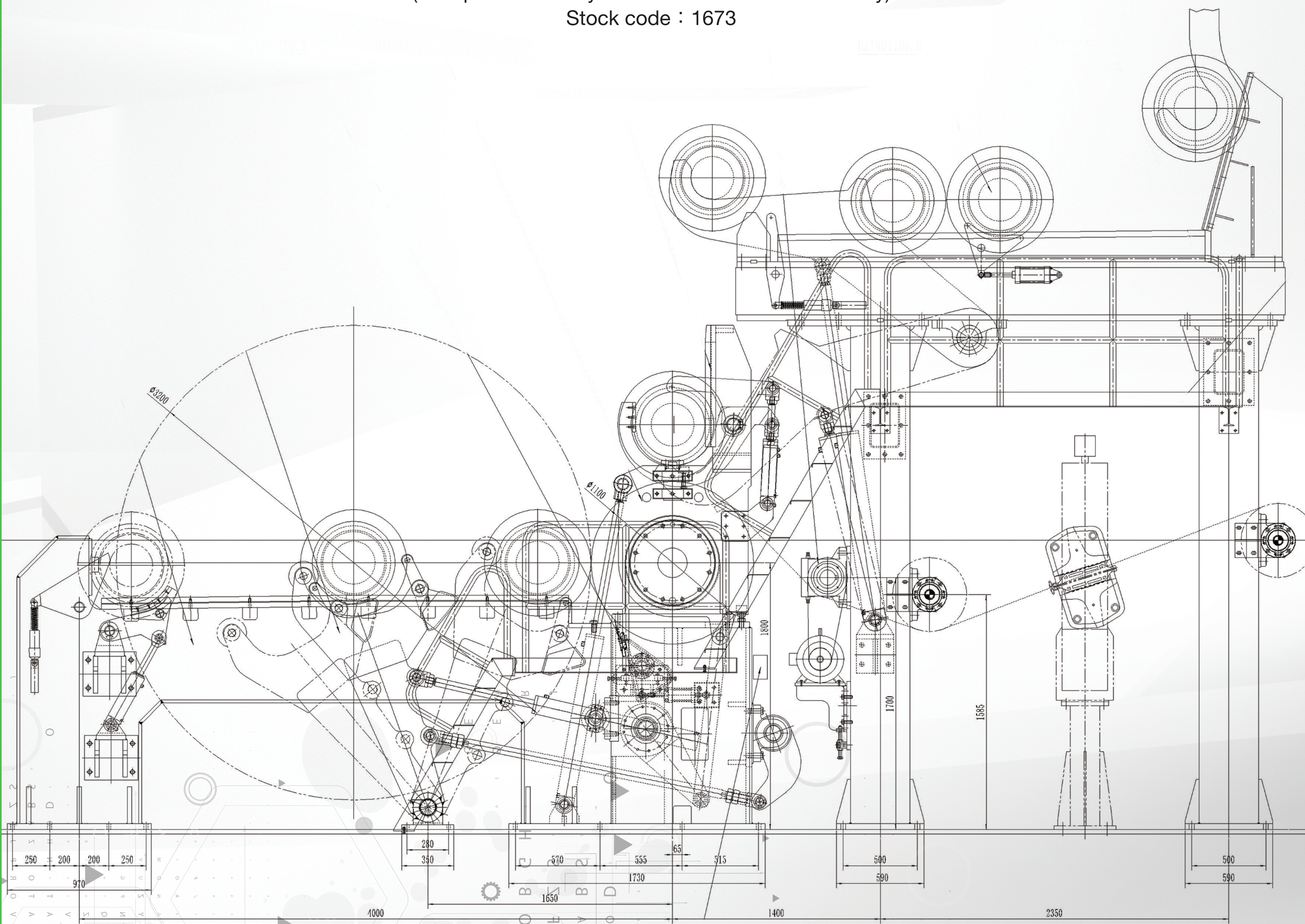
华章科技
HUAZHANG TECHNOLOGY

華章科技控股有限公司
Huazhang Technology Holding Limited

(Incorporated in Cayman Islands with limited liability)

Stock code：1673



2020 Annual Report

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Corporate Information

DIRECTORS

Executive Directors

Mr. Zhu Gen Rong (Chairman)
Mr. Wang Ai Yan (Chief Executive Officer)
Mr. Liu Chuan Jiang
Mr. Jin Hao

Independent Non-Executive Directors

Mr. Dai Tian Zhu
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng

AUDIT COMMITTEE

Mr. Kong Chi Mo (Chairman)
Mr. Dai Tian Zhu
Mr. Heng, Keith Kai Neng

REMUNERATION COMMITTEE

Mr. Heng, Keith Kai Neng (Chairman)
Mr. Dai Tian Zhu
Mr. Kong Chi Mo

NOMINATION COMMITTEE

Mr. Dai Tian Zhu (Chairman)
Mr. Zhu Gen Rong
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng

COMPANY SECRETARY

Mr. Chan So Kuen

COMPLIANCE OFFICER

Mr. Jin Hao

AUTHORISED REPRESENTATIVES

Mr. Zhu Gen Rong
Mr. Chan So Kuen

LEGAL ADVISOR

As to Hong Kong Law

Stevenson, Wong & Co.

Corporate Information

AUDITORS

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

Room 1101, Building 2
No. 99 Canal Advertising Industry Building
Xiangyuan Road, Gognshu District
Hangzhou, Zhejiang Province
PRC (with effect from 19 October 2020)

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

STOCK CODE

1673

WEBSITE

www.hzeg.com

Financial Summary

Year ended 30 June	2020 RMB	2019 RMB	2018 RMB	2017 RMB	2016 RMB
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**368,159,248**	763,974,066	612,123,398	416,007,189	327,260,578
Gross profit	**74,195,176**	120,976,684	137,256,906	91,592,396	80,695,282
Gross profit margin	**20.2%**	15.8%	22.4%	22.0%	24.7%
(Loss)/profit attributable to the owners of the parent	**(77,503,863)**	(128,269,107)	48,285,144	30,638,948	28,332,245
Net (loss)/profit margin	**(21.0%)**	(17.0%)	7.8%	7.3%	8.3%

As 30 June	2020 RMB	2019 RMB	2018 RMB	2017 RMB	2016 RMB
Major Items of Consolidated Statement of Financial Position					
Non-current assets	**464,272,556**	346,840,328	473,912,784	137,945,745	79,725,211
Current assets	**908,352,703**	938,686,140	927,472,642	489,371,916	434,815,090
Non-current liabilities	**34,336,858**	32,384,732	108,805,388	67,622,369	1,148,227
Current liabilities	**767,313,297**	598,568,375	525,977,066	239,377,599	237,448,888
Capital and reserves attributable to the owners of the parent	**571,443,645**	655,356,325	765,786,978	319,117,623	274,462,046
Gearing ratio (Note 1)	**15.8%**	7.7%	2.8%	2.6%	1.8%

Notes:

(1) Gearing ratio is calculated based on the total interest-bearing loans (excluding the convertible bonds) at the end of the year divided by total interest-bearing loans (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 2020 (the "**year under review**").

Against the backdrop of constant conflicts between China and the United States over trade and technology issues, as well as the impact of the COVID-19 pandemic on global economic development and activities, most enterprises faced an operating environment unprecedented in decades during the year under review. In such an environment, all industries are under downward pressure, of which the paper manufacturing industry was not immune, coupled with the continued shrinkage of China's imports of waste paper and the promotion of environmental protection policies such as the "coal to gas" scheme, investment plans of various domestic paper manufacturing enterprises have been affected.

The Group recorded a substantial year-on-year decrease in turnover for the year ended 30 June 2020 of 51.8% to RMB368.2 million. However, the Group's loss for the year narrowed from a net loss of RMB129.9 million last year to a net loss of RMB77.2 million for the year.

Under the impact of the COVID-19 pandemic, enterprises are facing a severe test of survival and development. In such circumstances, it is important to maintain adequate reserve for continuous innovation and technology, so as to enhance the competitiveness of the enterprise and ensure its sustainable development, which are essentially the factors determining the future course of development of enterprises. The Group has always advocated the provision of quality integrated services to its customers through technological innovation, and has always been the vanguard leading fellow PRC paper manufacturing equipment manufacturers into the global market. To this end, the Group has been investing huge amount of resources in research and development and about 3% of our annual income on research and development of products such as new technology of the existing products, designs new products and material used in the paper manufacturing process. Despite an unfavourable external economic environment, the Group has still invested RMB24.0 million in research and development, and obtained 8 patents, 3 software registrations and published 6 core journal articles for the year ended 30 June 2020.

Our domestic business was affected by an early Chinese New Year holiday and the COVID-19 pandemic in 2020, many customers and suppliers were in a state of semi-standstill in the first quarter of 2020, resulting in an impact on the Group's operations with a number of projects encountering delays in construction or delivery. In general, however, there were no requests for any order cancellations or quoted price adjustments. After a dismal economic environment in the first quarter, the second quarter saw a full resumption of operations in China and the normalization of economic activities, the Group expects its operations to be back on track in the financial year 2021.

As for our overseas businesses, they were also affected by the pandemic. The Group's sales staff were unable to visit overseas customers to discuss with them business opportunities and project feasibility due to the border control measures between countries. In addition, the economies of various countries around the world were affected to varying degrees, which directly weakened the confidence of local paper manufacturing enterprises in investing in new projects as well as their borrowing capacity, and to a certain extent it also undermined our local sales efforts. Nonetheless, the Group remains proactive in liaising with its customers through the Internet (i.e. video conferencing etc.) and has maintained its expansion into overseas businesses.

Chairman's Statement

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 2020

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHU Gen Rong (朱根荣), aged 57, 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 54, 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 57, 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 49, 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 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 Limited (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.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DAI Tian Zhu (戴天柱), aged 66, 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 45, 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 22 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: 1789), Aowei Holding Limited (stock code: 1370) and ZACD Group Ltd. (stock code: 8313), all these public companies listed on the main board or growth enterprise market of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Mr. Kong was the independent non-executive director of CAA Resources Limited (stock code: 2112) from April 2013 to August 2017 and Starlight Culture Entertainment Group Limited (stock code: 1159) from May 2017 to May 2019; and Mr. Kong held various positions, including executive director, chief financial officer, company secretary and authorised representative, during his employment with China Vanadium Titano-Magnetite Mining Company Limited (stock code: 0893) from May 2008 to March 2020, all these public companies listed on the main board of the Stock Exchange. 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: 0215), a company 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 is a fellow of The Association of Chartered Certified Accountants (United Kingdom), a fellow of The Chartered Governance Institute (United Kingdom), a fellow of The Hong Kong Institute of Chartered Secretaries, a member of The Hong Kong Institute of Directors, an ordinary member of Hong Kong Securities and Investment Institute and a full member of Hong Kong Investor Relations Association. Mr. Kong was awarded the Chartered Governance Professional qualification from The Chartered Governance Institute (United Kingdom) and The Hong Kong Institute of Chartered Secretaries in September 2018.

Mr. Heng, Keith Kai Neng (邢凱能), aged 41, 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 40, 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: 8237) and Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (stock code: 1915) 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

Global economies, almost without exception, have all suffered from the intertwined setbacks brought about by the trade war and COVID-19 pandemic over the past year. In 2019, under the context of Sino-US trade friction, China's annual gross domestic product (GDP) grew by 6.1% which points to a continued slowdown in economic growth. Having been affected by the COVID-19 pandemic by the first quarter of 2020, China's economy received yet another heavy blow since the Sino-US trade war, plunging at one time into deep recession as a result of business shutdowns, liquidity shortages and sharp decline in public consumption, the first quarter GDP fell 6.8% year-on-year, which was the first ever negative reading. With the official resumption of production activities by factories in China from April 2020 onwards, economic activities gradually returned to normal, and China's GDP grew by 3.2% in the second quarter. Amid the overall global economic downturn, China is one of the few countries in the world to record GDP growth.

According to the survey data of China Paper Association, there were about 2,700 paper and cardboards manufacturers in China in 2019 and the national production volume of paper and cardboards was 107.65 million tonnes, representing a 3.16% increase from the previous year. While the consumption volume reached 107.04 million tonnes, representing a 2.54% increase from the previous year. From 2010 to 2019, the average annual growth rate of paper and carboards production was 1.68%, and that of its consumption was 1.73%. Although the production and sales volume of the paper-manufacturing industry maintained growth, the growth rate itself has slowed down. In the first half of 2020, due to the COVID-19 pandemic, the national production volume of machine-made papers and cardboards was 57.573 million tonnes, representing a decrease of 4.8% over the same period last year.

In the short term, environmental policies for the industry will continue to become more stringent, waste paper imports will be further restricted, low-end production capacity will be phased out, and enterprises will be encouraged to develop and adopt more environmentally friendly technologies and equipment. In the long term, the state will continue to promote the transformation and upgrading of the industry, forcing the paper manufacturing industry to expedite its structural adjustment with greater emphasis on quality and technological innovation, which covers intelligent transformation and upgrading. The digitalized, networked and intelligent demands of the manufacturing industry will be undertaken through the Industry of Internet platform, establishing in the process a service system based on massive data collection, aggregation and analysis, in which software with ubiquitous connection for manufacturing resources, flexible supply and demand as well as efficient configuration will be supported. The development of Industry of Internet will open up a new technological ecosystem for the automation industry. In addition, as the impact of the pandemic subsides, the industry shows inclination to reduce its reliance on manual labour to cope with fluctuating labour supply and supply chain risks, whilst intelligent factories and smart manufacturing will see further development.

BUSINESS REVIEW

During the year under review, the Group was affected by the COVID-19 pandemic and the Sino-US trade friction, which severely crippled the domestic and overseas economies and related activities, resulting in a significant impact on the Group's results and delays in the progress of projects and product shipment schedules. Although the gross profit margin improved significantly from approximately 15.8% for the year ended 30 June 2019 to approximately 20.2% for the year ended 30 June 2020, the Group's turnover for the year ended 30 June 2020 was approximately RMB368.2 million, representing a decrease of approximately 51.8% over the same period in 2019. In terms of loss, the Group also made an improvement with a loss of approximately RMB77.2 million for the year ended 30 June 2020, which represented a decrease of approximately 40.6% as compared to the loss for the same period in 2019.

Management Discussion and Analysis

In the past few years, the Group's main development strategies were "All-encompassing Services", "Belt and Road" and "Integrating Together, Creating Together, Benefiting Together", the core values of which are to provide better services to customers, expand new businesses and lead the industry forward. During the year, the Group has adhered to and consistently implemented these values and strategies, it has also achieved breakthroughs in technical reserves and technological innovation.

Establishment of Huazhang Research Institute and Enhancement in Technical Reserves

At present, China's technical reserves for paper manufacturing are insufficient, in order to meet the demand of domestic and overseas customers and to guide the development of the paper manufacturing industry towards the intelligent direction, it is necessary to have adequate prowess in scientific research and technological innovation. To achieve this goal, the Group has established the Huazhang Research Institute this year, which sets the future direction of technological development for the Group, with its main objectives being:

1) adhere to the demands of the paper manufacturing industry in the development of new products
2) track the development trend of domestic and overseas paper manufacturing industries
3) venture into fringe fields based on paper manufacturing
4) revolutionize the concept of traditional paper as well as related functional materials.

During the year ended 30 June 2020, the Group obtained 8 new patents, including a remote monitoring system for frequency converters and a high-end household paper pulp system, as well as 6 computer software copyrights, accumulating 119 registered patents (including 25 invention patents, 75 utility new model patents and 19 software copyrights) in total.

Completion of Representative Turnkey Projects and Accomplishment in Technical Breakthroughs

During the year, the Group completed two representative turnkey projects, namely, the turnkey project of Anhui Linping Paper and the turnkey project of Chaozhou Hefeng Special Paper. The Group provided engineering design, pulp and paper making equipment, engineering installation services, as well as key components such as MCN's headboxes, plant-wide automation system and press filters, it has also joined hands with more than 60 well-known brand suppliers at home and abroad to form sets of equipment and components for their projects.

The Anhui Linping Paper project is the largest single project ever undertaken by the Group in its history of turnkey project business, with a total contract value of RMB350.0 million. The project was related to the contracted construction of a production line for two high-ended wrapping paper machines of the same specification for Anhui Linping Paper. The paper machines have a net paper width of 5,600 millimeters, with a designed speed of 900 meters/minute and a total production capacity of 500,000 tonnes. The Chaozhou Hefeng Special Paper project, in the meantime, is recognized with the Group's first independently designed and constructed paper manufacturing machine, for which the Group has assimilated all the experiences it acquired from leading international manufacturers of paper making machines with advanced paper making equipment in China. The machine produces corrugated paper and T-paper with a net paper width of 5,300 millimeters, a design speed of 700 meters/minute and a total production capacity of 200,000 tonnes. The total contract value of the Chaozhou Hefeng Special Paper project was RMB134.0 million.

The completion of the above two projects marks a major breakthrough in the Group's project undertaking capability as well as its design and development capabilities, it has provided valuable experience in improving the Group's full-time all-encompassing services for paper manufacturing enterprises, and has served to guide equipment suppliers in China's paper manufacturing industry forward into the field of scientific research.

Continuous breakthroughs in the Research and Development of Headboxes and Acclaimed Quality in the Market

In April 2020, the headbox products of Hangzhou MCN Paper Tech Co., Ltd. ("MCN"), a subsidiary of the Group, were included in the "Hangzhou Quality Products Recommended Catalogue 2020", which is a recognition of MCN's products and technologies. The Hangzhou Quality Products Catalogue primarily covers (i) products that have received national, provincial and local quality awards; (ii) industrial-leading products on the lists of Fortune Global 500, Fortune China 500 and Top 100 Zhejiang Enterprises; and (iii) industrial-leading products listed as individual champions or hidden champions.

With the accumulation of theoretical knowledge and experience, MCN has successfully delivered dozens of household paper machine headboxes with designed speed of 600 to 1,600 meters/minute and maximum width of 4,200 millimeters, and the quality and performance of these headboxes have been widely recognized by paper mills. At present, MCN's research and development team is pressing full steam ahead for 5,600 millimeters in paper width and 2,000 meters/minute or higher in terms of speed. Whilst MCN is developing headboxes for household paper machines, it is also seeking breakthroughs in the development of hydraulic headboxes as accessories for long-wire paper machines. From the headboxes trials on common long-wire paper machines (2640/500) in 2005, to the tryout design and manufacturing of headboxes as accessories to the 6000/800 paper machines for Vietnam Thuan An Paper in 2020, MCN's R&D team has long targeted a speed of 1,200 meters/minute and a width of over 6,600 millimeters for their headboxes. As at 30 June 2020, the outstanding orders of MCN amounted to approximately RMB81.0 million.

Face up to overseas business challenges in a proactive manner

With regard to overseas operations, the Group has entered into a US$19.0 million (approximately RMB130.9 million) project contracting services contract with a paper manufacturing enterprise in Vietnam for the construction of a 120,000 tonnes paper production line for the customer. As at 30 June 2020, the Group has been providing machinery, equipment and installation services for the project, its progress, however, has been delayed by the COVID-19 pandemic and is expected to be completed by the financial year 2021. The Group expects that the completion of the Vietnam project will help promote the Group's products and services in the Southeast Asian market. Due to the impact of the COVID-19 pandemic, a number of Southeast Asian countries are under lockdowns, which may pose difficulties to the Group's future sales plan or overseas promotion. The Group will liaise with existing and potential customers through the internet (including video conferencing), so as to minimise the impact of the pandemic to the Group's overseas business expansion.

In terms of marketing, during the period, the Group participated in the "2019 China Specialty Papers Conference, the 14th Annual Meeting of Specialty Papers Commission, and China International Specialty Papers Expo" as well as the "2019 China International Paper Technology Exhibition" to promote the Group's products and technologies to paper manufacturing enterprises in China.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 51.8% from approximately RMB764.0 million for the year ended 30 June 2019 to approximately RMB368.2 million for the year ended 30 June 2020, primarily attributing to the impact of the COVID-19 pandemic. Gross profit margin increased from approximately 15.8% for the year ended 30 June 2019 to approximately 20.2% for the year ended 30 June 2020.

(i) Industrial products

Revenue from sales of industrial products decreased significantly by approximately 58.0% from approximately RMB203.3 million for the year ended 30 June 2019 to approximately RMB85.4 million for the year ended 30 June 2020. Such decrease was primarily attributable to decrease in demand on industrial automation system from the supporting service as well as the postponed delivery schedules under the impact of the COVID-19 pandemic. The sales of industrial automation systems decreased by approximately RMB117.4 million to RMB30.6 million for the year ended 30 June 2020 as compared with for the year ended 30 June 2019. However, the gross profit margin of industrial products increased from approximately 26.1% for the year ended 30 June 2019 to approximately 29.8% for the year ended 30 June 2020. Such increase was attributable to the Group reduced its profit margin in industrial products to support the supporting services for the year ended 30 June 2019 while no such strategy was implemented for the year ended 30 June 2020.

(ii) Project contracting services

Revenue from project contracting services decreased by approximately 35.3% from approximately RMB261.3 million for the year ended 30 June 2019 to approximately RMB169.0 million for the year ended 30 June 2020. Such decrease was mainly due to the postponed progress schedules under the impact of the COVID-19 pandemic. For the year ended 30 June 2020, the Group completed 2 project contracting services projects, the Anhui Linping Paper project and the Chaozhou Hefeng Special Paper project. The gross profit margin of project contracting services were 14.5% and 16.6% for the year ended 30 June 2020 and 2019..

(iii) Environmental business

Revenue from sales of environmental business increased by approximately 21.2% from approximately RMB48.0 million for the year ended 30 June 2019 to approximately RMB58.2 million for the year ended 30 June 2020. Such increase was primarily due to an increase in revenue from wastewater treatment business of approximately RMB19.5 million for the year ended 30 June 2020 after the Group strengthened the promotion and adjusted the sales strategies. Such increase was offset by a decrease in sales of sludge treatment products of approximately RMB10.5 million for the year ended 30 June 2020 as the Group was adjusting the business model and strategies of the business. The gross profit margin of environmental business increased significantly from approximately 3.2% for the year ended 30 June 2019 to approximately 25.2% for the year ended 30 June 2020, primarily due to several projects were suspended for the year ended 30 June 2019, the Group recognized the loss of these projects while no such losses were recognised for the year ended 30 June 2020.

(iv) Supporting services

Revenue from the provision of supporting services decreased significantly by approximately 77.9% from approximately RMB251.3 million for the year ended 30 June 2019 to approximately RMB55.4 million for the year ended 30 June 2020. The revenue from the provision of supporting services decreased significantly mainly due to the Group provided a new service in relation to the transformation work of an entire paper machine production line during the year ended 30 June 2019, such service generated a revenue of RMB159.8 million while no such service was incurred during the year ended 30 June 2020. The gross profit margin for the provision of supporting services increased from approximately 9.1% for the year ended 30 June 2019 to approximately 17.2% for the year ended 30 June 2020. The gross profit margin increased primarily due to the gross profit margin of the new service in 2019 was low.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately 31.4% from approximately RMB13.4 million for the year ended 30 June 2019 to approximately RMB9.2 million for the year ended 30 June 2020, accounting for approximately 1.7% and approximately 2.5% of the Group's revenue for the year ended 30 June 2019 and 2020 respectively. Decrease in selling and distribution expenses in absolute amounts was primarily attributable to decrease in traveling expenses and transportation costs as compared with same period of 2019 due to travel restriction under the impact of COVID-19.

Administrative expenses

The administrative expenses increased by approximately 0.2% from approximately RMB57.0 million for the year ended 30 June 2019 to approximately RMB57.1 million for the year ended 30 June 2020, accounting for approximately 7.5% and approximately 15.5% of the Group's revenue for the year ended 30 June 2019 and 2020 respectively. Increase in administrative expenses was mainly attributable to the Group invested amounts of approximately RMB10.3 million for the preparation work of the waste recycling and treatment project, such as hiring a project team and holding a global conference for the project, for the year ended 30 June 2020 while no such project was conducted for the year ended 30 June 2019, which was offset by a decrease in salary and employee benefits of RMB8.7 million in relation to the share option expenses and decrease in number of administrative staff.

Research and development expenses

The research and development expenses increased by approximately 4.9% from approximately RMB22.9 million for the year ended 30 June 2019 to approximately RMB24.0 million for the year ended 30 June 2020, accounting for approximately 3.0% and approximately 6.5% of the Group's revenue for the year ended 30 June 2019 and 2020 respectively. The Group has continued to invest in research and development activities about the internet of things and the next generation of the headboxes, the Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets increased significantly by approximately 193.2% from approximately RMB28.6 million for the year ended 30 June 2019 to approximately RMB83.9 million for the year ended 30 June 2020. Such increase was primarily due to several customers have difficulties, such as suspension of the projects or liquidities issues. As a result, the customers cannot repay the receivables timely in such economic environment. The management of the Group has actively monitored the settlement of the receivables, made prudent assessments and provided impairment losses on financial and contract assets of approximately RMB83.9 million. The Group have taken more actions, such as negotiation with the customers for the repayment and even legal action, to reduce the loss.

Other income and gains/(losses), net

Other income and gains/(losses), net changed from a loss of approximately RMB108.6 million for the year ended 30 June 2019 to a gain of approximately RMB27.3 million for the year ended 30 June 2020. For the year ended 30 June 2019, the Group recorded non-recurring expenditure in relation to change in fair value of contingent consideration from acquisition of headbox business of approximately RMB30.4 million and impairment of goodwill from acquisition of the logistic business of approximately RMB105.1 million while no such expenditures were incurred for the year ended 30 June 2020.

Finance costs – net

The finance costs – net decreased by approximately 11.3% from RMB11.5 million for the year ended 30 June 2019 to approximately RMB10.2 million for the year ended 30 June 2020, primarily attributing to a decrease in interest on convertible bonds of approximately RMB3.9 million for the year ended 30 June 2020, which offsetting an increase in interest on loans of approximately RMB0.8 million for the year ended 30 June 2020.

Income tax expense

The Group recorded an income tax credit of approximately RMB5.7 million for the year ended 30 June 2020 while there was an income tax expense of approximately RMB8.8 million for the year ended 30 June 2019. Such change was mainly attributable to sharply decrease in the PRC enterprise income tax as well as an increase in deferred income tax in relation to provision for impairment. The PRC enterprise income tax decreased from approximately RMB13.1 million for the year ended 30 June 2019 to approximately RMB1.0 million for the year ended 30 June 2020, primarily due to decrease in operating profits of the Group for the year ended 30 June 2020.

The effective tax rates of the Group changed from approximately -7.3% for the year ended 30 June 2019 to approximately 6.9% for the year ended 30 June 2020, such change was mainly attributable to decrease in non-deductible expenses in relation to provision for goodwill impairment and increase in tax losses and temporary differences for which no deferred tax asset was recognised.

Loss for the year and net loss margin

The loss for the year decreased by approximately 40.6% from approximately RMB129.9 million for the year ended 30 June 2019 to approximately RMB77.2 million for the year ended 30 June 2020. The net loss margin increased from approximately 17.0% for the year ended 30 June 2019 to approximately 21.0% for the year ended 30 June 2020, primarily due to a decrease in turnover for the year ended 30 June 2020.

Loss for the year attributable to owners of the parent

The loss for the year attributable to owners of the parent decreased by approximately 39.6% from approximately RMB128.3 million for the year ended 30 June 2019 to approximately RMB77.5 million for the year ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources and loans from banks. As at 30 June 2020, the Group had cash and cash equivalent balance amounting to approximately RMB40.4 million (30 June 2019: approximately RMB24.2 million) and interest-bearing loans amounting to approximately RMB107.2 million (30 June 2019: RMB54.8 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 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; 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 Convertible Bonds for 6 months after the Maturity Date, i.e., to 29 September 2019 under the same terms and conditions of the Convertible Bonds (the "First Extension"). On 21 May 2019, the First Extension has been approved by extraordinary general meeting in the form of an ordinary resolution.

On 29 September 2019, the Company executed a supplemental deed to further extend the maturity date of the Convertible Bonds to 28 September 2020 under the same terms and conditions of the Convertible Bonds and Convertible Bonds holder has an option to extend the maturity date for one additional year (the "Second Extension"). On 20 December 2019, this Second Extension has been approved at the extraordinary general meeting in the form of an ordinary resolution. For more details, please refer to the related announcements of the Company dated 29 September 2019 and the related circular of the Company dated 3 December 2019.

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

On 25 September 2020, the Company and the Bondholder mutually agreed to defer redemption of the Convertible Bond, which will be matured on 28 September 2020, and will have a further discussion on the possibility of restructuring the Convertible Bonds. Further announcement and updates will be made by the Company in this respect as and when appropriate.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the year ended 30 June 2020.

Borrowing and charges of assets

As at 30 June 2020, the Group's borrowings were approximately RMB107.2 million (30 June 2019: RMB54.8 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an interest range of 3.75% to 7.2% per annum (30 June 2019: all denominated in RMB, and bore an interest range of 5.31% to 7.2% per annum).

As at 30 June 2020, the Group's Convertible Bonds was approximately RMB91.2 million (30 June 2019: RMB85.5 million) which will mature on 28 September 2020 and the interest rate is 5.0% per annum.

As at 30 June 2020, the banking facilities granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB63.1 million, RMB110.0 million and RMB77.1 million respectively (30 June 2019: approximately RMB63.4 million, RMB115.9 million and RMB78.8 million respectively).

Gearing ratio

The gearing ratios as at 30 June 2020 and 2019 were approximately 15.8% and 7.7% respectively. The increase in gearing ratio was mainly attributable to increase in the Group's interest bearing loans from approximately RMB54.8 million as at 30 June 2019 to approximately RMB107.2 million as at 30 June 2020. Based on the gearing ratio as at 30 June 2020, the Group still maintained a good financial position.

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

Trade and other receivables

Trade and bills receivables increased by approximately RMB69.7 million from approximately RMB494.0 million as at 30 June 2019 to approximately RMB563.7 million as at 30 June 2020, primarily due to some contracting projects were completed during the year ended 30 June 2020. Due to overall downward economic environment, several customers had financial difficulties and delayed the settlement of the receivables, as a result, the Group increased to provide impairment losses on trade receivables and other receivables. The provision for impairment of trade receivables and other receivables increased by approximately RMB61.8 million and RMB21.4 million, respectively, for the year ended 30 June 2020. 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 2020, the Group's capital expenditure amounted to approximately RMB5.8 million (2019: RMB15.1 million).The capital expenditure of the Group for the year was mainly used to expand the workshop in the production plant in Tongxiang, Zhejiang Province, the PRC.

COMMITMENTS

As at 30 June 2020, the Group had no material capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2020, 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 2020, the Group had 296 employees (30 June 2019: 314 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2020 were approximately RMB52.8 million, as comparable to approximately RMB61.2 million for the year ended 30 June 2019. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the year, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

Looking ahead to the second half of 2020, the Group's operations will return to the right track with the resumption of the industry's supply chain and production as the epidemic in China comes under control. Since the end of the epidemic, the state has introduced a sequence of favourable policies for the expansion of domestic demand in an effort to stabilize the economy, which is expected to stimulate the industry's development. However, the ongoing trade disputes between China and the United States continue to bring uncertainties to the industry and the Group. As the leading paper manufacturing equipment supplier in China, the Group will step up its innovation and research and development, enhance technical reserves and expand into new businesses.

In respect of overseas businesses, the Group considers the impact of the pandemic to be temporary and believes that the demand for the paper manufacturing industry in Southeast Asia still holds huge potential in the long run, for this reason the Company will sustain the momentum in its expansion into overseas market. Furthermore, the restructuring and upgrading of the industry will lead to intelligent restructuring and upgrading, and the pandemic has intensified the industry's demand for intelligent and automated equipment. The Group will continue to strengthen its technical reserves and seek technological breakthroughs to meet the industry's demand and maintain its competitiveness.

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

From the listing date to 30 June 2020, 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 2020	**Actual use of proceeds from the listing date to 30 June 2020**	**Unused proceeds**	**Expected timeline of full utiligate of the balance**
	RMB'000	RMB'000	RMB'000	
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

ABOUT THIS REPORT

This is the Environmental, Social and Governance ("ESG") Report (the "ESG Report") of the Group for the year ended 30 June 2020, which outlines the principles and sustainably philosophy of the Group in fulfilling its corporate social responsibility ("CSR") and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR.

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

During the year ended 30 June 2020 (the "Reporting Period"), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG report provides details of the Company's policies and practices in two aspects namely environmental and social for the Reporting Period.

SCOPE OF THE ESG REPORT

The Groups core business is engaged in the design, manufacture and sale of cylinder blocks and cylinder heads in the PRC. The data disclosed in the ESG Report was collected from the main office and the production plants of the Group in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

REPORTING FRAMEWORK

The Group has prepared the ESG report pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules. The ESG Report adhere to the reporting principles of the ESG Reporting Guide, and complies with the "Comply or Explain" provisions therein. In view of our first time disclosure of certain key performance indicators ("KPIs"), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

ACCESS OF THE ESG REPORT

The ESG report is released in both printed and online versions. The online version is available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.hzeg.com).

This report is released in both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

CONTACT INFORMATION

We highly appreciate and welcome your feedback on the ESG Report so that we may meet the stakeholder's interests and for our sustainability initiatives. For any enquires or recommendations, please forward to us at Room 805A, 8/F, Tower 1, 75 Mody Road, Tsim Sha Tsui, Hong Kong or by email at ir@hzeg.com.

STAKEHOLDER ENGAGEMENT

Communication with stakeholders is very important to the Group. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, business partners, the public and the community.

Major stakeholders	Communication Channels	Expectations
Shareholders	• Annual general meeting and other shareholder meetings • Annual report and interim report • Announcements and circulars • Company's website • Meeting with investors	• Return on investment • Information disclosure and transparency • Protection of shareholders' rights and fair treatment of shareholders
Government and regulatory authorities	• Policy guidance • Response to public consultation in writing • Meeting	• Compliance with laws and regulations • Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility • Proper tax payment
Employees	• Regular meetings and training • Performance assessment • Staff newsletters and broadcasts • Labour union	• Salary and welfare • Safe working environment • Fair career development opportunities
Customers	• Regular meetings • Site visit • Exhibition • Email	• High quality products and services • Group reputation and brand image
Business partners	• Business partner meetings • Site visit • Email • Tendering process • Purchase review	• Long-term partnership • Win-win cooperation • Fair purchase • Timely payment
The public and the community	• Site visit • Email • public newsletters and broadcasts	• Volunteer • Community visit • Donate

ENVIRONMENTAL

Environmental Policy

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

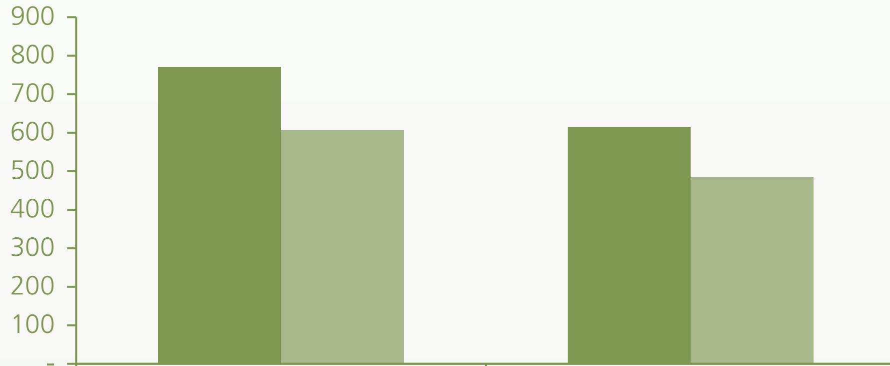
The Group produced various hazardous liquid waste and solid wastes in the course of manufacturing, which amounted decreased by 8.2% to approximately 2.46 tonnes for the year(2019: approximately 2.68 tones), consisting of various chemicals and wastes, such as spray water of paint room, scraps and waste 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



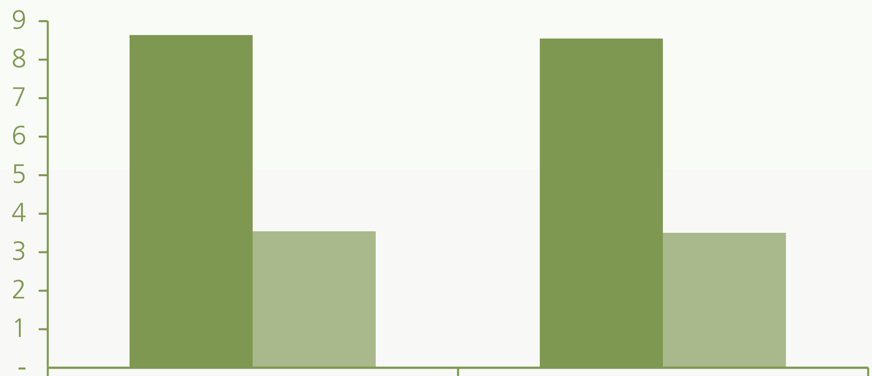
	2019	2020
Power consumption (kWh in '000s)	769.67	614.02
Carbon emission (tonnes)	606.31	483.70

During the year ended 30 June 2020, due to the Company strict implementation of the energy conservation guideline, the power consumption decreased by approximately 25.4% 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



	2019	2020
■ Water consumption (Kiloton)	8.63	8.54
■ Carbon emission (tonnes)	3.54	3.50

During the year ended 30 June 2020, due to the Company strict implementation of the energy conservation guideline, the water consumption decreased by approximately 1.1% compared with previous years.

During the year ended 30 June 2020, the total power consumption of the Group was approximately 614,026 kWh, and the density was approximately 1,667.8 kWh/output value of RMB million and total water consumption was approximately 8,538 tonnes and the density was approximately 23.2 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.

SOCIAL

Employees

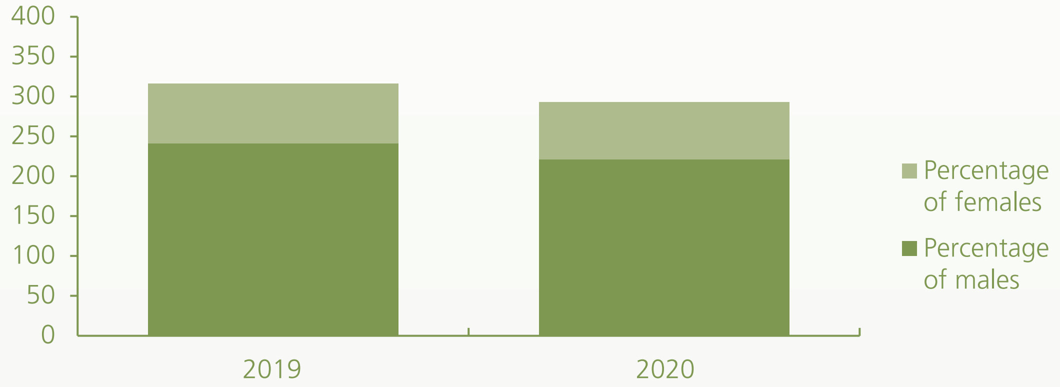
The Group believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills 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 2020, the Group employs 296 employee The following table sets forth the number and breakdown of our full-time employees by function as at 30 June 2020:

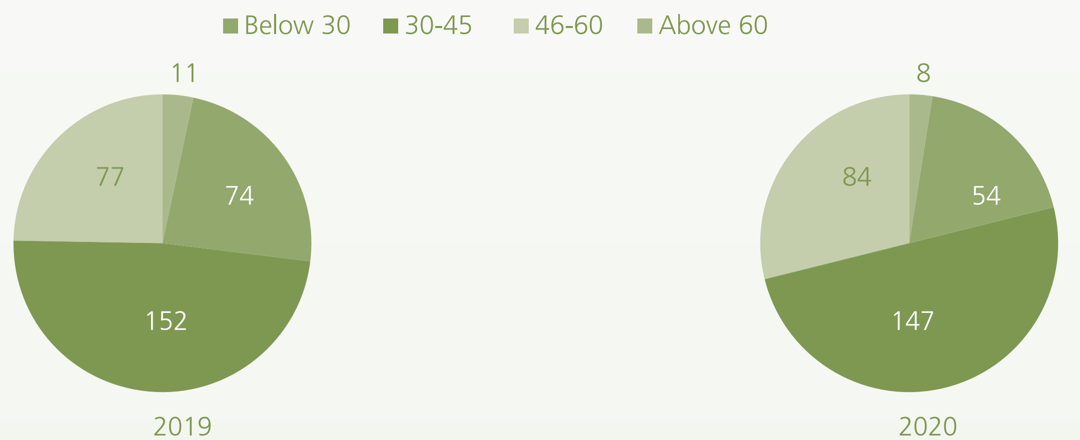
	Number of employees
Production	48
Technical and Research and development	109
Sales and marketing	39
Procurement and warehouse	11
Maintenance services	14
General administration and management	50
Quality control	8
Accounting and finance	17
Total	296

EMPLOYMENT STATISTICS BY GENDER, AGE AND EDUCATION LEVEL

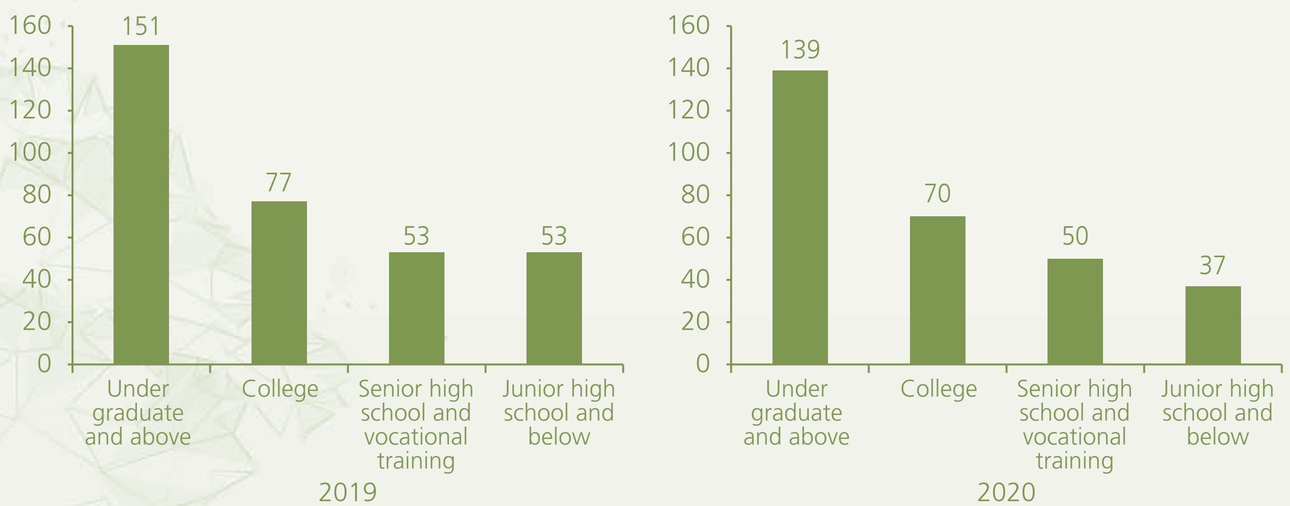
Distribution of employees by gender



Distribution of employees by age



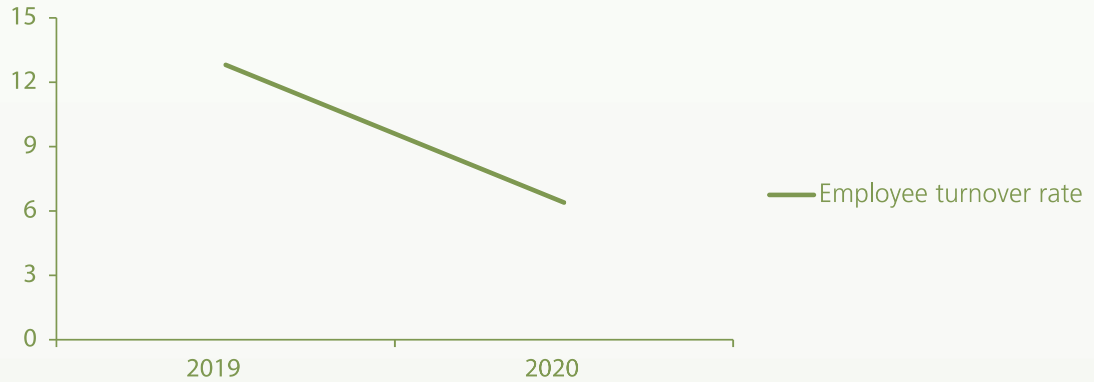
Distribution of employees by education level



Benefits

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

Employee turnover rate



OCCUPATIONAL HEALTH AND SAFETY

Safety Management System

The Group is subject to various production safety rules and regulations in the PRC. The Group 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, 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, and installation of first-aid cases at production sites, use of labour protective equipment. 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 such as the provision of periodic training courses on self-rescue and escape to employees to enhance their awareness of safety issues from time to time. 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.

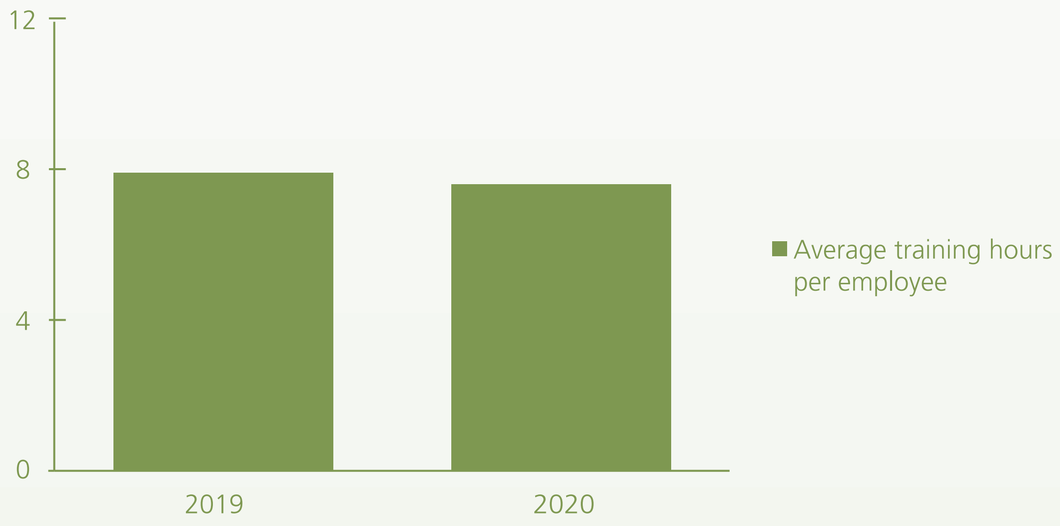
As at 30 June 2020, there were no any injury cases in Tongxiang.

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.

Employee training and development

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

Average training hours per employee



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.

RELATIONSHIPS WITH CUSTOMERS

Through the efforts of sales and marketing team, the Group have established solid relationships with its major customers for periods over five years. The customers of the Group are primarily large paper-making enterprise located 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 2020, the Group had 100 patents in the PRC, including 75 utility model patents and 25 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 2020, 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 2020.

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 2020 and the financial information of the Group as at 30 June 2020 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 2020 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

Please refer to Note 3 to the consolidated financial statements for details of the main financial risks faced by the Group and the Group's management objectives and policies regarding such risks. In addition to such financial risks, the Directors are of the view that demands on our products and services, fluctuation in costs of raw materials and difficulty in obtaining financing are also major of the principal risks and uncertainties that may affect the Group's business.

DEMAND FOR PRODUCTS AND SERVICES

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 2020, 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 33 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 departments 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 2020 (2019: nil).

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 19 November 2020 (Thursday) to 24 November 2020 (Tuesday), 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 18 November 2020 (Wednesday).

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

ANNUAL GENERAL MEETING

The AGM will be held on Tuesday, 24 November 2020. 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 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2020.

The Company repurchased 698,000 of its ordinary shares on the Stock Exchange in July 2020 at an aggregate amount of approximately HK$1.4 million, representing approximately 0.095% of the total number of issued shares of the Company.

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
July 2020	698,000	2.2	1.84	1,402,635
	698,000			1,402,635

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.

698,000 shares have been cancelled on 10 September 2020.

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 period from 1 July 2020 to the date of this report.

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

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

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

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

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

(ii) a discount of approximately 5.0% to the average closing price of approximately HK$3.79 per Share as quoted on the Stock Exchange for the five consecutive trading days prior to the date of the placing and subscription agreement.

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

Taking into account the Company's expenses for the placing and the subscription, the net price is approximately HK$3.56 per share.

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

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

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

As at 30 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.

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

	Original intended use of net proceeds from the placing and the subscription		Unutilised net proceeds as at 1 July 2019	Reallocation of unutilised net proceeds as at 30 July 2019	Revised use of net proceeds from the placing and the subscription	Actual use of net proceeds as at 31 December 2019	Unutilised net proceeds as at 30 June 2020
	HK$'000	RMB'000 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	–	37,823	47,279	(47,279)	–
Repayment of loan	56,800	47,280	–	–	47,280	(47,280)	–
Potential acquisitions	45,440	37,823	37,823	(37,823)	–	–	–
	113,600	94,559	37,823	–	94,559	(94,559)	–

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.

The net proceeds from the placing and the subscription amounted to approximately RMB94.6 million (the "Net Proceeds from the P & S"). As at 31 December 2019, the Net Proceeds from the P & S, after deducting all relevant costs and expenses, had been fully utilised as to approximately RMB47.3 million for the Group's – purchase raw material for the supporting services and as to approximately RMB47.3 million for the Group's repayment of loan, respectively.

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 27 and 28 to the consolidated financial statements.

As at 30 June 2020, 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 RMB476,843,596. The amount of RMB476,843,596 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 2020 are set out in Note 23 and Note 26 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 2020 represented approximately 46.0% (30 June 2019: 21.0%) and approximately 62.0% (30 June 2019: 66.0%), 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 2020 represented approximately 14.0% (30 June 2019: 11.1%) and approximately 40.0% (30 June 2019: 42.7%), 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. Liu Chuan Jiang
Mr. Jin Hao

Independent Non-Executive Directors

Mr. Dai Tian Zhu
Mr. Kong Chi Mo
Mr. Heng, Keith Kai Neng

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. Jin Hao, Mr. Dai Tian Zhu, and Mr. Kong Chi Mo will retire at the 2020 AGM and, being eligible, will offer themselves for re-election at the 2020 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 2020.

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 31 to the consolidated financial statements of this annual report, and none of which constitutes a discloseable connected transaction or 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 2020. 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 2020 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 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 movements in the Company's share options outstanding under the Share Option Scheme:

For the year ended 30 June 2020

Name or category of participant	At 1 July 2019	Granted during the year	Exercised during the year	Lapsed/ expired during the year	Cancelled/ forfeited during the year	At 30 June 2020
	Number of share options					
Executive directors:						
Jin Hao	450,000	-	-	-	-	450,000
Other Employees	18,550,000	-	-	-	-	18,550,000
In aggregate	19,000,000	-	-	-	-	19,000,000

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

The share options were granted under the Share Option Scheme on 15 January 2019. The exercise price of the options granted under the Share Option Scheme was HK$4.04.

The directors have estimated the values of the share options granted during the year ended 30 June 2019, calculated using the binomial lattice model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options RMB'000
Jin Hao	450,000	872
Other Employees	18,550,000	31,248
	19,000,000	32,120

The binomial lattice model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were risk-free rate of interest, dividend yield, volatility, exercise multiple and forfeiture rate. The measurement dates used in the valuation calculations were the dates on which the options were granted as follow:

Share price (HK$)	4.04
Exercise price (HK$)	4.04
Expected volatility (%)	39.81
Expected dividend yield (%)	0.74
Risk-free interest rate (%)	2.04

The expected volatility is based on the historical volatility (calculated based on the expected life of the share options), adjusted for any expected changes to future volatility due to public available information. The expected dividends are based on historical dividends. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes with a maturity life equal to the life of the share option.

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 2.52% as at 30 June 2020.

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 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. A framework agreement relating to the Share Award Scheme has been terminated. Details of which have been disclosed in the announcements dated 26 May 2020 and 1 September 2020.

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 2020, 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	414,142,000 shares (Note 1)	–	56.43%
		Beneficial owner	1,858,000 shares (Note 2)		0.25%
		Interest of people acting in concert	368,000 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	414,142,000 shares (Note 5)	–	56.43%
		Beneficial owner	368,000 shares (Note 6)		0.05%
		Interest of people acting in concert	1,858,000 shares (Note 5)		0.25%
	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%

Name of director	Company/name of associated company	Natural of interest	Number of securities	Share Options	Approximate percentage of shareholding
Mr. Liu Chuan Jiang (Note 4)	The Company	Interest of a controlled corporation	414,142,000 shares (Note 7)	–	56.43%
		Interest of people acting in concert	368,000 shares (Note 7)		0.05%
			1,858,000 shares (Note 7)		0.25%
	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 1,858,000 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 1,858,000 shares held in the personal name of Mr. Zhu Gen Rong.

6. The 368,000 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 1,858,000 shares and 368,000 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 2020, 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 2020, 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 interested	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owner	414,142,000	56.43%
Lian Shun Limited	Interest of a controlled corporation	414,142,000 (Note 1)	56.43%
Mr. Zhu Gen Rong	Interest of a controlled corporation/Beneficial owner, person acting in concert	416,368,000 (Note 2)	56.74%
Mr. Wang Ai Yan	Interest of a controlled corporation/Beneficial owner, person acting in concert	416,368,000 (Note 3)	56.74%
Mr. Liu Chuan Jiang	Interest of a controlled corporation/person acting in concert	416,368,000 (Note 4)	56.74%
Ms. Zhu Ling Yun	Person acting in concert	416,368,000 (Note 5)	56.74%
Mr. Fang Hui	Interest of a controlled corporation	47,440,000 (Note 6)	6.46%
Creation Best International 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%
Wealthy Land Investments Group Limited	having a security interest in shares	411,872,000	56.12%
Guotai Junan International Holdings Limited	having a security interest in shares	99,962,000	13.62%
Guotai Junan Securities Co., Ltd	having a security interest in shares	99,962,000	13.62%

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 1,858,000 shares which Mr. Zhu is interested in as beneficial owner and include 368,000 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 International Limited is interested and 7,440,000 Shares in which Mr. Fang Hui is interested. Creation Best International 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 International 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. The framework agreement has been terminated as stated in announcement dated 26 May 2020.

Save as disclosed above, as at 30 June 2020, 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 2020 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 2020.

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 auditor 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 auditor of the Company will be proposed at the forthcoming AGM. The consolidated financial statements for the year ended 30 June 2020 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 2020

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 2020, except that in respect of the code provision A.6.7 of the CG Code, due to other business commitment, Mr. Heng, Keith Kai Neng, independent non-executive director of the Company, was unavailable to participate the extraordinary general meeting of the Company held on 20 December 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 2020 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

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

Executive Directors:	Mr. Zhu Gen Rong (Chairman)
	Mr. Wang Ai Yan (Chief Executive Officer)
	Mr. Liu Chuan Jiang
	Mr. Jin Hao
Independent Non-Executive Directors:	Mr. Dai Tian Zhu
	Mr. Kong Chi Mo
	Mr. Heng, Keith Kai Neng

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 Board convened 4 meetings having considered the business development, 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. Liu Chuan Jiang	4/4	1/1	1/1
Mr. Jin Hao	4/4	1/1	1/1
Mr. Dai Tian Zhu	4/4	1/1	1/1
Mr. Kong Chi Mo	4/4	1/1	1/1
Mr. Heng, Keith Kai Neng	4/4	1/1	0/1

CORPORATE GOVERNANCE FUNCTIONS

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

PROFESSIONAL DEVELOPMENT

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

The individual training record of each director received for the year ended 30 June 2020 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. Jin Hao	✔
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 auditor 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 2020. 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
Mr. Dai Tian Zhu	2/2
Mr. Heng, Keith Kai Neng	2/2

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors. 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
Mr. Dai Tian Zhu	1/1
Mr. Kong Chi Mo	1/1
Mr. Heng, Keith Kai Neng (Chairman)	1/1

NOMINATION COMMITTEE

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

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

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

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

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

Name of Director	No. of Attendance/ No. of Meetings
Mr. Dai Tian Zhu (Chairman)	1/1
Mr. Zhu Gen Rong	1/1
Mr. Kong Chi Mo	1/1
Mr. Heng, Keith Kai Neng	1/1

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 7 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 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 2020. 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 2020.

AUDITOR'S REMUNERATION

During the financial year ended 30 June 2020, the fees paid/payable to the Company's auditor are set out as follows:

Services rendered	Fees paid/ payable (RMB'000)
Annual audit services	1,400
Interim review services	500
	1,900

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 2020.

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 email at ir@hzeg.com 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 2020, 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 71 to 156, which comprise:

- the consolidated statement of profit or loss for the year ended 30 June 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 30 June 2020;
- 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 2020, 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

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(a) "Critical accounting judgements – Revenue recognition" and Note 5 "Segment information" to the consolidated financial statements. 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 2020, revenue of the Group from sales of goods and projecting contract service was totaled RMB368,159,248, of which RMB196,801,564 was recognised on the over time basis. 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. 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. In respect of estimated total costs, we checked the components of estimated total costs to the supporting documents including the purchase contracts and approved budgets, on a sample basis. We performed site visit of projects, on a sample basis, to evaluate the ongoing status of the projects. We checked the mathematical accuracy of management's calculation of the revenues recognised over time using the input method. 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 20 "Trade and other receivables, contract assets and prepayments" to the consolidated financial statements. As at 30 June 2020, the net carrying amounts of the Group's trade receivables, other receivables and contract assets were RMB543,307,812, RMB91,060,264 and RMB11,035,234, respectively, after netting off accumulated allowance for impairment provision of RMB101,333,200, RMB27,336,709 and RMB553,383, respectively. 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 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.	We understood, evaluated and tested the key controls, on a sample basis, over the estimations adopted in the ECL assessment. We assessed the appropriateness of the Group's grouping by considering the credit risk characteristics. We evaluated the historical default rates of different groups by comparing with the actual losses recorded during the prior and current financial years. 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. 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. 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. We checked the mathematical accuracy of management's ECL calculation. 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.

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, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report

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 Mr. Mang Kwong Fung, Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 September 2020

Consolidated statement of profit or loss

For the year ended 30 June 2020

	Notes	For the year ended 30 June 2020 RMB	2019 RMB
Revenue	5	**368,159,248**	763,974,066
Cost of sales	5, 7	**(293,964,072)**	(642,997,382)
Gross profit		**74,195,176**	120,976,684
Selling and distribution expenses	7	**(9,171,733)**	(13,361,947)
Administrative expenses	7	**(57,122,809)**	(56,982,127)
Research and development expenses	7	**(24,048,315)**	(22,924,758)
Net impairment losses on financial and contract assets		**(83,861,306)**	(28,602,266)
Other income and gains/(losses), net	6	**27,291,315**	(108,630,916)
Operating loss		**(72,717,672)**	(109,525,330)
Finance income	9	**276,510**	1,258,747
Finance costs	9	**(10,491,027)**	(12,777,131)
Finance costs – net		**(10,214,517)**	(11,518,384)
Loss before income tax		**(82,932,189)**	(121,043,714)
Income tax expense	10	**5,742,749**	(8,824,351)
Loss for the year		**(77,189,440)**	(129,868,065)
Loss is attributable to:			
Owners of the parent		**(77,503,863)**	(128,269,107)
Non-controlling interests		**314,423**	(1,598,958)
		(77,189,440)	(129,868,065)
Losses per share attributable to the ordinary equity holders of the parent			
Basic losses per share (RMB cents)	11	**(10.56)**	(17.61)
Diluted losses per share (RMB cents)	11	**(10.56)**	(17.61)

Consolidated statement of comprehensive income

For the year ended 30 June 2020

	Notes	2020 RMB	2019 RMB
		For the year ended 30 June	
Loss for the year		**(77,189,440)**	(129,868,065)
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(3,816,712)**	(3,111,103)
Other comprehensive loss for the year, net of tax		**(3,816,712)**	(3,111,103)
Total comprehensive loss for the year		**(81,006,152)**	(132,979,168)
Total comprehensive loss for the year is attributable to:			
Owners of the parent		**(81,320,575)**	(131,380,210)
Non-controlling interests		**314,423**	(1,598,958)
		(81,006,152)	(132,979,168)

The notes on pages 77 to 156 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2020

	Notes	As at 30 June 2020 RMB	 2019 RMB
ASSETS			
Non-current assets			
Property, plant and equipment	14	**79,483,658**	81,993,507
Right-of-use assets	15	**5,303,580**	–
Investment properties	16	**109,975,507**	115,929,946
Prepaid land lease payments	17(i)	**77,087,727**	78,799,512
Goodwill	18	**39,934,884**	39,934,884
Other intangible assets	17(ii)	**12,664,279**	14,557,893
Deferred tax assets	24	**14,318,685**	8,353,095
Trade and other receivables	20(i)	**125,321,393**	7,075,588
Prepayments	20(iii)	**182,843**	195,903
Total non-current assets		**464,272,556**	346,840,328
Current assets			
Inventories	19	**113,679,076**	86,875,342
Trade and other receivables	20(i)	**529,419,356**	606,753,581
Prepayments	20(iii)	**135,171,764**	79,861,762
Financial assets at fair value through other comprehensive income		**50,049,740**	28,760,512
Pledged deposits	21	**28,602,729**	29,976,599
Contract assets	20(ii)	**11,035,234**	82,261,590
Cash and cash equivalents	21	**40,394,804**	24,196,754
Total current assets		**908,352,703**	938,686,140
Total assets		**1,372,625,259**	1,285,526,468

Consolidated statement of financial position

As at 30 June 2020

	Notes	As at 30 June 2020 RMB	2019 RMB
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	24	**6,110,739**	6,847,232
Deferred income	25	**24,187,500**	25,537,500
Lease liabilities	15	**4,038,619**	–
Total non-current liabilities		**34,336,858**	32,384,732
Current liabilities			
Trade and other payables	22	**354,215,675**	305,179,522
Contract liabilities	5	**206,393,720**	141,166,067
Interest-bearing loans	23	**107,208,500**	54,785,664
Income tax payable		**7,048,968**	11,911,209
Lease liabilities	15	**1,201,155**	–
Convertible bonds	26	**91,245,279**	85,525,913
Total current liabilities		**767,313,297**	598,568,375
Total liabilities		**801,650,155**	630,953,107
Net assets		**570,975,104**	654,573,361
EQUITY			
Share capital	27	**6,203,955**	6,203,955
Share premium	27	**509,708,723**	509,708,723
Equity component of convertible bonds	26	**35,161,248**	23,609,589
Other reserves	28	**61,516,759**	78,411,838
(Accumulated deficits)/retained earnings		**(41,147,040)**	37,422,220
Capital and reserves attributable to the owners of the parent		**571,443,645**	655,356,325
Non-controlling interests		**(468,541)**	(782,964)
Total equity		**570,975,104**	654,573,361

The notes on pages 77 to 156 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2020

		Attributable to the owners of the parent							
	Notes	Share capital	Share premium	Equity component of convertible bonds	Other reserves	(Accumulated deficits)/ retained earnings	Total	Non-controlling interests	Total equity
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance at 1 July 2019		6,203,955	509,708,723	23,609,589	78,411,838	37,422,220	655,356,325	(782,964)	654,573,361
(Loss)/profit for the year		–	–	–	–	(77,503,863)	(77,503,863)	314,423	(77,189,440)
Other comprehensive income/(loss)		–	–	380,818	(4,197,530)	–	(3,816,712)	–	(3,816,712)
Total comprehensive income/(loss) for the year		–	–	380,818	(4,197,530)	(77,503,863)	(81,320,575)	314,423	(81,006,152)
Extinguishment of convertible bonds	26	–	–	11,170,841	(11,170,841)	–	–	–	–
Employee share option	28	–	–	–	(2,592,105)	–	(2,592,105)	–	(2,592,105)
Profit appropriation to statutory reserves		–	–	–	1,065,397	(1,065,397)	–	–	–
		–	–	11,170,841	(12,697,549)	(1,065,397)	(2,592,105)	–	(2,592,105)
Balance at 30 June 2020		6,203,955	509,708,723	35,161,248	61,516,759	(41,147,040)	571,443,645	(468,541)	570,975,104
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		–	–	–	–	(2,028,005)	(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	27	(2,197)	(743,103)	–	–	–	(745,300)	–	(745,300)
Issue of shares	27	99,011	38,218,388	–	–	–	38,317,399	–	38,317,399
Employee share option	28	–	–	–	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

The notes on pages 77 to 156 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2020

	Notes	For the year ended 30 June 2020 RMB	2019 RMB
Cash flows from operating activities			
Cash used in operations	29(a)	**(39,875,198)**	(26,215,947)
Income tax paid		**(6,033,558)**	(7,888,803)
Net cash outflow from operating activities		**(45,908,756)**	(34,104,750)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(9,717,773)**	(12,943,421)
Proceeds from disposals of property, plant and equipment	29(b)	**12,200**	241,001
Purchase of other intangible assets		**(529,936)**	(1,857,594)
Purchase of prepaid land lease payments		**–**	(7,459,413)
Interest received		**276,510**	737,621
Net cash outflow from investing activities		**(9,958,999)**	(21,281,806)
Cash flows from financing activities			
Proceeds from interest – bearing loans	23	**107,045,000**	37,338,800
Proceeds from interest – free loan from a related party		**5,425,200**	–
Repayment of interest – bearing loans	23	**(33,513,000)**	(6,400,000)
Dividends paid to the owners of the Company	12	**–**	(18,994,497)
Interest paid		**(5,890,799)**	(2,531,656)
Repurchase of shares	27	**–**	(745,300)
Principal elements of lease payments	15	**(1,233,557)**	–
Net cash inflow from financing activities		**71,832,844**	8,667,347
Net increase/(decrease) in cash and cash equivalents		**15,965,089**	(46,719,209)
Cash and cash equivalents at beginning of the year	21	**24,196,754**	72,880,335
Effect of exchange rate changes on cash and cash equivalents		**232,961**	(1,964,372)
Cash and cash equivalents at end of the year	21	**40,394,804**	24,196,754

The notes on pages 77 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").

During the year ended 30 June 2020, the Group reported a revenue slump of as much as approximately RMB396 million mainly as the novel coronavirus disease ("COVID-19") pandemic forced the Group to delay the delivering of goods and providing project contracting services. With the emerging from the pandemic in the second-half of 2020, management was well-positioned for a recovery.

These 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 2020.

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"), 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, amendments and interpretations to standards are mandatory for the Group's financial year beginning 1 July 2019.

HKFRS 16	Leases
HK (IFRIC) 23	Uncertainty over income tax treatments
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement
HKAS 28 (Amendments)	Long-term interests in associates and joint ventures
Annual Improvements to HKFRS 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group had to change its accounting policies as a result of adopting HKFRS 16. Please refer to Note 2.1(e) for details. The other newly adopted standards or amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New standards, amendments and interpretations not yet adopted by the Group

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 2019 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, amendments and interpretations not yet adopted by the Group *(Continued)*

Standards, amendments and interpretations	Key requirements	Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Annual Improvements to HKFRS 2018-2020		1 January 2022

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)*

(e) Changes in accounting policy

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1(c) above, the Group has adopted HKFRS 16 from 1 July 2019, but has not restated comparatives for last reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in Note 2.28.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average discount rate applied to the lease liabilities on 1 July 2019 was 6.22%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(ii) Measurement of lease liabilities

	RMB
Operating lease commitments disclosed as at 30 June 2019	1,162,053
Discounted using the lessee's incremental borrowing rate at the date of initial application	1,129,382
Less: short-term leases not recognised as a liability	(960,504)
Add: adjustments as a result of a different treatment of extension and termination options	5,724,783
Lease liabilities recognised as at 1 July 2019	5,893,661
Of which are:	
Current lease liabilities	1,048,351
Non-current lease liabilities	4,845,310
	5,893,661

(iii) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

(iv) Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Right-of-use assets – increase by RMB5,928,661
- Prepayments – decrease by RMB35,000
- Lease liabilities (current portion) – increase by RMB1,048,351
- Lease liabilities (non-current portion) – increase by RMB4,845,310

There was no impact on retained earnings on 1 July 2019.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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").

(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 or 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 gains/(losses), 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Investment properties

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.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

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 gains/(losses), net in the consolidated statement of profit or loss.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

2.10.2 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

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 gains/(losses), net using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in other income and gains/(losses), 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 gains/(losses), net. Interest income from these financial assets is included in other income and gains/(losses), net using the effective interest rate method. Foreign exchange gains and losses are presented in other income and gains/(losses), net and impairment expenses are presented as separate line item in the consolidated statement of profit or loss.

(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 gains/(losses), net in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.4 Impairment

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, see Note 20 for further details.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Trade and other receivables *(Continued)*

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 20 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.

2.15 Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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);

(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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Share-based payments *(Continued)*

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 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

(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)*

(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)*

(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.

2.25 Earnings per share

(a) 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.

(b) 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 calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.28 Leases

As explained above in Note 2.1(e), the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 July 2019. The new policy is described below and the impact of the change is set out in Note 2.1(e).

The Group leases various offices. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

For the year ended 30 June 2019 and before, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Leases *(Continued)*

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprises small offices and motor vehicles whose lease terms are also within 12 months.

Extension options are included in the offices leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised during the year ended 30 June 2020.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 5, 6). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

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 Jun 2020 would have been approximately RMB146,124 better/worse (2019: RMB114,874), for various financial assets and liabilities 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 21 and Note 23 respectively.

As at 30 June 2020 and 2019, 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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.

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 2020 or 30 June 2019 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

On that basis, the loss allowance as at 30 June 2020 and 30 June 2019 was determined as follows for trade receivables and contract assets:

30 June 2020	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	317,088,861	33,094,076	26,703,775	47,774,757	64,974,852	155,004,691	644,641,012
Expected loss rate	0%-0.5%	0.5%-7.5%	0.5%-8.7%	0.5%-100.0%	0.5%-100.0%	0.5%-100.0%	
Loss allowance	1,553,692	1,407,533	852,069	6,115,169	38,156,268	53,248,469	101,333,200
Contract assets							
Gross carrying amount	11,588,617	–	–	–	–	–	11,588,617
Expected loss rate	0.5%-6.8%						
Loss allowance	553,383	–	–	–	–	–	553,383

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

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 2020	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	93,627,600	–	–	–	93,627,600
Interest-bearing loans	110,026,748	–	–	–	110,026,748
Trade and other payables	301,631,597	–	–	–	301,631,597
Lease liabilities	1,481,718	1,265,870	3,246,953	–	5,994,541
	506,767,663	1,265,870	3,246,953	–	511,280,486

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	90,169,250	–	–	–	90,169,250
Interest-bearing loans	57,003,686	–	–	–	57,003,686
Trade and other payables	269,008,111	–	–	–	269,008,111
	416,181,047	–	–	–	416,181,047

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 includes interest-bearing loans, convertible bonds, lease liabilities, interest-free loan from independent third parties and loans from related parties 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 2020 and 2019 were as follows:

	As at 30 June	
	2020	2019
	RMB	RMB
Total debt	**227,224,993**	140,311,577
Total equity	**570,975,104**	654,573,361
Total capital	**798,200,097**	794,884,938
Gearing ratio	**28.5%**	17.7%

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 2020 and 2019.

At 30 June 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
FVOCI	**–**	**50,049,740**	**–**	**50,049,740**

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

(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.

For the years ended 30 June 2020 and 2019, 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.

The carrying amounts of the Group's other 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.

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 2020 and 2019 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 18. 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 18.

4.2 Critical accounting judgements

(a) 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 gains/(losses),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, right-of-use assets and 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 payable, lease liabilities 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 2020:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers	85,442,850	169,023,902	58,246,368	55,446,128	368,159,248
Timing of revenue recognition					
At a point in time	85,442,850	–	30,468,706	55,446,128	171,357,684
Over time	–	169,023,902	27,777,662	–	196,801,564
Segment cost of sales	(59,978,876)	(144,532,256)	(43,553,823)	(45,899,117)	(293,964,072)
Segment gross profit	25,463,974	24,491,646	14,692,545	9,547,011	74,195,176
Segment results	3,313,003	(39,317,629)	750,679	(33,761,564)	(69,015,511)
Common administrative expenses					(30,993,476)
Other income and gains/(losses), net (Note 6)					27,291,315
Finance costs – net (Note 9)					(10,214,517)
Loss before income tax					(82,932,189)
Income tax expense (Note 10)					5,742,749
Loss for the year					(77,189,440)

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure (Note 14,15,17)	4,148,327	153,540	117,003	812,194	579,670	5,810,734
Depreciation of property, plant and equipment (Note 14)	1,002,953	141,160	1,662,309	4,388,007	–	7,194,429
Depreciation of right-of-use assets (Note 15)	–	–	–	–	1,204,752	1,204,752
Depreciation of investment properties (Note 16)	–	–	–	5,643,697	310,742	5,954,439
Amortisation of prepaid land lease payments (Note 17(i))	106,538	–	141,354	1,336,421	127,472	1,711,785
Amortisation of other intangible assets (Note 17(ii))	2,047,850	–	–	375,700	–	2,423,550

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 gains/ (losses), 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 (Note 14,17)	2,155,231	75,239	54,687	12,798,487	–	15,083,644
Depreciation of property, plant and equipment (Note 14)	1,452,854	25,146	1,660,317	3,644,361	–	6,782,678
Depreciation of investment properties (Note 16)	–	–	–	6,114,005	310,742	6,424,747
Amortisation of prepaid land lease payments (Note 17(i))	106,539	–	141,355	1,622,361	127,474	1,997,729
Amortisation of other intangible assets (Note 17(ii))	2,047,850	–	–	98,763	–	2,146,613
Impairment of goodwill (Note 18)	–	–	–	105,063,873	–	105,063,873

5 SEGMENT INFORMATION *(Continued)*

Revenues of approximately RMB118,173,924 are derived from a single external customer (2019: revenues of approximately RMB201,493,775 and RMB83,995,625 are derived from two external customers). These revenues are attributed to the project contracting services segment (2019: project contracting services and supporting services segments).

Segment assets	As at 30 June 2020 RMB	 2019 RMB
Project contracting services	**587,588,549**	490,983,666
Supporting services	**368,174,479**	443,391,478
Industrial products	**258,161,109**	212,327,398
Environmental products	**64,530,169**	70,422,522
Total segment assets	**1,278,454,306**	1,217,125,064
Unallocated:		
Cash and cash equivalents (Note 21)	**40,394,804**	24,196,754
Pledged deposits (Note 21)	**28,602,729**	29,976,599
Deferred tax assets (Note 24)	**14,318,685**	8,353,095
Right-of-use assets (Note 15)	**5,303,580**	–
Investment properties	**5,368,312**	5,679,053
Prepayments – non-current portion (Note 20(iii))	**182,843**	195,903
Total assets as per the statement of financial position	**1,372,625,259**	1,285,526,468

Segment liabilities	As at 30 June 2020 RMB	 2019 RMB
Industrial products	**230,487,233**	121,413,440
Project contracting services	**228,941,947**	201,993,421
Supporting services	**189,776,195**	149,700,093
Environmental products	**40,248,552**	59,759,940
Total segment liabilities	**689,453,927**	532,866,894
Unallocated:		
Convertible bonds (Note 26)	**91,245,279**	85,525,913
Other payables	**8,662,207**	649,091
Income tax payable	**7,048,968**	11,911,209
Lease liabilities (Note 15)	**5,239,774**	–
Total liabilities as per the statement of financial position	**801,650,155**	630,953,107

5 SEGMENT INFORMATION *(Continued)*

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

	As at 30 June	
	2020	2019
	RMB	RMB
Contract assets (i):		
Contract assets relating to sales of goods	**4,791,885**	16,435,710
Contract assets relating to sales of project contracting services	**6,796,732**	66,797,352
Less: provision for impairment	**(553,383)**	(971,472)
Total contract assets	**11,035,234**	82,261,590
Contract liabilities (i) (ii):		
Contract liabilities relating to sales of goods	**144,894,727**	101,549,740
Contract liabilities relating to sales of project contracting services	**61,498,993**	39,616,327
Total contract liabilities	**206,393,720**	141,166,067

(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 sales of project contracting services become unconditional. The increase in contract liabilities was mainly due to increased 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 2020 RMB
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	**85,982,947**

5 SEGMENT INFORMATION *(Continued)*

(iii) Unsatisfied long-term contracts

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

	As at 30 June 2020 RMB
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 30 June 2020	**170,490,401**

Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2020 will be recognised as revenue during the next reporting period.

6 OTHER INCOME AND GAINS/(LOSSES), NET

	For the year ended 30 June	
	2020 RMB	2019 RMB
Interest income from customer delaying on payment	**10,580,304**	12,670,796
Interest income recognised from project contracting services	**7,968,988**	4,729,429
Government grants	**3,515,292**	3,121,071
Reversal of interest (Note 23)	**2,924,713**	–
Tax refund	**1,141,863**	1,388,268
Rental income	**655,375**	617,554
Interest income from loan to a customer	**311,975**	368,115
Lawsuit	**–**	2,298,000
Exhibition service income	**–**	1,132,076
Gain on scrap steel sale	**–**	204,203
Change in fair value of contingent consideration	**–**	(30,437,752)
Impairment of goodwill (Note 18)	**–**	(105,063,873)
Others	**192,805**	341,197
	27,291,315	(108,630,916)

7 EXPENSES BY NATURE

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Raw materials used	**288,598,596**	617,448,136
Employee benefit expenses (Note 8)	**52,774,133**	61,204,032
Outsourcing service fees	**13,449,901**	4,160,109
Travelling expenses	**8,867,781**	9,579,862
Professional service fees	**8,604,291**	3,922,562
Depreciation of property, plant and equipment (Note 14)	**7,194,429**	6,782,678
Depreciation of investment properties (Note 16)	**5,954,439**	6,424,747
Addition of provision for write-down of inventories (Note 19)	**4,916,152**	2,697,019
Office expenses	**3,228,700**	2,381,096
Entertainment expenses	**2,489,046**	3,587,276
Amortisation of other intangible assets (Note 17(ii))	**2,423,550**	2,146,613
Miscellaneous tax charges other than value added tax and income tax	**2,323,356**	1,870,012
Transportation expenses	**2,267,814**	2,356,717
Auditor's remuneration		
– Audit services	**1,900,000**	1,830,000
Amortisation of prepaid land lease payments (Note 17(i))	**1,711,785**	1,997,729
Rental expenses (Note 15(ii))	**1,354,142**	1,624,856
Depreciation of right-of-use assets	**1,204,752**	–
Warranty expenses	**1,052,854**	2,675,543
Utilities	**689,026**	564,994
Advertising costs	**417,999**	653,057
Change in inventories of finished goods and work in progress (Note 19)	**(29,962,862)**	(34,171)
Other expenses	**2,847,045**	2,393,347
	384,306,929	736,266,214

8 EMPLOYEE BENEFIT EXPENSES

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Wages and salaries	**41,361,608**	38,891,673
Bonuses	**4,876,681**	5,401,777
Social security costs	**4,686,093**	6,220,039
Pension costs – defined contribution plans	**2,006,391**	2,846,444
Share options (Note 28)	**(2,592,105)**	4,399,960
Other benefits	**2,435,465**	3,444,139
	52,774,133	61,204,032

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2020 include four (2019: four) directors whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining one (2019: one) individual for the year ended 30 June 2020 is as follows:

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Salaries, allowances and benefits in kind	**602,870**	522,420
Bonuses	**91,344**	65,303
Share options	**(63,928)**	143,316
Other benefits	**16,442**	15,673
	646,728	746,712

The emoluments fell within the following bands:

	For the year ended 30 June	
	2020	2019
Emolument bands		
Within HKD1,000,000 (equivalent to approximately RMB903,200)	**1**	1

9 FINANCE COSTS – NET

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Finance costs		
Interest on convertible bonds (Note 26)	**(6,959,294)**	(10,819,398)
Interest on loans (Note 23)	**(3,187,835)**	(2,343,973)
Interest paid/payable for lease liabilities (Note 15)	**(336,936)**	–
Net foreign exchange losses	**(6,962)**	–
Amount capitalised	**–**	386,240
	(10,491,027)	(12,777,131)
Finance income		
Interest income	**276,510**	737,621
Exchange gains, net	**–**	521,126
	276,510	1,258,747
Finance costs – net	**(10,214,517)**	(11,518,384)

10 INCOME TAX EXPENSE

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Current income tax		
PRC enterprise income tax (iii)	**959,334**	13,124,571
Deferred income tax (Note 24)	**(6,702,083)**	(4,300,220)
Income tax expense	**(5,742,749)**	8,824,351

10 INCOME TAX EXPENSE *(Continued)*

(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 2020 (2019: nil), as the Group had no taxable profits earned in Hong Kong during the year.

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

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

Zhejiang Huazhang 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 year of 2017 with a validation period of three years. The applicable EIT rate of Zhejiang Huazhang is 15% from 2008 till 2019. Zhejiang Huazhang is now under application of new validation period. It's highly possible that preferential tax rate will be approved by tax bureau around November 2020. Thus the applicable income tax rate for Zhejiang Huazhang was 15% for the year ended 30 June 2020 (2019: 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	
	2020	2019
	RMB	RMB
Loss before income tax	**(82,932,189)**	(121,043,714)
Tax calculated at the statutory tax rate of 25%	**(20,733,047)**	(30,260,929)
Tax effects of:		
Different tax rate effect	**5,507,247**	2,639,397
Income not subject to tax	**–**	(651,050)
Expenses not deductible for income tax purpose	**28,329**	5,095,277
Research and development tax credit	**(2,313,487)**	(1,652,199)
Tax losses and temporary differences for which no deferred tax asset was recognised	**13,247,614**	8,212,054
Utilisation of previously unrecognised tax losses	**(130,538)**	–
Adjustments for current tax of prior years	**(1,348,867)**	(824,167)
Provision for goodwill impairment not deductible for income tax purpose	**–**	26,265,968
Income tax expense	**(5,742,749)**	8,824,351

11 EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 733,857,225 (2019: 728,246,767) which represents the shares in issue during the year.

The diluted earnings per share is same as the basic earnings per share for the year ended 30 June 2020 and 2019. For the year ended 30 June 2020, the Group had no potential dilutive ordinary shares in issue (2019: any potential ordinary shares would have anti-dilutive effect).

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Basic		
Earnings		
Loss attributable to ordinary equity holders of the parent	**(77,503,863)**	(128,269,107)
Number of shares		
Weighted average number of ordinary shares in issue during the year	**733,857,225**	728,246,767
Basic losses per share (RMB cents)	**(10.56)**	(17.61)
Diluted		
Earnings		
Loss attributable to ordinary equity holders of the parent	**(77,503,863)**	(128,269,107)
Number of shares		
Weighted average number of ordinary shares in issue and potential ordinary shares issued as the dedominator in calculating diluted earnings per share during the year	**733,857,225**	728,246,767
Diluted losses per share (RMB cents)	**(10.56)**	(17.61)

12 DIVIDENDS

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Proposed final dividend	**–**	–

No dividends was paid during the year ended 30 June 2020 (2019: dividends of 3.0 HK cents per share, totally RMB18,994,497 was paid).

On 25 September 2020, the Board resolved not to declare any dividend for the year ended 30 June 2020 (2019: nil).

13 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 30 June 2020 and 2019 are as follows:

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Ownership interest held by the group 2020 %	Ownership interest held by the group 2019 %	Ownership interest held by non-controlling interests 2020 %	Ownership interest held by non-controlling interests 2019 %
Zhejiang Huazhang*	PRC/Limited Company	Research and development, supply and sale of industrial automation systems and sludge treatment products and the provision of after-sales and other service in Mainland China	USD41,300,000	100	100	–	–
Huazhang Electric Holding Limited ("Huazhang Electric")	Hong Kong/Limited Company	Investment holding and trading of electronic parts in Hong Kong	HKD3,000,002	100	100	–	–
Likwin Limited ("Likwin")	BVI/Limited Company	Investment holding in BVI	USD1	100	100	–	–
Huazhang Technology (Hangzhou) Limited ("Huazhang Hangzhou")	PRC/Limited Company	Research and development,supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales and other services in Mainland China	RMB30,000,000	100	100	–	–
Wuhan Wukong Control System Engineering Co., Ltd. ("Wukong")	PRC/Limited Company	Wastewater treatment business in Mainland China	RMB8,553,000	70	70	30	30
Hangzhou Haorong Technology Co., Ltd. ("Haorong")	PRC/Limited Company	Computer software and hardware,and technical service in Mainland China	RMB500,000	100	100	–	–
Hangzhou MCN Paper Tech Co., Ltd. ("MCN")	PRC/Limited Company	Research, development and distribution of headboxes used in papermaking production line in Mainland China	RMB1,200,000	100	100	–	–
Guangdong Huazhang Logistics Warehouse Limited ("777")	PRC/Limited Company	Logistics and warehousing services in Mainland China	USD25,000,000	100	100	–	–
Huazhang Technology Logistics Warehouse Limited ("777 HK")	Hong Kong/ Limited Company	Investment holding in Hong Kong	HKD1	100	100	–	–
Huazhang Technology Logistics Limited ("777 BVI")	BVI/Limited Company	Investment holding in BVI	USD100	100	100	–	–
Baoshan Jintaisheng Logistics Limited ("Jintaisheng")	PRC/Limited Company	Logistics and warehousing services in Mainland China	RMB5,000,000	100	100	–	–
Fine Global Enterprises Limited ("Fine Global")	BVI/Limited Company	Investment holding in BVI	USD1	100	100	–	–
Huazhang Environmental Resources Investment Limited ("Environmental Resources")	Hong Kong/Limited Company	Investment holding in Hong Kong	HKD10,000	100	100	–	–
Hehe resource FZE ("Hehe")	Dubai/Limited Company	Waste recycling business in Dubai	AED10,000	100	–	–	–

* 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 2020					
Opening net book amount as at 1 July 2019	**63,350,891**	**15,101,372**	**1,692,333**	**1,848,911**	**81,993,507**
Additions	**104,500**	**237,008**	**370,996**	**3,988,624**	**4,701,128**
Disposals (Note 29(b))	**–**	**–**	**(16,548)**	**–**	**(16,548)**
Internal transfer	**5,837,535**	**–**	**–**	**(5,837,535)**	**–**
Depreciation charge (Note 7)	**(4,802,387)**	**(2,009,505)**	**(382,537)**	**–**	**(7,194,429)**
Closing net book amount as at 30 June 2020	**64,490,539**	**13,328,875**	**1,664,244**	**–**	**79,483,658**
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 29(b))	–	(208,034)	(4,059)	–	(212,093)
Internal transfer	636,793	–	–	(636,793)	–
Transfer to investment properties (Note 16)	(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

For the years ended 30 June 2020 and 2019, 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	
	2020 RMB	2019 RMB
Cost of sales	**3,794,698**	4,535,816
Administrative expenses	**3,229,065**	2,043,786
Research and development expenses	**163,103**	199,498
Selling and distribution expenses	**7,563**	3,578
Total	**7,194,429**	6,782,678

As at 30 June 2020, buildings with an aggregate carrying amount of RMB63,137,052 (2019: RMB63,350,891) were pledged as collateral for the Group's banking facilities and RMB1,353,487 (2019: nil) were pledged as collateral for interest – bearing loans (Note 23).

15 LEASES

This note provides information for leases where the group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at	
	30 June 2020	1 July 2019
	RMB	RMB
Right-of-use assets		
Buildings	**5,303,580**	5,928,661
Lease liabilities		
Current	**1,201,155**	1,048,351
Non-current	**4,038,619**	4,845,310
	5,239,774	5,893,661

Additions to the right-of-use assets during the year ended 30 June 2020 were RMB579,670.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Depreciation charge of right-of-use assets		
Buildings	**(1,204,752)**	–
Interest expense (Note 9)	**(336,936)**	–
Expense relating to short-term leases (Note 7)	**(1,354,142)**	–

The total cash outflow (including short-term lease) for leases during the year ended 30 June 2020 was RMB3,394,686.

16 INVESTMENT PROPERTIES

	Investment properties RMB
Year ended 30 June 2020	
Opening net book amount as at 1 July 2019	**115,929,946**
Depreciation charge (Note 7)	**(5,954,439)**
Closing net book amount as at 30 June 2020	**109,975,507**
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**

Amount recognised in profit or loss for investment properties included:

	For the year ended 30 June	
	2020 RMB	2019 RMB
Rental income	**3,518,552**	2,454,484
Depreciation of investment properties	**(5,954,439)**	(6,424,747)
	(2,435,887)	(3,970,263)

The Group engages external, independent and qualified valuers to determine the fair value of the Group's investment properties at the end of every financial year. As at 30 June 2020, the fair value of the investment property, together with its connected prepaid land lease payments, was approximately RMB246,800,000 (30 June 2019: RMB250,000,000), determined based on the valuations performed by Vincorn Consulting and Appraisal Limited, using market approach.

As at 30 June 2020, investment properties with an aggregate carrying amount of RMB109,975,507 (30 June 2019: RMB115,929,946) were pledged as collateral for the Group's banking facilities (Note 23).

17 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

(i) Prepaid land lease payments

	For the year ended 30 June	
	2020	2019
	RMB	RMB
Opening net book amount	**78,799,512**	73,337,828
Additions	**–**	7,459,413
Amortisation charge (Note 7)	**(1,711,785)**	(1,997,729)
Closing net book amount	**77,087,727**	78,799,512

Amortisation expenses of RMB1,710,675 (2019 : RMB1,996,841) and RMB1,110 (2019 : RMB888) have been charged to administrative expenses and research and development expenses respectively for the year ended 30 June 2020.

As at 30 June 2020, prepaid land lease payments with an aggregate carrying amount of RMB77,087,727 (30 June 2019: RMB78,799,512) were pledged as collateral for the Group's banking facilities (Note 23).

(ii) Other intangible assets

	Patents	**Software**	**Total**
	RMB	RMB	RMB
Year ended 30 June 2020			
Opening net book amount as at 1 July 2019	**12,799,062**	**1,758,831**	**14,557,893**
Additions	**–**	**529,936**	**529,936**
Amortisation charge (Note 7)	**(2,047,850)**	**(375,700)**	**(2,423,550)**
Closing net book amount as at 30 June 2020	**10,751,212**	**1,913,067**	**12,664,279**
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

Amortisation expenses of RMB2,423,550 (2019 : RMB2,146,613) have been charged to administrative expenses for the year ended 30 June 2020.

18 GOODWILL

	Headbox business RMB	Logistics and warehousing services RMB	Others RMB	Total RMB
Year ended 30 June 2020				
Opening net book amount as at 1 July 2019	**36,155,379**	**3,183,135**	**596,370**	**39,934,884**
Closing net book amount as at 30 June 2020	**36,155,379**	**3,183,135**	**596,370**	**39,934,884**
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

Goodwill of the Group mainly arose from the acquisition of Hangzhou Haorong Technology Co., Ltd and Hangzhou MCN Paper Tech Co., Ltd. (together, the "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.

18 GOODWILL *(Continued)*

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

30 June 2020	Headbox business	Logistics and warehousing services
Sales (% annual growth rate)	**2%-5%**	**–**
Budgeted gross margin (%)	**32%-34%**	**–**
Long term growth rate (%)	**3%**	**–**
Pre-tax discount rate (%)	**19.3%**	**–**
30 June 2019		
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%

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 2020, no impairment charge arose in the aforesaid CGUs (30 June 2019: impairment charge of RMB105,063,873 arose in the logistics and warehousing services CGU).

19 INVENTORIES

	As at 30 June	
	2020	2019
	RMB	RMB
Raw materials	**40,003,052**	39,943,419
Work in progress	**21,794,399**	36,711,019
Finished goods	**63,890,366**	19,010,884
	125,687,817	95,665,322
Less: provision	**(12,008,741)**	(8,789,980)
	113,679,076	86,875,342

As at 30 June 2020, raw materials and finished goods with a cost of RMB14,872,897 and RMB3,731,639 were considered as obsolete (30 June 2019: RMB11,110,882 and RMB2,602,081) and a provision of RMB8,277,102 and RMB3,731,639 (30 June 2019: RMB6,187,899 and RMB2,602,081) to write down their net realisable value was made against those inventories.

20 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

(i) Trade and other receivables

	As at 30 June	
	2020	2019
	RMB	RMB
Warranty receivables (a)	**24,401,686**	19,906,655
Amounts due from contract customers	**–**	–
Other trade receivables (b)	**620,239,326**	493,389,612
	644,641,012	513,296,267
Less: provision for impairment of trade receivables (c)	**(101,333,200)**	(39,538,917)
Trade receivables – net	**543,307,812**	473,757,350
Bills receivables	**20,372,673**	20,218,173
Trade and bills receivables	**563,680,485**	493,975,523
Payment on behalf of an independent third party	**87,265,017**	91,449,840
Deductible input value added tax	**10,203,052**	9,669,086
Loan deposit to an independent third party	**9,134,400**	8,796,600
Loan to a customer	**4,088,398**	7,228,531
Other receivables – guarantee	**3,304,332**	3,247,643
Other receivables due from a related party (Note 31(c)(i))	**–**	23,612
Others	**4,401,774**	5,419,728
	118,396,973	125,835,040
Less: provision for impairment of other receivables (d)	**(27,336,709)**	(5,981,394)
Other receivables – net	**91,060,264**	119,853,646
Total trade and other receivables	**654,740,749**	613,829,169
Less: trade and other receivables – non-current portion	**(125,321,393)**	(7,075,588)
	529,419,356	606,753,581

20 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	
	2020	2019
	RMB	RMB
Warranty receivables		
1 year to 2 years	**11,926,904**	6,138,336
Over 2 years	**12,474,782**	13,768,319
	24,401,686	19,906,655

As at 30 June 2020 and 2019, the management expects that approximately RMB24,401,686 and RMB19,906,655 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	
	2020	2019
	RMB	RMB
Other trade receivables		
Up to 3 months	**169,632,126**	208,786,984
3 months to 6 months	**8,897,007**	3,524,681
6 months to 1 year	**163,351,853**	3,775,227
1 year to 2 years	**52,407,628**	230,500,138
Over 2 years	**225,950,712**	46,802,582
	620,239,326	493,389,612

As at 30 June 2020 and 2019, the management expects that approximately RMB494,917,933 and RMB493,389,612 respectively, will be received within one year.

20 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 due date is as follows:

	As at 30 June	
	2020	2019
	RMB	RMB
Other trade receivables		
Not due	**317,088,861**	38,536,280
Up to 3 months past due	**33,094,076**	238,066,464
3 months to 6 months past due	**26,703,775**	33,350,026
6 months to 1 year past due	**47,774,757**	20,551,133
1 year to 2 years past due	**53,047,948**	154,813,281
Over 2 years past due	**142,529,909**	8,072,428
	620,239,326	493,389,612

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

	For the year ended 30 June	
	2020	2019
	RMB	RMB
At beginning of the year	**39,538,917**	13,156,318
Amounts restated through opening retained earnings	**–**	2,173,272
Impairment losses recognised	**62,924,080**	24,247,867
Amounts written off as uncollectible	**(1,129,797)**	(38,540)
At the end of the year	**101,333,200**	39,538,917

As at 30 June 2020, provisions amounting to RMB79,154,496 (30 June 2019: RMB11,898,699) were made on certain trade receivables given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these trade receivables.

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

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

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

	For the year ended 30 June	
	2020	2019
	RMB	RMB
At beginning of the year	**5,981,394**	2,156,079
Impairment losses recognised	**21,355,315**	3,825,315
At the end of the year	**27,336,709**	5,981,394

As at 30 June 2020, provisions amounting to RMB24,585,572 (30 June 2019: nil) were made on certain other receivables respectively given that certain customers were in significant financial difficulty and had defaulted in scheduled payments and there was significant uncertainty of recovering these other receivables.

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	
	2020	2019
	RMB	RMB
RMB	**644,166,400**	603,253,912
HKD	**9,370,188**	9,029,847
USD	**1,204,161**	1,545,410
	654,740,749	613,829,169

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

(ii) Contract assets

	As at 30 June	
	2020	2019
	RMB	RMB
Contract assets	**11,588,617**	83,233,062
Less: provision for impairment of contract assets (a)	**(553,383)**	(971,472)
	11,035,234	82,261,590

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

	For the year ended 30 June	
	2020	2019
	RMB	RMB
At beginning of the year	**971,472**	–
Amounts restated through opening retained earnings	**–**	442,388
Impairment losses recognised	**–**	529,084
Impairment losses reversed due to contract assets transferring to other trade receivables	**(418,089)**	–
At the end of the year	**553,383**	971,472

As at 30 June 2020, all the carrying amounts of contract assets were denominated in RMB.

(iii) Prepayments

	As at 30 June	
	2020	2019
	RMB	RMB
Prepayments for procurement	**134,944,989**	79,921,802
Others	**409,618**	135,863
Total prepayments	**135,354,607**	80,057,665
Less: prepayments – non-current portion	**(182,843)**	(195,903)
	135,171,764	79,861,762

21 CASH AND CASH EQUIVALENTS

	As at 30 June	
	2020	2019
	RMB	RMB
Cash at bank and on hand	**68,997,533**	54,173,353
Less: pledged deposits	**(28,602,729)**	(29,976,599)
Cash and cash equivalents	**40,394,804**	24,196,754

(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	
	2020	2019
	RMB	RMB
RMB	**60,436,960**	47,344,650
USD	**7,723,938**	5,590,308
HKD	**785,705**	1,208,726
EUR	**30,081**	29,669
AED	**20,849**	–
	68,997,533	54,173,353

22 TRADE AND OTHER PAYABLES

	As at 30 June	
	2020	2019
	RMB	RMB
Trade payables	**153,320,676**	129,178,810
Bills payable	**64,577,308**	110,852,396
	217,897,984	240,031,206
Other taxes payables	**49,918,691**	32,501,508
Deposits for project contracting services	**29,986,987**	–
Interest-free loan from independent third parties (Note 23(i))	**18,050,800**	–
Amount due to suppliers on a customer's behalf	**13,618,244**	13,775,461
Accruals	**7,038,078**	5,694,078
Amounts due to related parties (Note 31(c)(ii))	**5,488,478**	49,500
Interest payable for convertible bonds	**2,283,600**	–
Employee benefit payables	**2,086,926**	3,185,326
Other deposits	**1,471,836**	915,000
Payables for property, plant and equipment	**1,471,346**	6,487,991
Provision for warranty expenses	**578,461**	484,577
Others	**4,324,244**	2,054,875
	136,317,691	65,148,316
	354,215,675	305,179,522

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

	As at 30 June	
	2020	2019
	RMB	RMB
Up to 3 months	**90,913,279**	85,129,189
3 months to 6 months	**1,129,810**	23,254,725
6 months to 1 year	**25,740,249**	5,631,296
1 year to 2 years	**20,658,934**	6,264,575
Over 2 years	**14,878,404**	8,899,025
	153,320,676	129,178,810

22 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 30 June	
	2020	2019
	RMB	RMB
RMB	**339,088,416**	303,584,561
HKD	**12,227,198**	39,707
USD	**2,900,061**	1,555,254
	354,215,675	305,179,522

23 INTEREST – BEARING LOANS

	As at 30 June	
	2020	2019
	RMB	RMB
Loan from a non-controlling shareholder (Note 31(c)(ii))	**208,500**	642,151
Bank borrowings	**107,000,000**	23,000,000
Other borrowings	**–**	31,143,513
	107,208,500	54,785,664

23 INTEREST – BEARING LOANS *(Continued)*

Movement of interest – bearing loans is analysed as follows:

	Loan from a non-controlling shareholder RMB	Loan from banks RMB	Loan from independent third parties RMB	Total RMB
For the year ended 30 June 2020				
Opening net book amount as at 1 July 2019	**642,151**	**23,000,000**	**31,143,513**	**54,785,664**
Additions	**–**	**107,000,000**	**45,000**	**107,045,000**
Accrual of interest (Note 9)	**26,500**	**3,161,335**	**–**	**3,187,835**
Repayments	**(460,151)**	**(26,161,335)**	**(10,213,000)**	**(36,834,486)**
Reversal of interest (i)	**–**	**–**	**(2,924,713)**	**(2,924,713)**
Reclassify to trade and other payables (i) (Note 22)	**–**	**–**	**(18,050,800)**	**(18,050,800)**
Closing net book amount as at 30 June 2020	**208,500**	**107,000,000**	**–**	**107,208,500**
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

23 INTEREST – BEARING LOANS *(Continued)*

(i) Pursuant to the agreements entered into by the Group and two independent third parties in June and July 2020 respectively, the interest-bearing loan from the two independent third parties of RMB18,050,800 were turned to interest free (30 June 2019: bore interest at an average rate of 6.95%) with the interests expenses of RMB2,924,713 recognised over previous years reversed in current year and recognised as other income and gains/(losses) (Note 6) accordingly.

As at 30 June 2020, the Group's interest-bearing loans were all denominated in RMB.

As at 30 June 2020, the loan from a non-controlling shareholder bore interest at a rate of 7.2% per annum (30 June 2019: 7.2%).

As at 30 June 2020, the Group's loans of RMB107,000,000 from banks bore interest at an average rate of 4.71% per annum (30 June 2019: 5.31%) and of which loans of RMB3,000,000 (30 June 2019: nil) were secured by property, plant and equipment of the Group amounting to approximately RMB1,353,487 and the remaining balances were borrowed by using banking facilities.

As at 30 June 2020 and 2019, the Group's loans were payable as follows:

	As at 30 June	
	2020	2019
	RMB	RMB
On demand	**–**	17,446,864
Within one year	**107,208,500**	37,338,800
	107,208,500	54,785,664

As at 30 June 2020 and 2019, the Group had the following unutilised banking facilities:

	As at 30 June	
	2020	2019
	RMB	RMB
Authorised banking facilities – expiring within one year	**253,934,494**	230,343,735
Less: utilised banking facilities	**(156,007,660)**	(118,247,624)
	97,926,834	112,096,111

As at 30 June 2020, the banking facilities granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB63,137,052, RMB109,975,507 and RMB77,087,727, respectively (30 June 2019: RMB63,350,891, RMB115,929,946 and RMB78,799,512, respectively).

24 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred 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 2020 and 2019, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	As at 30 June	
	2020 RMB	2019 RMB
Deferred tax assets		
– to be recovered within 12 months	**14,318,685**	8,353,095
Deferred tax liabilities		
– to be recovered after more than 12 months	**5,351,910**	6,099,571
– to be recovered within 12 months	**758,829**	747,661
	6,110,739	6,847,232

The movement on the deferred 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 subsidiaries RMB	Others RMB	Total RMB
At 1 July 2019	80,112	6,142,269	1,985,199	–	(6,847,232)	145,515	1,505,863
Credited/(charged) to the consolidated statement of profit or loss (Note 10)	6,658	5,407,275	547,354	–	747,661	(6,865)	6,702,083
At 30 June 2020	**86,770**	**11,549,544**	**2,532,553**	**–**	**(6,099,571)**	**138,650**	**8,207,946**
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 or 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

24 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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.

For the year ended 30 June 2020, the Group did not recognise deferred tax assets of RMB13,247,614 (2019: RMB8,212,054) in respect of tax losses amounting to RMB66,151,790 (2019: RMB32,848,216) that can be carried forward to offset against future taxable income due to uncertainty of realisation.

As at 30 June 2020, accumulated tax losses amounting to RMB25,880,224 and RMB46,508,008 in the PRC will expire in 2024 and 2025 respectively and accumulated tax losses amounting to RMB40,899,858 in HK have no expiration date (As at 30 June 2019: accumulated tax losses amounting to RMB1,126,599 and RMB27,873,204 in the PRC will expire in 2023 and 2024 respectively and accumulated tax losses amounting to RMB22,838,355 in HK have no expiration date).

25 DEFERRED INCOME

	For the year ended 30 June	
	2020	2019
	RMB	RMB
At beginning of the year	**25,537,500**	25,500,000
Government granted during the year	**–**	1,500,000
Amortised as income	**(1,350,000)**	(1,462,500)
At end of the year	**24,187,500**	25,537,500

26 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.

26 CONVERTIBLE BONDS *(Continued)*

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.

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 March 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 "First Extension"). The Company agreed to the First Extension and accounted for the First 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 First Extension and discounted new cash flows under new terms using original effective interest rate, recognised in the statement of profit or loss.

On 29 September 2019, a supplemental deed in relation to the Convertible Bonds was executed by the Company to extend the maturity date to 28 September 2020 (the "Second Extension"). The Company accounted for the Second Extension as a de-recognition of the existing financial liability and the recognition of a new financial liability with a gain recognised on extinguishment, being the fair value of consideration given to extinguish the financial liability and its previous carrying amount.

26 CONVERTIBLE BONDS *(Continued)*

	Liability component of Convertible Bonds RMB	Equity component of Convertible Bonds RMB	Total RMB
At 1 July 2019	85,525,913	23,609,589	109,135,502
Interest expense (Note 9)	11,708,524	–	11,708,524
Interest paid and payable	(4,515,977)	–	(4,515,977)
Extinguishment (Note 9, 28)	(4,749,230)	11,170,841	6,421,611
Currency translation differences	3,276,049	380,818	3,656,867
At 30 June 2020	**91,245,279**	**35,161,248**	**126,406,527**
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

27 SHARE CAPITAL AND PREMIUM

	As at 30 June	
	2020 RMB	2019 RMB
Issued and fully paid: 733,857,225 (30 June 2019: 733,857,225) ordinary shares	**6,203,955**	6,203,955

	Number of issued shares	Ordinary shares RMB	Share premium RMB	Total RMB
At 1 July 2019 and 30 June 2020	**733,857,225**	**6,203,955**	**509,708,723**	**515,912,678**
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

27 SHARE CAPITAL AND PREMIUM *(Continued)*

(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 2020. The total amount paid to repurchase these ordinary shares was RMB745,300 and had deducted from the share capital and share premium of shareholders' equity.

(iii) During the year ended 30 June 2019, the Company distributed 3.0 HK cents per share, amounting to a total dividend of RMB18,994,497 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.

28 OTHER RESERVES

	Reorganisation reserve	Merger reserve	Statutory reserves (i)	Translation reserves	Employee Share Option Scheme (ii)	Fair value reserve	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 July 2019	2,335,540	33,028,254	29,145,970	9,502,114	4,399,960	–	78,411,838
Translation differences	–	–	–	(4,197,530)	–	–	(4,197,530)
Appropriation to statutory reserves	–	–	1,065,397	–	–	–	1,065,397
Share options	–	–	–	–	(2,592,105)	–	(2,592,105)
Extinguishment of convertible bonds	–	–	–	–	–	(11,170,841)	(11,170,841)
At 30 June 2020	**2,335,540**	**33,028,254**	**30,211,367**	**5,304,584**	**1,807,855**	**(11,170,841)**	**61,516,759**
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

28 OTHER RESERVES *(Continued)*

(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, a total of 19,000,000 share options 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.

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 ended 30 Jun 2020.

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	For the year ended 30 June **2020** **RMB**	 2019 RMB
Loss before income tax		**(82,932,189)**	(121,043,714)
Adjustments for:			
Interest income	9	**(276,510)**	(737,621)
Interest expense	9	**10,484,065**	12,777,131
Reversal of interest	6	**(2,924,713)**	–
Depreciation of property, plant and equipment	14	**7,194,429**	6,782,678
Depreciation of right-of-use assets	15	**1,204,752**	–
Depreciation of investment properties	16	**5,954,439**	6,424,747
Amortisation of prepaid land lease payments	17(i)	**1,711,785**	1,997,729
Amortisation of other intangible assets	17(ii)	**2,423,550**	2,146,613
Amortisation of deferred income	25	**(1,350,000)**	–
Net impairment losses on financial and contract assets		**83,861,306**	28,602,266
Impairment of inventories	19	**4,916,152**	2,697,019
Impairment of goodwill	18	**–**	105,063,873
Amortisation of employee share option scheme	28	**(2,592,105)**	4,399,960
Losses/(gains) on disposal of property, plant and equipment		**5,515**	(24,219)
Change in fair value of contingent consideration	6	**–**	30,437,752
Changes in working capital:			
Decrease in pledged deposits relating to operating activities	21	**1,373,870**	39,720,583
Increase in inventories	19	**(31,719,886)**	(9,384,158)
Increase in prepayments and other receivables		**(48,456,684)**	(5,471,144)
Increase in trade and bills receivables		**(132,629,042)**	(5,157,689)
Increase in financial assets at fair value through other comprehensive income		**(21,289,228)**	–
Increase/(decrease) in trade and other payables		**28,293,198**	(184,352,230)
Decrease/(increase) in contract assets		**71,644,445**	(82,261,590)
Increase in contract liabilities		**65,227,653**	141,166,067
Cash used in operations		**(39,875,198)**	(26,215,947)

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(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	
	2020	2019
	RMB	RMB
Net book amount – Property, plant and equipment (Note 14)	**16,548**	212,093
(Losses)/gains on disposal of plant and equipment, net	**(5,515)**	24,219
Value added tax	**1,167**	4,689
Proceeds from disposal of property, plant and equipment	**12,200**	241,001

(c) Net debt reconciliations

	For the year as at 30 June	
	2020	2019
	RMB	RMB
Cash and cash equivalents (Note 21)	**40,394,804**	24,196,754
Borrowings – repayable within one year (Note 23)	**(107,208,500)**	(54,785,664)
Loan from a related party (Note 31(c)(ii))	**(5,480,640)**	–
Lease liabilities (Note 15)	**(5,239,774)**	–
Interest-free loan from third parties (Note 22)	**(18,050,800)**	–
Net debt	**(95,584,910)**	(30,588,910)
Cash and cash equivalents (Note 21)	**40,394,804**	24,196,754
Gross debt (Note 15, 22, 23, 31(c)(ii))	**(135,979,714)**	(54,785,664)
Net debt	**(95,584,910)**	(30,588,910)

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Net debt reconciliations *(Continued)*

	Other assets	Liabilities from financing activities				
	Cash and cash equivalents RMB	Interest – bearing loans RMB	Loan from a related party RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	Total RMB
Net debt as at 30 June 2019	24,196,754	(54,785,664)	–	–	–	(30,588,910)
Recognised on adoption of HKFRS 16 (Note 2.1(e)(ii))	–	–	–	(5,893,661)	–	(5,893,661)
Net debt as at 1 July 2019	24,196,754	(54,785,664)	–	(5,893,661)	–	(36,482,571)
Cash flows						
-Outflow from operating activities	(45,908,756)	–	–	–	–	(45,908,756)
-Outflow from investing activities	(9,958,999)	–	–	–	–	(9,958,999)
-Inflow from financing activities	71,832,844	(107,045,000)	(5,425,200)	–	–	(40,637,356)
-Outflow from financing activities	–	36,834,486	–	1,570,493	–	38,404,979
Foreign exchange adjustments	232,961	–	(55,440)	–	–	177,521
Other non-cash changes						
-Recognition of right-of-use assets	–	–	–	(579,670)	–	(579,670)
-Increase in future finance charges on leases	–	–	–	(336,936)	–	(336,936)
-Accrual of interest	–	(3,187,835)	–	–	–	(3,187,835)
-Reversal of interest	–	2,924,713	–	–	–	2,924,713
-Reclassify to trade and other payables	–	18,050,800	–	–	(18,050,800)	–
Net debt as at 30 June 2020	40,394,804	(107,208,500)	(5,480,640)	(5,239,774)	(18,050,800)	(95,584,910)

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Net debt reconciliations *(Continued)*

	Other assets Cash and cash equivalents RMB	Liabilities from financing activities Interest – bearing loans RMB	Total 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 changes			
-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)

30 COMMITMENTS

(a) As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2020 and 2019 are summarised as follows:

	As at 30 June	
	2020	2019
	RMB	RMB
No later than 1 year	**4,936,964**	1,623,675
Later than 1 year and no later than 5 years	**1,127,700**	603,743
	6,064,664	2,227,418

(b) As lessee

The Group leases various offices and motor vehicles under non-cancellable operating leases expiring within six months to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 July 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.1(e) and Note 15 for further information.

The minimum lease payments under operating leases as at 30 June 2020 and 2019 are summarised as follows:

	As at 30 June	
	2020	2019
	RMB	RMB
No later than 1 year	**54,200**	1,027,053
Later than 1 year and no later than 5 years	**–**	135,000
	54,200	1,162,053

31 RELATED-PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 30 June 2020 and 30 June 2019 and balances arising from related party transactions as at 30 June 2020 and 30 June 2019.

(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. He Min Jun	Non-controlling shareholder of Wukong

(i) Mr. Zhu, Mr. Wang, and Mr. Liu are bound to act in concert by contracts and are collectively 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	
	2020	2019
	RMB	RMB
Key management compensation		
– Salaries	**3,924,562**	4,192,903
– Bonuses	**542,320**	718,032
– Other benefits	**407,743**	395,978
– Share options	**(174,355)**	222,910
	4,700,270	5,529,823

31 RELATED-PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

(i) Due from a related party

	As at 30 June	
	2020	2019
	RMB	RMB
Mr. Zhu Genyi – Included in other receivables (Note 20(i))	**–**	23,612

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

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	
	2020	2019
	RMB	RMB
Loan from related parties		
– Mr. He Min Jun (Note 23)	**208,500**	642,151
– Mr. Zhu (Note 22)	**5,480,640**	–
Others (Note 22)		
– Mr. Zhu	**4,010**	–
– Mr. Jin Hao	**2,771**	25,500
– Mr. Wang	**1,057**	24,000

The loan from Mr. Zhu was borrowed in September 2019, unsecured, non-interest bearing and is repayable in December 2020.

The loan from Mr. He Min Jun, the non-controlling shareholder of Wukong, was borrowed in April 2016 with an interest rate of 7.2% per annum (30 June 2019: 7.2% per annum) and is payable on demand.

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 30 June	
	2020	2019
	RMB	RMB
ASSETS		
Non-current assets		
Investments in subsidiaries	**481,557,967**	484,150,072
	481,557,967	484,150,072
Current assets		
Other receivables	**300,165,411**	293,351,534
Prepayments	**145,226**	135,863
Cash and cash equivalents	**334,500**	256,092
	300,645,137	293,743,489
Total assets	**782,203,104**	777,893,561
LIABILITIES		
Current liabilities		
Other payables	**182,112,012**	172,897,691
Convertible bonds	**91,245,279**	85,525,913
	273,357,291	258,423,604
Total liabilities	**273,357,291**	258,423,604
EQUITY		
Capital and reserves attributable to the owners of the Company		
Share capital	**6,203,955**	6,203,955
Share premium	**509,459,198**	509,459,198
Equity component of convertible bonds	**35,161,248**	23,609,589
Accumulated deficits	**(61,985,289)**	(52,988,513)
Other reserves (a)	**20,006,701**	33,185,728
Total equity	**508,845,813**	519,469,957
Total equity and liabilities	**782,203,104**	777,893,561

The statement of financial position of the Company was approved by the Board of Directors on 25 September 2020 and was signed on its behalf by:

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

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Statement of financial position of the Company *(Continued)*

(a) Reserve movement of the Company

	Other reserves RMB	Accumulated deficits RMB
At 1 July 2019	**33,185,728**	**(52,988,513)**
Translation differences	**583,919**	**–**
Employee share options	**(2,592,105)**	**–**
Extinguishment of convertible bonds	**(11,170,841)**	**–**
Loss for the year	**–**	**(8,996,776)**
At 30 June 2020	**20,006,701**	**(61,985,289)**
At 1 July 2018	6,915,273	(10,356,412)
Translation differences	21,870,495	–
Employee share options	4,399,960	–
Loss for the year	–	(42,632,101)
At 30 June 2019	33,185,728	(52,988,513)

33 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 2020 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	Bonuses RMB	Other benefits RMB	Share options RMB	Total remuneration RMB
Chairman					
Mr. Zhu Gen Rong	869,943	140,000	97,255	–	1,107,198
Executive directors					
Mr. Wang Ai Yan (Chief Executive Officer)	822,438	132,000	97,255	–	1,051,693
Mr. Jin Hao	487,195	80,000	86,417	(110,427)	543,185
Mr. Liu Chuan Jiang	611,775	100,000	86,417	–	798,192
Mr. Liang Hui Qun (i)	144,512	-	-	-	144,512
Independent non-executive directors					
Mr. Kong Chi Mo	108,384	–	–	-	108,384
Mr. Dai Tian Zhu	108,384	–	–	-	108,384
Mr. Heng, Keith Kai Neng	108,384	–	–	-	108,384
	3,261,015	452,000	367,344	(110,427)	3,969,932

(i) Mr. Liang Hui Qun has resigned from executive Director of the Company with effect from 27 September 2019.

33 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 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
Chairman					
Mr. Zhu Gen Rong	864,413	214,242	10,448	-	1,089,103
Executive directors					
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 Hui Qun	417,936	-	15,673	-	433,609
Independent non-executive directors					
Mr. Kong Chi Mo	104,484	–	–	-	104,484
Mr. Dai Tian Zhu	104,484	–	–	-	104,484
Mr. Heng, Keith Kai Neng	52,242	–	–	-	52,242
Ms. Chen Jin Mei (ii)	-	–	–	-	-
	3,442,907	627,777	36,569	143,316	4,250,569

(ii) Ms. Chen Jin Mei has resigned from independent non-executive Director of the Company with effect from 2 January 2019.

For the year ended 30 June 2020, none of the directors waived or agreed to waive any remuneration. For the year ended 30 June 2019, Ms. Chen Jin Mei waived emoluments of RMB52,242.

33 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Director' termination benefits

There were no termination benefits paid to any director for the year ended 30 June 2020 and 2019.

(c) Consideration provided to third parties for making available directors' services

During the year ended 30 June 2020 and 2019, the Group provided no consideration to third parties for making available director's services.

(d) Information about loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at the end of the year or at any time during the year.

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed elsewhere in the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Group's business to which the 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.