



® 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

2024
Annual Report

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Corporate Information

DIRECTORS

Executive Directors

Mr. Fang Hui (Chairman)
Mr. Chen Hongwei
Mr. Cai Haifeng (appointed on 3 May 2024)

Independent Non-Executive Directors

Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

AUDIT COMMITTEE

Mr. Heng, Keith Kai Neng (Chairman)
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

REMUNERATION COMMITTEE

Mr. Heng, Keith Kai Neng (Chairman)
Mr. Cai Haifeng
Mr. Fang Hui
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

NOMINATION COMMITTEE

Mr. Yao Yang Yang (Chairman)
Mr. Chen Hongwei
Mr. Fang Hui
Mr. Heng, Keith Kai Neng
Ms. Zhang Dong Fang

COMPANY SECRETARY

Ms. Yeung Wing Yan

AUTHORISED REPRESENTATIVES

Mr. Fang Hui
Ms. Yeung Wing Yan

LEGAL ADVISOR

As to Hong Kong Law
Stevenson, Wong & Co.

AUDITORS

KTC Partners CPA Limited

REGISTERED ADDRESS

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Cayman Islands

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Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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STOCK CODE

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Financial Summary

Year ended 30 June	2024 RMB	2023 RMB	2022 RMB	2021 RMB	2020 RMB
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	448,044,777	528,921,014	323,868,801	496,906,070	368,159,248
Gross profit	79,719,708	83,163,610	33,154,639	105,627,700	74,195,176
Gross profit margin	17.8%	15.7%	10.2%	21.3%	20.2%
(Loss)/profit attributable to the shareholders of the Company	(18,729,124)	(51,248,791)	(363,753,165)	17,984,484	(77,503,863)
Net (loss)/profit margin	(4.2%)	(9.7%)	(112.3%)	3.6%	(21.1%)
At 30 June Major Items of Consolidated Statement of Financial Position					
Non-current assets	245,498,249	267,014,266	329,758,940	359,842,261	464,272,556
Current assets	737,449,742	705,292,389	712,047,236	1,024,802,276	908,352,703
Non-current liabilities	24,404,100	28,153,648	30,030,727	34,847,154	34,336,858
Current liabilities	533,666,455	592,552,761	615,712,183	666,983,489	767,313,297
Capital and reserves attributable to the shareholders of the Company	431,250,620	358,105,285	400,986,036	684,750,990	571,443,645
Gearing ratio (Note)	14.7%	16.4%	8.9%	7.2%	15.8%

Note: 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 would like to submit to you annual results of the Company and its subsidiaries (collectively referred to as the "Group") as of 30 June 2024 (the "year under review").

With the steady recovery of the domestic economy, the consumer market has shown signs of a rebound. Against this background, it goes without saying that the paper making industry as a basic material industry is of unquestionable importance. Meanwhile, technological innovation and product upgrades will bring with them more efficient, environmentally friendly and intelligent product solutions to the paper making equipment manufacturing industry. However, intensifying market competition and diversified user needs will require manufacturers to continuously improve their product quality and service level to meet market demand. As one of the leaders in the paper equipment industry, we have the responsibility and obligation to promote the technological progress and industrial upgrading of the industry.

The Group's revenue and gross profit for the year ended 30 June 2024 recorded approximately RMB448.0 million and approximately RMB79.7 million, representing a decrease of approximately 15.3% and approximately 4.1% as compared to that of last year, respectively. During the year under review, the Group continued to explore markets and enhance our corporate competitiveness, in order to consolidate our position in the paper making equipment industry. A number of general contracting projects worth hundreds of millions of yuan and tens of millions of yuan have been in orderly progress, and a batch of million-level projects are being installed and tested in an organized manner; the launch of the 9150mm/1200m headbox has achieved a new breakthrough in the domain of domestically produced dilution hydraulic headboxes and a steady growth in high-quality customers. Apart from joining forces with first-class suppliers to achieve win-win cooperation, the Group has obtained China's first batch of Rockwell's Platinum System Integrator certification. The Group has achieved a record high performance as a result of its collaboration with Siemens and Innometrics, while reaching amicable cooperation with over 20 first-rated, reputed brands internationally and domestically. The internal implementation of lean management has achieved remarkable results, with all the departments achieving phased results. The consolidation of the corporate culture has helped to promote high-quality development, promote internal and external expansion of the company, and achieve high-quality development.

Over the past period of time, the Group has encountered some management challenges, but thanks to the concerted efforts of all our employees, we have brought a resolution to the issues left over from the past and comprehensively optimized the Group's management system. Now, we can proudly say that the Group has stabilized both internally and externally, and the spirit of the Huazhang team continues to thrive. Besides, our concept of development has also changed. We are no longer satisfied with the status quo, but actively seek innovation and breakthroughs, and plan for long-term development with innovative thinking. We have also completed an open offer of shares to provide financial support for our future business expansion.

Chairman's Statement

Facing the future, our company will focus on the following aspects of development. We will deepen cooperation with suppliers by establishing closer cooperative relationships with first-class suppliers both at home and abroad to jointly develop more efficient and environmentally friendly paper making equipment to help customers reduce costs and consumption, increase income and create profits, and embark on a path of sustainable and healthy development. In the digital era, we will actively explore digital solutions through introducing advanced technologies to improve production efficiency, reduce operating costs and provide customers with more intelligent services. We will increase investment in the field of renewable resource recycling and launch new recycling projects. Recently, I have been actively visiting different overseas countries to better understand their local recycling industries, and holding discussions enterprises and experts in the industry to understand the latest global trends and investment opportunities in the recycling industry. With the ample experience of our new board of directors and management, we have confidence in establishing the recycling industry as the new growth point for the company.

Finally, on behalf of the board of directors, I would like to express my sincere gratitude to our employees, customers, suppliers, shareholders and partners for their support and trust in the company. As new challenges and opportunities have presented themselves, I hope that all of us at Huazhang will embark on a new starting point, forge ahead on a new journey, and create a new Huazhang by thinking hard, working hard, daring to fight and succeeding along the way.

Yours faithfully,

Fang Hui

Chairman

Hong Kong

27 September 2024

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Hongwei (陳宏衛), aged 51, was appointed as executive director of the Company on 1 April 2022. Mr. Chen graduated from Hubei Institute for Nationalities* (湖北民族學院) with a Certificate in Mechanical Manufacturing and Automation in 1997. Mr. Chen has over 27 years of experience in corporate management and operations management during which he has gained industry knowledge and experience in the management of effective production automation in various businesses. Prior to joining the Group, Mr. Chen worked as a project manager in Guangdong Sanxing Machinery Equipment Company Limited* (廣東三星機械設備有限公司) from 1998 to 2002. From 2003 to 2017, Mr. Chen worked in Chiho-Tiande Group Limited (齊合天地集團有限公司) (currently known as Chiho Environmental Group Limited (齊合環保集團有限公司)) (a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 0976)) as deputy manager of the equipment and general department and deputy chief engineer. He worked as assistant general manager, deputy chief engineer and director of the equipment and general department at Zhejiang Hehe Environmental Resources Company Limited* (浙江和合環境資源有限公司) from March 2017 to February 2022. Mr. Chen has been working as a technical director of Hua Zhang Environmental Resources Investment Limited (華章環境資源投資有限公司), a subsidiary of the Company, since 2019. Since February 2022, Mr. Chen has been serving as deputy general manager of Zhejiang Huazhang Technology Limited* (浙江華章科技有限公司) and director of Guangdong Huazhang Logistics Warehouse Limited* (廣東華章物流倉儲有限公司), and Mr. Chen was appointed as the legal representative and manager of Wuhan Wukong Control System Engineering Co., Ltd. in 2024. These companies are subsidiaries of the Company.

Mr. Fang Hui (方暉), aged 36, was appointed as an executive director and a member of the Nomination Committee of the Company on 29 April 2021 and as the authorised representative of the Company on 10 January 2022. Mr. Fang has also been appointed as the chairman of our board on 3 May 2024. Mr. Fang is responsible for the overall business development direction and supervision of our Group and the operations management and development of solid waste metal resources recycling.

Mr. Fang has strong background in solid waste recycling and recovery, waste disposal and environmental protection and successfully secured the necessary licenses for the Group's recycling project in Dubai in 2019. Between 2013 and 2014, he was an assistant of the general manager at Chiho-Tiande (HK) Limited, a subsidiary of Chiho Environmental Group Limited ("Chiho"). Chiho is a global leader in metal recycling and environmental protection and is listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 0976). In 2015, Mr. Fang found a group of companies which seeks to identify and invest in environmental projects throughout the world and subsequently in 2017, a PRC joint venture company based in Taizhou, China, was established with a total investment amount of USD50 million with the aim to build a 500 mu waste recycling and recovery park in Taizhou, China. The park is intended to use modern technologies and practices to transform and upgrade the solid waste recycling industry in Taizhou, to enhance their competitiveness and to help Taizhou create its own version of the circular economy.

Mr. Fang obtained a Bachelor of Science degree in Economics from the University of Bradford, United Kingdom, in 2012. Mr. Fang is also a director of Hua Zhang Environmental Resources Investment Limited which is a wholly owned subsidiary of the Company.

Biographical Details of Directors and Senior Management

Mr. Cai Haifeng (蔡海峰), aged 52, was appointed as executive director of the Company on 3 May 2024. Mr. Cai graduated from Zhejiang Institute of Technology* (浙江工學院) (currently known as Zhejiang University of Technology* (浙江工業大學)) with a bachelor's degree in chemical engineering in 1993. Mr. Cai has over 24 years of experience in corporate and operation management. Prior to joining the Group in 2021, Mr. Cai worked as an assistant manager of mechanical and electrical department in Zhejiang Dongda Group Corporation* (浙江東大集團公司) from 1993 to 2000. From 2000 to 2017, Mr. Cai worked in various subsidiaries of Chiho as deputy general manager, general manager and president, he was responsible for overseeing the overall operations. From 2018 to 2021, Mr. Cai worked as executive deputy general manager in Taizhou Tailu Track Component Company Limited* (台州市台魯軌道構件有限公司), he was responsible for assisting the general managers.

Prior to his appointment as an executive Director, Mr. Cai has already participated in the management of the following subsidiaries of the Company. Mr. Cai was appointed as the vice president of Hua Zhang Environmental Resources Investment Limited (華章環境資源投資有限公司) in June 2021. In December 2021, Mr. Cai was appointed as a director of Zhejiang Huazhang Technology Limited* (浙江華章科技有限公司), and a director and legal representative of Guangdong Huazhang Logistics Warehouse Limited* (廣東華章物流倉儲有限公司). In 2022, Mr. Cai was appointed as a director, legal representative and manager of Jiaying Woxun Technology Company Limited* (嘉興沃訊科技有限公司) and as a director of Huazhang Technology Logistics Warehouse Limited (華章科技物流倉儲有限公司).

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Heng, Keith Kai Neng (邢凱能), aged 45, was appointed as independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee, of the Company, on 2 January 2019, and was appointed as the chairman of the Audit Committee of the Company on 17 December 2021. Mr. Heng obtained a Bachelor of Arts degree in Accounting and Finance 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 of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, an associate of The Hong Kong Chartered Governance Institute and an associate of The Chartered Governance Institute. Mr. Heng is currently a director of a secretarial firm. He has extensive experience in corporate governance, auditing and accounting in Hong Kong.

Mr. Yao Yang Yang (姚楊洋), aged 36, was appointed as independent non-executive director, the chairman of Nomination Committee and a member of the Audit Committee and the Remuneration Committee, of the Company, on 31 March 2021. He obtained a Bachelor's degree in Urban Planning and Design from Suzhou University of Science and Technology in 2011 and a Master of Urban Planning and Design degree from Huazhong University of Science and Technology in 2014. From March 2014 to December 2020, Mr. Yao worked at the group companies of Poly Developments and Holdings Group Co. Ltd (保利發展控股集團股份有限公司): started as a designer of the design division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司), took up the post of vice general manager and subsequently, manager of the design division of Poly Yancheng Property Development Limited* (保利鹽城房地產發展有限公司), and his last position in the group as senior manager of the investment division of Poly Jiangsu Property Development Limited* (保利江蘇房地產發展有限公司). From December 2020 to December 2022, Mr. Yao was the vice president of Tianjin Yikai Tomorrow Asset Management Co., Ltd.* (天津易凱明天資產管理有限公司). Mr. Yao is currently the managing partner of Nanjing Lianyoutang Cultural Development Partnership (Limited Partnership)* (南京蓮佑堂文化發展合夥企業(有限合夥)). He has over 8 years of experience in the fields of business development and investment in China.

Ms. Zhang Dong Fang (張東方), aged 62, was appointed as independent non-executive director and a member of the Audit Committee on 7 December 2021 and a member of the Remuneration Committee and the Nomination Committee of the Company on 17 December 2021. Ms. Zhang graduated from Guangdong Foreign Language and Trade University with a Bachelor's degree in Arts. Ms. Zhang has extensive experience in business management. From 1998 to 2010, she worked at Firemenich, which is engaged in the production of flavors and fragrances for perfumes, cosmetics, foods and beverages, and household products. Ms. Zhang was the managing director and vice president, North Asia, of the said group overseeing its business in Greater China. From 2010 to 2015, Ms. Zhang was the chief executive officer and executive director of Vinda International Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. From 2016 to 2020, Ms. Zhang was the chief executive officer and chairperson of the board of Shanghai Jahwa United Co. Ltd, a company listed on the Shanghai Stock Exchange Market, which is principally engaged in research, development, manufacture and distribution of skin care, personal care and home care.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Yeung Wing Yan (楊詠恩), aged 44, was appointed as the company secretary and authorised representative of the Company on 26 November 2021. Ms. Yeung holds a BA (Hons) in Accounting & Finance from the Lancaster University, United Kingdom. She is a fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She has over 16 years of experience in accounting and financial management. Between 2010 and 2015, she was the financial controller of Chiho-Tiande Limited (currently known as Chiho Environmental Group Limited) (Stock Code: 0976) which is listed on the main board of The Stock Exchange of Hong Kong Limited. Ms. Yeung currently runs a CPA practice which involved in the provision of corporate secretarial services and audit and assurance services for clients that involved in trading, manufacturing, property investments and consumer products in mainland China, Hong Kong and elsewhere.

Mr. Cheung Kwok Keung (張國強), aged 57, was appointed as the chief financial officer of the Company on 1 May 2024. Mr. Cheung has over 30 years of experience in auditing, accounting and financial management. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. From 1 August 2002 to 31 December 2022, Mr. Cheung was the chief financial officer and company secretary of Lee & Man Paper Manufacturing Limited (Stock Code: 2314), a company listed on the Main Board of the Stock Exchange. From 19 January 2018 to 7 February 2023, Mr. Cheung was an independent non-executive director of Coolpoint Innonism Holding Limited (formerly known as DCB Holdings Limited) (Stock Code: 8040), a company listed on GEM of the Stock Exchange. Mr. Cheung was appointed as an independent non-executive director of China Aoyuan Group Limited (Stock Code: 3883), a company listed on the Main Board of the Stock Exchange on 20 January 2011.

* For identification purpose only

Management Discussion and Analysis

INDUSTRY REVIEW

Over the past few years, the paper-making industry has been deeply impacted by various factors such as global economic fluctuations, tightening environmental policies, digital transformation, fluctuating raw material prices and weak demand in downstream markets. These factors have posed significant challenges and risks to the industry. From a macroeconomic perspective, according to data released by the National Bureau of Statistics of China, China's gross domestic product (GDP) increased by 5% year-on-year in the first half of 2024, continuing to maintain a positive recovery momentum.

For the paper-making industry, the first half of 2024 was still in the cyclical adjustment stage. However, against the backdrop of a sustained economic upturn, structural recovery of downstream demand, coupled with the support of upstream costs, has led to a rebound in prosperity of the paper-making industry in the first half of the year, indicating signs of recovery. According to data from the National Bureau of Statistics, in the first half of 2024, the national machine-made paper and cardboard production was 76.613 million tons, representing a year-on-year increase of 11.8%. Enterprises in the paper-making and paper products industry above a designated scale achieved a total operating income of RMB699.21 billion, representing a year-on-year increase of 6.0%; and a total profit of RMB22.79 billion, representing a year-on-year increase of 104.9%.

Since 2023, China's paper-making industry has experienced a transformation from bottoming out to stabilizing and improving. The root of this change lies in the recovery of consumption brought about by the recovery of economic fundamentals. In July 2024, it was pointed out at the meeting of the Political Bureau of the Central Committee for the first time that "boosting consumption to expand domestic demand". It is expected that relevant measures will be gradually implemented and show their effects in the second half of the year. For the paper-making industry, the second half of the year is usually the traditional peak season, with domestic consumption becoming more active. Demand for the industry is expected to rise further, driven in particular by the benefits of the peak seasons of National Day, Mid-Autumn Festival and other festivals.

As a crucial foundation of the paper-making industry, paper-making equipment is advancing towards technological innovation and environmentally sustainable practices. China's paper-making equipment industry has made significant progress in technological innovation and product quality, with most paper-making production lines reaching international or domestic advanced levels. With the increasing emphasis on environmental protection, more paper-making companies are focusing on reducing environmental pollution and resource wastage. Consequently, environmentally friendly production machinery, such as energy-saving equipment and recycling technologies, will be widely adopted. Furthermore, with the continuous advancement of automation technology, the paper-making equipment industry is moving towards automation and intelligence.

Management Discussion and Analysis

In recent years, due to advancements in production technology, excellent product performance and steady growth in downstream market demand, China's non-woven fabric industry has experienced a steady development. At present, China has become the largest producer and consumer of non-woven fabrics in the world. The diverse production technologies of non-woven fabrics have led to their widespread application in various downstream sectors, mainly including medical and hygiene, personal hygiene products, cleaning and wiping materials, packaging, filtration, automotive interiors and other industries. Among these applications, the medical and hygiene sector holds a dominant position in the use of non-woven fabrics. With consumers seeking high-quality lifestyles, the market demand for disposable non-woven products, such as baby diapers, adult incontinence products and feminine hygiene products, continues to grow, increasing the market penetration rate. Such consumption upgrading trends are expected to become the primary driving force for the future development of the non-woven fabric industry.

BUSINESS REVIEW

For the year ended 30 June 2024, the Group's revenue and gross profit decreased by approximately 15.3% to RMB448.0 million and approximately 4.1% to RMB79.7 million, respectively, as compared to the corresponding period last year. For the year ended 30 June 2024, the Group recorded a loss of approximately RMB18.6 million, representing a decrease in losses of approximately RMB34.2 million as compared to the corresponding period last year.

Paper Making Related Business

Contracts

For the year ended 30 June 2024, the Group worked together and achieved orders with high-quality products and professional services. The new contract amount of the Group has decreased by approximately 14.5% to approximately RMB391.3 million, and the outstanding contract amount was approximately RMB401.3 million.

During the year under review, with its leading product technology and capabilities in intelligent, digital and specialized services, the Group has signed a series of influential orders with customers, including joining hands with Yadu Paper (雅都紙業) for the third time to sign the master driving control system, master driving electric motor and the MCS system contract for 6800/1000 Two-Folded Fourdrinier Machine (T Paper) (6800/1000二疊網長網紙機(T紙)); providing Pingfeng Paper (萍鋒紙業) with the master driving control system and Distributed Control System (DCS) of 5260/950 Corrugated Paper (5260/950瓦楞紙) production line; formally signing contracts with Zhaolong Paper (兆隆紙業) for the driving control system, the master driving electric motor and MCS system of 5480/850 High-strength Corrugated Paper Machine (5480/850高強瓦楞紙機); providing Jiangxi Zhenguan Environmental Protection (江西振冠環保) with the master driving control system, Distributed Control System (DCS), intelligent MCC system, low-voltage MCC project for wastewater treatment system, high-voltage

Management Discussion and Analysis

cabinets, transformers and electrical automation equipment services of the 3300/600 Multi-functional Paper (3300/600多功能紙) production line; signing with Fengsheng Paper (鳳生紙業) for the special paper driving project of 150,000 tons refined kraft paper (15萬噸精製牛皮紙特種紙傳動項目); winning the bid for food-grade packaging materials and its supporting project of the 5600/900 cardboard machine line (5600/900卡紙線項目) of Jintianhe Paper (金天和紙業); signing a general contract with Taiyang Paper (太陽紙業) for PM464860/600 special paper machine (PM464860/600特種紙機).

Mutual benefit and win-win to empower the paper-making industry

During the year under review, the Group continued to strategically cooperate with top domestic and international suppliers to provide customers with more cost-effective products; fully leveraging the strengths of all parties to improve the degree of automation, digitization and intelligence in the industry, driving industry upgrades and empowering high-quality development in the paper-making industry.

During the year under review, the Group has been awarded the “Long-term Strategic Partner Award for Paper Making Industry 2023 (2023年度造紙行業長期戰略合作夥伴獎)”; became one of the first companies in China to obtain Rockwell’s highest level of certification — Platinum System Integrator; participated in the Siemens Digital Industry Group Partner Conference (西門子數字化工業集團合作夥伴大會); signed cooperation agreements with Danfoss, SKF and other companies; engaged in exchanges and collaborations with Schneider, Innomatics, Hengda Motor and CT China (CT中國) to provide the paper-making industry with more cost-effective and cost-reducing solutions; continued deepening cooperation intentions with first-class brand manufacturers of different categories such as racks, dryers, rollers, reducers, hydraulics, lubrication, paper primers and spraying.

Elevating technology to achieve breakthroughs in domestic equipment to new heights

In response to the increasing demand for technicality in the paper-making industry equipment, the Group has continued to increase investment in research and development, so as to solidify its market-leading position and assist customers in achieving cost reduction and efficiency enhancement. During the year under review, the Group achieved a breakthrough in the PM61 corrugated paper project of Jilin Shanying (吉林山鷹) by successfully reaching a speed of 1000m/min. The corrugated paper machine production line of the Shanying project was also the first 6600mm complete machine under contract in China. Since its inception, Hangzhou MCN Paper Tech Co., Ltd. (“Hangzhou MCN”), a wholly-owned subsidiary of the Company, has consistently focused on the continuous research and development of domestic equipment such as the headboxes, continuously reaching new heights in domestic equipment breakthroughs. During the year under review, Hangzhou MCN provided two 9150mm/1200m hydraulic headboxes for the PM15 boxboard paper project of Wuzhou Special Paper, marking another breakthrough in domestic hydraulic headboxes by Hangzhou MCN after the 7640mm/1200m milestone.

Management Discussion and Analysis

During the year under review, the Group has obtained a number of high-value scientific and technological achievements. As a “High and New Technology Enterprise”, the Group received award support from the “Provincial Key Industrial Internet Platform” (省重點工業互聯網平台) project. “The First (Set) Product Engineering Research Project in Zhejiang Province” passed the acceptance inspection. “Headboxes for High-Speed Special Paper Machines” (特種紙高速造紙機用流漿箱) was selected into the second batch of “made-in-Zhejiang” standard identification list. “Conical Refiners” were certified by the Standard for made-in-Zhejiang. Tongxiang City Key Science and Technology Project (桐鄉市重點科技計劃項目) was successfully established. The standard certification of intellectual property rights has been passed.

The Group continued to invest substantial resources in product research and development, and strive for breakthroughs in the paper-making equipment market in China. For the year ended 30 June 2024, the Group’s research and development expenses amounted to approximately RMB25.7 million with 23 new patent applications. As at 30 June 2024, the Group has registered a total of 339 patents (including 113 invention patents, 117 utility model patents and 55 software copyrights).

Transforming and upgrading to enhance management efficiency

Through the efforts and united collaboration of the team over the past two years, the Group has gradually achieved the first transformation and upgrade, and looks forward to quickly initiating the second transformation and upgrade, with an aim to provide customers with more effective high-quality development and operational solutions in a shorter time, and thus saving on implementation costs by breaking internal departmental barriers, making self-breakthroughs and empowering the industry externally.

During the year under review, the Provincial Key Industrial Internet Platform project passed the acceptance inspection. The management of Tongxiang Intelligent Manufacturing Factory (桐鄉智能製造工廠) was further standardized. The Group promoted the launch of the project management software, namely Qiguanbao (企管寶), to facilitate the construction of a digital platform. The Group passed the internal and external audits of the information security system, the annual factory inspection of “CQC Certified Products”, and the annual supervision and inspections of QES three systems. The Group completed the compilation of the Company’s full-product manual and organized relevant training and learning. The Group established an intelligent manufacturing technology center to focus on R&D and engineer training and held the second Huazhang Cup Education Award (華章杯崇學育人獎) to actively fulfill its corporate social responsibility.

Meanwhile, the Group made concerted efforts to address the outstanding historical issues. On 10 August 2023, the Group successfully resumed trading on the Hong Kong Stock Exchange. The Group completed an open offer of shares, establishing a new shareholding structure and board of directors. The Group will continue to improve its internal management system and strengthen risk management, so as to cope with the ever-changing market changes and enable the Group to operate more efficiently.

Management Discussion and Analysis

Breakthroughs in non-woven fabrics and tobacco industries

During the year under review, the Group continued to actively explore the non-woven fabrics and tobacco industries. In recent years, Hangzhou MCN's entry into the field of non-woven fabric hydroforming has relied on the superb technologies and mature techniques accumulated over the years, which could provide our customers with a full set of world-leading engineering solutions. During the year under review, Hangzhou MCN successfully launched two general contracted non-woven fabric projects, being the flushable wet wipe project of Sateri Tongling* (賽得利銅陵) and the first production line of Xiezhuo (Wuhan) Medical Products Co., Ltd.* (Xiezhuo Medical). The key equipment that Hangzhou MCN has provided to Sateri Tongling for its flushable wet wipes project was the inclined wire former (斜網成型器). After the project is put into operation, the best quality flushable wet wipes (wet toilet paper) will be produced. The production line of Xiezhuo Medical* (協卓醫療) is the first production line for flushable products that Hangzhou MCN has provided to customers as a general contract, and also the first demonstration for the full set solutions that Hangzhou MCN provides jointly with top suppliers in the non-woven industry.

The Group is a significant partner in the tobacco sheet industry. During the year under review, the reconstituted tobacco leaves production line project of Hunan Golden Leaf (湖南金葉) was successfully launched, marking another electromechanical equipment integration general contracting project of the Group in the tobacco system. The Group also participated in the Haiyan sheet new line project under Shanghai Tobacco Group (上海煙草集團海煙薄片新線項目), serving as an excellent supplier for Haiyan tobacco sheets and overseeing the overall control system integration and information system construction for such project.

Renewable Resources Related Business

The Group has been committed to the development of green business, in particular, to set up waste recycling treatment plants outside of China since 2019 to capture the opportunities of expanding global waste recycling treatment. During the year, the Group is still looking for suitable opportunities overseas and negotiating with overseas governments and business partners to secure the best investment terms. Currently, the renewable resource recycling business team of the Group has more than 20 years of industry experience. The core members of the team have participated in the creation and management of the recycled metal recycling and processing company listed on the Hong Kong stock market. In the future, considering the market potential of global scrap metal recycling treatment, the Group will allocate further resources to environmental-related business and believes that with its team advantages, both in terms of business development and management experience, the Group can lead the further expansion and growth of business in this sector.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue decreased by approximately 15.3% from approximately RMB528.9 million for the year ended 30 June 2023 to approximately RMB448.0 million for the year ended 30 June 2024, the gross profit margin increased from approximately 15.7% for the year ended 30 June 2023 to approximately 17.8% for the year ended 30 June 2024, primarily attributing to cost control efforts contributed by the whole management team under the worsen economic environments.

(i) Industrial products

Revenue from sales of industrial products remained fairly stable and decreased by approximately 0.4% from approximately RMB289.6 million for the year ended 30 June 2023 to approximately RMB288.3 million for the year ended 30 June 2024. The gross profit margin of industrial products decreased slightly from approximately 20.3% for the year ended 30 June 2023 to approximately 17.5% for the year ended 30 June 2024.

(ii) Project contracting services

Revenue from project contracting services decreased by approximately 42.5% from approximately RMB178.5 million for the year ended 30 June 2023 to approximately RMB102.6 million for the year ended 30 June 2024. Such decrease was mainly due to 3 sizable contracting service projects were performed by the Group during the year ended 30 June 2023, which contributed revenue of approximately RMB165.8 million. The gross profit margins of project contracting services improved from approximately 5.0% for the year ended 30 June 2023 to approximately 15.0% for the year ended 30 June 2024. Such increase was primarily due to the Group strengthened its cost control in provision for the project contracting service during the year ended 30 June 2024.

(iii) Environmental products

Revenue from sales of environmental products decreased by approximately 44.6% from approximately RMB10.1 million for the year ended 30 June 2023 to approximately RMB5.6 million for the year ended 30 June 2024. Such decrease was primarily due to a decrease in demand in sludge treatment products and wastewater treatment business as the market competition was keen. The gross profit margin of environmental products increased from approximately 27.4% for the year ended 30 June 2023 to approximately 54.6% for the year ended 30 June 2024.

Management Discussion and Analysis

(iv) Supporting services

Revenue from the provision of supporting services increased by approximately 1.4% from approximately RMB50.8 million for the year ended 30 June 2023 to approximately RMB51.5 million for the year ended 30 June 2024. The revenue from the provision of supporting services increased slightly due to the increase in numbers of the supporting service for the year ended 30 June 2024. The gross profit margin for the provision of supporting services decreased slightly from approximately 24.8% for the year ended 30 June 2023 to approximately 21.2% for the year ended 30 June 2024.

Selling and distribution expenses

The selling and distribution expenses maintained at approximately RMB9.7 million for both years ended 30 June 2023 and 2024, accounting for approximately 1.8% and approximately 2.2% of the Group's revenue for the years ended 30 June 2023 and 2024 respectively. The increase in percentage was mainly as a result of the increase of advertising cost for the year ended 30 June 2024.

Administrative expenses

The administrative expenses decreased by approximately 5.0% from approximately RMB80.0 million for the year ended 30 June 2023 to approximately RMB76.0 million for the year ended 30 June 2024, accounting for approximately 15.1% and approximately 17.0% of the Group's revenue for the years ended 30 June 2023 and 2024 respectively. Decrease in administrative expenses was mainly attributable to a decrease in (i) professional fee in relation to the investigation and handling of the unusual transactions and resumption of the shares trading; and (ii) staff costs due to a decrease in staff salaries and incentive payment.

Research and development expenses

The research and development expenses decreased by approximately 10.1% from approximately RMB28.6 million for the year ended 30 June 2023 to approximately RMB25.7 million for the year ended 30 June 2024, accounting for approximately 5.4% and approximately 5.7% of the Group's revenue for the years ended 30 June 2023 and 2024 respectively. Decrease in research and development expenses was mainly attributable to a decrease in material used in research and development activities. The Group aimed to improve and enhance the technology and quality of the paper equipment to international standards.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets was decreased by approximately 50.6% from approximately RMB16.4 million for the year ended 30 June 2023 to approximately RMB8.1 million for the year ended 30 June 2024. The Group engaged an independent professional valuer to evaluate the expected credit loss of the financial and contract assets. Based on current economic conditions, historical collection experience and outlook, the Group was required to make a further impairment loss on the trade receivables of RMB3.8 million and other receivables of RMB5.2 million and a reversal of impairment on contract assets of RMB0.9 million. The Group has strengthened its collection policies and holds on-going discussion with the customers with regard to collection and billings, and will even take legal action if necessary.

Management Discussion and Analysis

Other income and gains, net

Other income and gains, net increased by 63.6% from approximately RMB13.2 million for the year ended 30 June 2023 to approximately RMB21.6 million for the year ended 30 June 2024, primarily attributing to an over provision for claims of approximately RMB16.6 million for the year ended 30 June 2024.

Finance costs, net

Finance costs, net of the Group decreased from approximately RMB1.9 million for the year ended 30 June 2023 to approximately RMB1.1 million for the year ended 30 June 2024, primarily attributing to a decrease in interest on other payable for the year ended 30 June 2024 as compared with the corresponding period in 2023.

Impairment loss on property, plant and equipment and investment properties

The Group engaged an independent professional valuer to determine the recoverable amounts of business units of headbox and logistic and warehouse. For the year ended 30 June 2023, the Group recorded an impairment loss on property, plant and equipment and investment properties of approximately RMB2.9 million and approximately RMB8.6 million, respectively. For the year ended 30 June 2024, no such impairment loss was recorded.

Income tax credit/(expense)

The Group recorded an income tax credit of approximately RMB0.7 million for the year ended 30 June 2024 mainly due to a deferred income tax of approximately RMB1.6 million. For the year ended 30 June 2023, the Group incurred an income tax expense of approximately RMB1.3 million.

Loss for the year and net loss margin

As a result of the foregoing, loss for the year reduced by approximately 64.8% from approximately RMB52.8 million for the year ended 30 June 2023 to approximately RMB18.6 million for the year ended 30 June 2024. The net loss margin improved from approximately 10.0% for the year ended 30 June 2023 to approximately 4.2% for the year ended 30 June 2024.

Loss for the year attributable to the shareholder of the Company

The loss for the year attributable to the shareholders of the Company reduced from approximately RMB51.2 million for the year ended 30 June 2023 to approximately RMB18.7 million for the year ended 30 June 2024.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources, loans from banks and equity financing. As at 30 June 2024, the Group had cash and cash equivalent balance amounting to approximately RMB96.5 million (30 June 2023: approximately RMB44.0 million) and interest-bearing loans amounting to approximately RMB73.4 million (30 June 2023: approximately RMB69.0 million).

Management Discussion and Analysis

BORROWINGS AND CHARGES OF ASSETS

As at 30 June 2024, the Group's borrowings were approximately RMB73.4 million (30 June 2023: RMB69.0 million), which will be repayable within 1 year. Such loans were all denominated in RMB, and bore an average interest rate of 3.82% per annum (30 June 2023: all denominated in RMB, and bore an average interest rate of 4.15% to 6% per annum).

As at 30 June 2024, the banking facilities granted to the Group were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB20.9 million, RMB75.7 million and RMB2.7 million respectively (30 June 2023: approximately RMB39.2 million, RMB81.1 million and RMB70.7 million respectively).

GEARING RATIO

The gearing ratios as at 30 June 2024 and 2023 were approximately 14.7% and 16.4%, respectively. The decrease in gearing ratio was mainly attributable to an increase in the Group's equity as a result of the open offer completed on 18 April 2024. Based on the gearing ratio as at 30 June 2024, the Group still maintained a good financial position.

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

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group (i) did not perform any material acquisition or disposal of subsidiaries, associates or joint ventures or investments during the year ended 30 June 2024; and (ii) did not hold any significant investment as at 30 June 2024.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have future plans for material investments and capital assets during the year ended 30 June 2024 and up to the date of this report.

CAPITAL EXPENDITURE

For the year ended 30 June 2024, the Group's capital expenditure amounted to approximately RMB0.9 million (2023: RMB1.1 million).

CAPITAL COMMITMENTS

As at 30 June 2024, the Group had no material capital commitments (30 June 2023: Nil).

Management Discussion and Analysis

CONTINGENT LIABILITIES

Save as disclosed elsewhere in this report, the Group had no material contingent liabilities as at 30 June 2024 (30 June 2023: Nil).

TREASURY POLICY

The Group had a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business during the year ended 30 June 2024. The management will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of any future growth opportunities.

FOREIGN CURRENCY RISK

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

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2024, the Group had 228 employees (30 June 2023: 245 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2024 were approximately RMB62.5 million, as comparable to approximately RMB72.6 million for the year ended 30 June 2023. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. In addition to cash compensation and benefits, we may issue share options to our employees in accordance with our equity plans. During the year, the Group continued its commitment to employees' training and development programme.

Management Discussion and Analysis

FUTURE PROSPECTS

With the implementation of policies to stabilize growth, expand domestic demand, and promote consumption, demand for domestic downstream industries has picked up, and the recovery in consumption has driven up the market demand for printing and writing paper, household paper, packaging paper and other products. It is expected that the domestic paper products market will gradually shift from the off-season to the peak season, and demand from end-users may turn from weak to strong. However, as uncertainty in the global economy still exists, consumer confidence has yet to fully recover. Secondly, factors such as zero tariffs on imported paper and geopolitics still exist. Finally, with the tightening of environmental protection policies and the requirements for sustainable development, the paper making industry will face new challenges.

The paper making equipment market has broad market prospects and development potential. In the future, driven by factors such as the improvement of environmental awareness, the improvement of automation and intelligence levels, and the expansion of regional markets, the paper making equipment industry will usher in broader development opportunities.

In order to promote the high-quality development of the paper making industry, the Group will adhere to consistent quality and services and continue to deepen its transformation and upgrading strategy. The Group will consider first from the customer's perspective and proactively provide customers with cost-effective solutions, continue to establish strategic partnerships with leading domestic and foreign suppliers, and integrate more high-quality products, including high-speed paper-cutting machines, onto the Huazhang platform, allowing customers to choose freely. The Group will also continue to optimize the company's management system, implement lean management, strengthen core competitiveness, improve service quality, and never cease to pursue progress. We will closely follow the guidance of national policies and continue to explore new business opportunities in the field of environmental protection to increase the group's profits. Through these measures, we expect to maintain a leading position in the industry and achieve sustainable development.

In the context of dual carbon, reducing carbon emissions in the paper making industry and improving motor energy efficiency have become one of the important ways. As one of the leading paper making equipment suppliers in China, the Group has begun to deploy permanent magnet motors and IE5 super-efficiency motors, and has signed cooperation related to product applications. Permanent magnet motors and IE5 super-efficiency motors have significant advantages in energy conservation and environmental protection. The Group is committed to injecting new impetus into the sustainable development of the industry, and continues to expand new products and new businesses with a customer-oriented approach to meet greater customer needs.

In order to provide financial support for the expansion of the Group's business and further enhance the Group's competitiveness, the Board of Directors proposed to offer a total of 532,044,689 new shares to shareholders through an open offer at a price of HK\$0.20 per share. In April 2024, the open offer was completed, and the net proceeds (after deducting relevant expenses) were approximately HK\$104.5 million, which would be used for (i) repayment of bank loans; (ii) the expansion of the Company's industrial automation and other related businesses and the supporting services; and (iii) general working capital of the Company.

Management Discussion and Analysis

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

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

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

Management Discussion and Analysis

Set out below is the original and revised allocation of the Net Proceeds and the actual use of the Net Proceeds from the Listing Date to 30 June 2024:

	Original planned use of the Net Proceeds RMB'000	Reallocation of Unutilised Net Proceeds as at 31 March 2022 RMB'000	Revised use of the Net Proceeds RMB'000	Actual use of Net Proceeds from the Listing Date to 30 June 2024 RMB'000	Unused Net Proceeds as at 30 June 2024 RMB'000	Expected date of full utilisation of unused Net Proceeds
Increase production capacity	23,521	(5,222)	18,299	18,299	-	-
Cost saving construction	15,709	(15,709)	-	-	-	-
Continuous product development and innovation	5,208	-	5,208	5,208	-	-
Increase market awareness and image of the Group	3,385	(869)	2,516	2,516	-	-
Improve the current information management system	260	-	260	260	-	-
Repayment of bank loan and other borrowings	-	8,000	8,000	8,000	-	-
Research and development expenses	-	5,000	5,000	5,000	-	-
Administrative and management expenses	-	-	-	-	-	-
— Salary adjustment for key employees	-	3,000	3,000	312	2,688	On or before 31 December 2024
— Hiring of additional employees	-	1,500	1,500	1,500	-	-
— Legal and professional advisers' expenses	-	3,000	3,000	3,000	-	-
— Other general corporate purposes	-	1,300	1,300	1,300	-	-
	48,083	-	48,083	45,395	2,688	

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

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

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

Environmental, Social and Governance Report

INTRODUCTION TO THE REPORT

This Environmental, Social and Governance Report (the “Report”) summarises the environmental, social and governance (“ESG”) initiatives, plans and performances of Huazhang Technology Holdings Limited (the “Company”), together with its subsidiaries (the “Group” or “We”, “Us”), and demonstrates our commitment to environmental protection and sustainable development.

THE GROUP’S ESG APPROACH

In December 2021, the China Paper Association released the “Outline of the 14th Five Year Plan and Medium and Long-term High-Quality Development of Paper Manufacturing Industry (《造紙行業「十四五」及中長期高質量發展綱要》)” to formulate the industry’s roadmap, guidelines, policies and strategies for medium- and long-term planning to create a low-carbon, environmentally sustainable green paper industry. Specific focus is given to energy saving and emission reduction and technological progress by advocating consolidation of emission reduction achievements, maintaining low emission levels of pollutants, and increasing the integrated utilization of solid waste and the energy utilisation of biomass in solid, liquid and gas waste, while strengthening the construction of independent innovation capacity of paper-making equipment manufacturing enterprises. The Group is committed to integrating sustainability into our business strategy and continuously improving our operation and technology to cope with national trends in ESG.

REPORTING PERIOD

This ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 30 June 2024 (the “Reporting Period” or “2024”).

REPORTING FRAMEWORK

This ESG Report is prepared with reference to the requirements under the Environmental, Social and Governance Reporting Guide (“ESG Reporting Guide”) set out in Appendix C2 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock exchange of Hong Kong Limited (“SEHK”).

Environmental, Social and Governance Report

REPORTING PRINCIPLES

During the preparation for this ESG Report, the Group has adopted the reporting principles stipulated in the ESG Reporting Guide as the following:

Materiality	The materiality assessment was conducted to identify material issues during the Reporting Period, thereby adopting the confirmed material issues as the focus for preparing the ESG Report. The materiality of issues was reviewed and confirmed by the ESG Committee. Please refer to the sections headed “Stakeholder Engagement” and “Materiality Assessment” for further details.
Quantitative	Supplementary notes are added along with quantitative data disclosed in the ESG Report to explain any standards, methodologies, and sources of conversion factors used during the calculation of emissions and energy consumption.
Consistency	The preparation approach of this ESG Report was substantially consistent with the previous year, and explanations were provided regarding data with changes in the scope of disclosure and calculation methodologies.

REPORTING SCOPE

This ESG Report mainly covers the Group’s ESG performance of its offices in Hong Kong and in Zhejiang province of PRC. The core business of the Group is to supply, install and provide maintenance services for paper-making equipment and related environmental recycling products.

BOARD STATEMENT — The ESG Governance Structure

Oversight of ESG Issues

The board of directors (the “Board”) holds the ultimate responsibility for monitoring the Group’s ESG issues, including ESG management approach, strategy, and policies. To better manage the Group’s ESG performance and identify potential risks, the Board conducts materiality assessment where necessary with the assistance of the ESG Committee to evaluate and prioritise material ESG-related issues with reference to the opinions of our stakeholders. The Board sets up a general direction for the Group’s ESG strategies, ensuring the effectiveness in the control of ESG risks and internal control mechanisms.

Establishment of ESG Committee

The Group has established an ESG Committee (the “Committee”). This Committee comprises core members from different departments and is responsible for systematically managing ESG issues. The designated personnel are responsible for collecting relevant information on ESG aspects for the preparation of the ESG Report. It periodically reports to the Board, assists in identifying and assessing the Group’s ESG risks, and evaluates the implementation and effectiveness of the internal control mechanism. It also examines and evaluates the performance in different aspects such as environment, labour practices, and other ESG performance.

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT

The Group recognises the responsibility and accountability of all our stakeholders. To understand and address their key concerns, the Group has maintained close communication with its key stakeholders. The Group takes stakeholders' expectations into consideration in formulating its businesses and ESG strategies by utilizing diversified engagement methods and communication channels, as shown below:

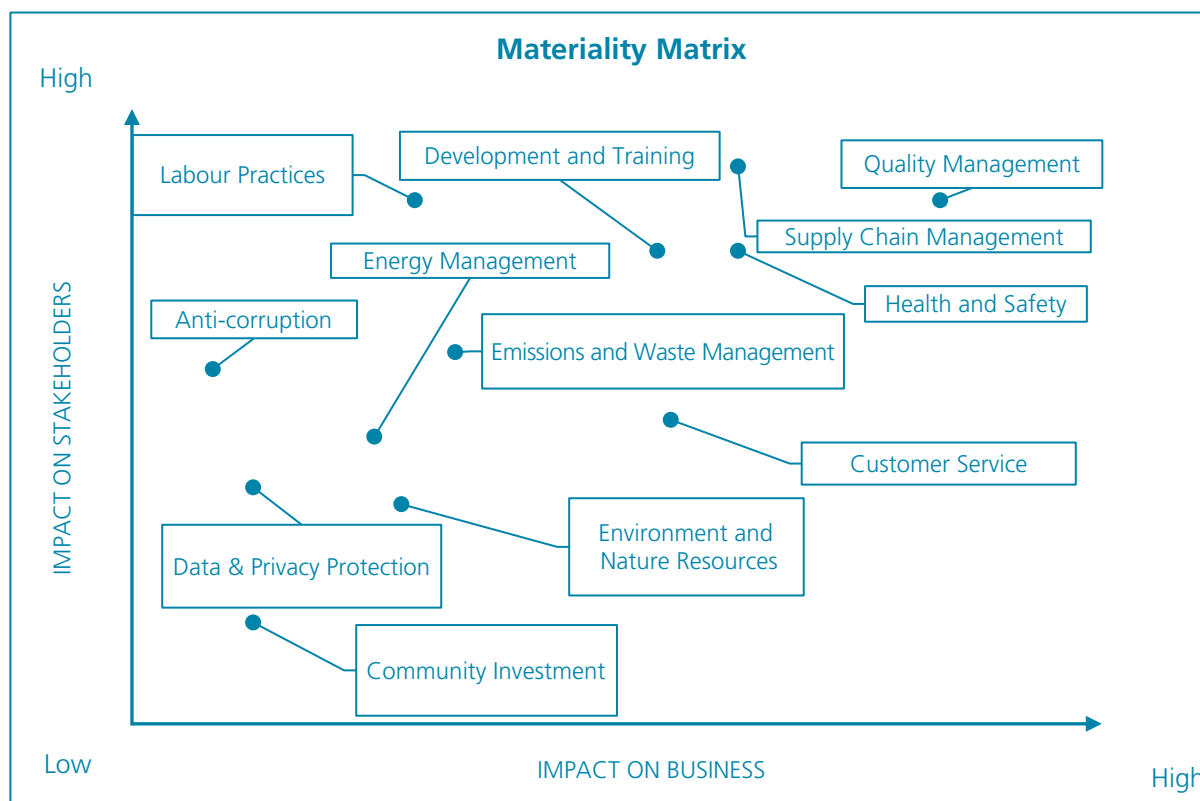
Stakeholders	Communication channels	Expectations
Investors and Shareholders	<ul style="list-style-type: none">• Financial reports• Announcements and circulars• Annual general meetings	<ul style="list-style-type: none">• Corporate governance• Financial results• Business compliance
Customers	<ul style="list-style-type: none">• Face-to-face meeting• Interviews	<ul style="list-style-type: none">• Project quality• Customer Service
Employees	<ul style="list-style-type: none">• Training• Internal meetings• Annual performance appraisals	<ul style="list-style-type: none">• Promotion, compensation, and benefits• Health and safety working environment
Suppliers	<ul style="list-style-type: none">• Suppliers' assessments• Supplier meetings	<ul style="list-style-type: none">• Sustainable supply chain• Fair and open tendering
Community and the Public	<ul style="list-style-type: none">• Community investment• ESG reports• Social media	<ul style="list-style-type: none">• Ethical operation• Environmental protection• Contribution to society
Regulatory Bodies and Government Authorities	<ul style="list-style-type: none">• Meetings• Written or electronic correspondences	<ul style="list-style-type: none">• Compliance with laws and regulations• Timely taxation

The Group aims to collaborate with its stakeholders to improve its ESG performance and to create greater value for the wider community continuously.

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT

The ESG Committee of the Group is responsible for the preparation of this ESG Report. By reviewing the Group's operations and identifying relevant ESG issues, the Committee assesses the importance of related matters to the Group's businesses and stakeholders. Based on the material ESG issues identified, feedback is collected from the relevant internal and external stakeholders of the Group. The result of the assessment is as below:



The Group reviewed the materiality assessment results and considered the said result applies to the Group. The Group will continue to review whether its business operations can meet its ESG performance.

Forward-Looking Statements

This Report contains forward-looking statements which are based on the current expectations, estimates, projections, beliefs, and assumptions of the Group about the businesses and the markets in which it and its subsidiaries operate. These forward-looking statements are not guarantees of future performance and are subject to market risk, uncertainties, and factors beyond the control of the Group. Therefore, actual outcomes and returns may differ materially from the assumptions made and the statements contained in this Report.

Endorsement and Approval

This Report was compiled, endorsed by the ESG Committee, and approved by the Board.

Environmental, Social and Governance Report

Feedback and Contact Us

The Group welcomes all feedback and opinions from its stakeholders. If you have any advice or suggestions, you are welcomed to contact us at ir@hzeg.com.

A. ENVIRONMENTAL

The Group is committed to integrating environmental protection into our businesses and reducing our carbon footprint. The Group has established environmental management system and integrated the concept of sustainable development into its daily operation. The environmental management system has been compiled with the international standard ISO 14001.

During the Reporting Period, the Group was not aware of any material non-compliance with environmental laws and regulations relating to air and Greenhouse Gas (“GHG”) emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a significant adverse impact on the Group, including but not limited to the Environmental Protection Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, Prevention and Control of Environmental Pollution by Solid Wastes of the PRC, Air Pollution Control Ordinance of Hong Kong, Waste Disposal Ordinance of Hong Kong, Noise Control Ordinance of Hong Kong, and Environmental Impact Assessment Ordinance of Hong Kong.

2030 Environmental Targets

To support global efforts to address climate change and to facilitate the assessment of the effectiveness of the Group’s strategies and measures to mitigate the impacts of climate change, environmental objectives are set at the Group level as follows:

The target of reducing emission intensity by 2030, using 2021/2022 as a base year:

Electricity consumption	Water consumption	Non-hazardous waste	Greenhouse gas emissions
↓ 5%	↓ 5%	↓ 5%	↓ 5%

These targets will guide the Group’s business strategy. The steps taken to achieve these goals are detailed below in each corresponding section.

Environmental, Social and Governance Report

A1 Emissions

Air emissions

The principal sources of air emissions arising out of the Group's operation were unleaded petrol consumed by vehicles and natural gas consumed in the office kitchen.

The exhaust gas generated by the Group includes nitrogen oxides ("NO_x"), sulphur oxides ("SO_x") and particulate matter ("PM").

During the Reporting Period, the Group's exhaust gas emissions performance was as below.:

Types of Exhaust Gas	Unit	2024
Nitrogen oxides ("NO _x ")	Emissions tonnes	0.036
Sulphur oxides ("SO _x ")	Emissions tonnes	0.000053
Particulate matters ("PM")	Emissions tonnes	0.0034

GHG Emissions

The consumption of electricity at the office (Scope 2), unleaded petrol consumption for the vehicles and natural gas consumed in the office (Scope 1) are the major sources of GHG emissions of the Group.

The Group's GHG emissions performance was as follows:

Indicators ¹	Unit	2024
Direct GHG emissions (Scope 1)		
— Unleaded petrol consumption		
— Natural gas consumption	tCO ₂ e	8.55
Energy indirect GHG emissions (Scope 2)		
— Electricity consumption	tCO ₂ e	582.20
Total GHG emissions	tCO ₂ e	590.75
Total GHG emissions intensity ²	tCO ₂ e/million Revenue	1.32

Remarks:

- GHG emissions data is presented in carbon dioxide equivalent and was in reference to, including but not limited to, the reporting requirements of the "GHG Protocol Corporate Accounting and Reporting Standard" issued by the World Resources Institute and the World Business Council for Sustainable Development, the "How to prepare an ESG Report — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, the "CLP 2021 Sustainability Report" published by the CLP Holdings and the latest published Baseline Emission Factors for Regional Power Grids in China.
- For the Reporting Period, the Group recorded revenue of RMB448 million (2023: RMB529 million). The data is also used for calculating other intensity indicators.

Environmental, Social and Governance Report

Reduction of Emissions

To achieve the 2030 environmental target, the Group has taken green practices in day-to-day operations. The measures taken for reducing GHG from vehicles (Scope 1) are:

- switch off idle engines;
- conduct regular maintenance services to ensure optimal engine performance;
- reduce in-person meetings and encourage the use of public transportation for business trips; and
- choose local vendors to reduce exhaust gas and GHG emissions.

Sewage Discharge

Due to the Group's business nature, wastewater generated by the Group's offices is mainly commercial wastewater, and its total amount is not significant. Wastewater has been discharged directly into the urban sewage pipe network. As the amount of wastewater generated by the Group largely depends on its water consumption, to improve water efficiency, the Group has taken specific water-saving measures. More water-saving initiatives will be described in the section headed "Water Management" under aspect A2.

The Group's business covered sewage treatment for the paper-making industry. At paper-making factories, its operation involves the process of screening, washing, and bleaching pulp, and a significant amount of paper-making wastewater is produced. The Group has researched and designed paper-making wastewater treatment solutions for our customers. By using our solutions, discharge water quality can then meet national and local discharge standards.

Waste Management

The Group is committed to properly managing and disposing of wastes produced by our business activities. To safeguard the health and welfare of the community from adverse environmental effects associated with the handling and disposal of wastes, our Group has developed sustainable waste management practice which has complied with relevant laws and regulations relating to environmental protection.

Waste Residue Utilisation

The Group provides waste residue utilisation solution for our clients. Refuse-derived fuel ("RDF") is a fuel produced from various types of waste such as municipal solid waste, industrial waste or commercial waste. The waste residue adopted to make solid refuse-derived fuel rods by sorting, crushing, winnowing, compression and drying process of different combinations. Paper-making RDF can be produced and mixed with coal and oil to use as fuels. This is one of the demonstrations of our green solutions benefiting both the clients and our community.

Environmental, Social and Governance Report

Hazardous Waste

As the Group provides pulp and paper-making equipment maintenance service, small amounts of hazardous wastes such as machine oil and grease will be produced during its repairing and maintenance process for the clients. The Group has established guidelines which detail the procedure in management and disposal of such hazardous wastes. The Group engages qualified waste collectors to handle the waste to comply with the relevant environmental laws and regulations.

Indicators	Unit	2024
Total hazardous wastes	tonnes	0.83
Intensity	tonnes/million revenue	0.0019

Non-hazardous Waste

The non-hazardous wastes generated by the Group's operations mainly consist of office paper and commercial wastes. During our business operation, we uphold the 5Rs principle, namely reduce, renew, reuse, recycle, and replace, for waste management and strive for resource utilisation. The Group has implemented measures to manage different types of waste and launched different waste reduction initiatives in different working areas. Employees are encouraged to use double-sided printing and electronic means for the circulation of documents to use less paper. A recycling bin is placed beside the printer to encourage paper recycling.

Indicators	Unit	2024
Total non-hazardous wastes	tonnes	5.36
Intensity	tonnes/million revenue	0.0120

A2 Use of resources

The Group is committed to becoming a resource-saving and environmentally friendly enterprise to promote environmental protection. We continue to introduce resource efficiency and eco-friendly measures to the Group's operations and optimise the use of resources in all our business operations. During our operation, fuel and electricity are consumed. The Group has established relevant policies and procedures for governing the efficient use of resources, intending to achieve higher energy efficiency and reduce the unnecessary use of resources.

Environmental, Social and Governance Report

Energy Management

Energy consumption of the Group includes unleaded petrol consumed by company vehicles, natural gas used in the office kitchen and electricity used in the office.

The Group's energy consumption performance is as follows:

Indicators	Unit	2024
Gasoline	kWh	35,600.00
Purchased electricity	kWh	754,385.00
Total energy consumption	kWh	789,985.00
Total energy consumption intensity	kWh/million revenue	1,763.18

Reduction of Energy Consumption

Consumption of electricity is accounted as the major source of energy consumption and indirect GHG emissions. To save electricity used at the office, the Group has conducted the following measures to improve the energy efficiency performance, including but not limited to:

- turn off idle machines, equipment, computers, and lighting;
- use natural light where possible;
- adopt power-saving features for office equipment and computers; and
- set the temperature control of air conditioners of the office at 25 degrees or above.

By adopting different energy saving measures, the Group believes it has set a role model for corporate social responsibility and improved employees' awareness of energy conservation.

Water Management

The Group does not consume a significant amount of water in its business activities due to its business nature. Water was mainly used in offices. The Group actively promotes the importance of water conservation to its employees. Apart from posting reminders next to water taps, the Group also regularly inspects water taps to prevent leakage. Through these water-saving measures, our employees' awareness was enhanced. The Group will continue to save water resources through different measures in the forthcoming year.

Environmental, Social and Governance Report

As explained, the Group's sewage treatment system can help our client and the community in managing water discharge to a greener standard.

Indicators	Unit	2024
Total water consumption	m ³	9,420.00
Intensity	m ³ /million revenue	21.02

The total water consumption dropped from 6,277 m³ to 9,420 m³, which represented a 50% increase compared with the prior year.

Due to the Group's business nature and geographical region in which our operation is located, the Group did not encounter any problem in sourcing water that is fit for its purpose.

Use of Packaging Materials

Due to the Group's business nature, the use of packaging materials is immaterial.

Paper Management

The Group's paper consumption performance is as follows:

Material consumption	Unit	2024
Paper consumption	tonnes	1.06

A3 The environment and natural resources

The Group recognises the responsibility for minimising the negative environmental impacts of our business operations as an ongoing commitment to good corporate citizenship. The Group has integrated the concept of environmental protection into its daily operations, with the aim of achieving environmental sustainability.

Waste Gas Deodorising & Treatment Solution

The Group offers waste gas deodorising and treatment solutions for our clients. During the paper-making process, waste gas will be produced. Our waste gas treatment solution mainly includes four parts: waste gas collection system — waste gas transportation — waste gas treatment — discharge after reaching the standard in the waste gas treatment field of wastewater treatment plants. The main treatment technologies include bio-filtration deodorisation technique, plasma technique, UV oxidation photolysis technique and activated carbon adsorption technique. According to the different production processes of different waste gas concentrations and airflow, a variety of other scientific technologies are adopted together, to achieve the best waste gas treatment effect and achieve the best effect in economic efficiency and environmental efficiency for clients and our community.

Environmental, Social and Governance Report

Office Indoor Air Quality

Indoor air quality is regularly monitored and measured, air purifying equipment is placed, and the ventilation system is cleaned periodically.

Noise Control

The Group realises that noise will be created during its operations, with the major source of noise coming from facilities and clients' paper-making project sites. Therefore, we closely follow the latest national and regional laws and regulations of noise management and adopt various measures on noise reduction to comply with related local laws and regulations.

A4 Climate change

Climate change has become the most popular topic today and is deeply concerned by governments around the world. The Group pays close attention to the impact of climate change on our business and operations.

Following the reporting framework developed by the Task Force on Climate-related Financial Disclosures ("TCFD"), there are two major categories of climate-related risks, physical and transition risks. The Group has implemented risk assessment exercises in identifying and mitigating climate-related risks.

Physical Risks

The increased frequency and severity of extreme weather events such as typhoons, storms, heavy rains and extreme cold or heat bring acute and chronic physical risks to the Group's business. The Group's productivity will be reduced under extreme weather events as the safety of our employees is threatened during operation work and the power grid or communication infrastructures might be damaged, which exposes the Group to risks associated with non-performance and delayed performance, leading to a direct negative impact on the Group's revenue.

To minimise the potential risks and hazards, the Group has established mitigation plans, including flexible working arrangements and precautionary measures and extra formwork protection during bad or extreme weather conditions. The Group will explore emergency plans to further reduce the vulnerability of our installations to extreme weather events to enhance business stability.

Transition Risks

To achieve the global vision of carbon neutrality, the Group expects the evolution of the regulatory, technological and market landscape due to climate change, including the tightening of national policies, the emergence of environmentally related taxes, and the shifting of customer preference to an eco-friendlier operation.

In response to the policy and legal risks as well as the reputation risks, the Group constantly monitors any changes in laws or regulations and global trends on climate change to avoid cost increments, noncompliance fines or reputational risks due to delayed response.

Environmental, Social and Governance Report

B. SOCIAL

B1 Employment

Talent is the cornerstone of the Group's sustainable development. The Group attaches great importance to the contribution of employees to us. Employment policies are documented in the Employee Handbook, covering recruitment, compensations, remuneration, diversity, equal opportunities, etc. The Group periodically reviews existing policies and employment practices to ensure continuous improvement of its employment standards and competitiveness in the industry.

During the Reporting Period, the Group was not aware of any material non-compliance with employment and labour practices-related laws and regulations that would have a significant adverse impact on the Group including but not limited to the Employment Ordinance of Hong Kong, the Labour Law of the PRC, and the Labour Contract Law of the PRC.

Recruitment, Promotion and Dismissal

The Group hires employees through open recruitment. The Group emphasises a fair, open, objective, and non-discriminatory process. Applicants are assessed based on their suitability for the positions and potential to fulfil the Group's current and future needs, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The promotion of employees is determined by appraisals that are conducted regularly by the Group's management to evaluate staff's work performance. Performance reviews are conducted annually, and employees are provided with the opportunity to openly discuss with their supervisors on their performance and career development.

The Group has no tolerance for unfair and illegitimate dismissals and makes sure the dismissal procedure is fair and open. Any termination of the employment contract would be based on reasonable and lawful grounds. Exit interviews will also be conducted with leaving employees to help management better understand the needs of our employees and to improve the overall working environment.

Environmental, Social and Governance Report

Diversity, Equal Opportunity, and Anti-discrimination

The Group recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture in which all can thrive.

The Group provides equal opportunities in all aspects of employment and maintaining a workplace that is free from discrimination, and physical or verbal harassment against any individual based on race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation.

The Group has established and implemented policies that promote a fair and respectful workplace.

Compensation and Remuneration

The Group offers a comprehensive remuneration package for our employees. Remuneration packages of the Group include basic salary, leaves as stipulated by relevant laws and regulations, as well as discretionary bonuses. The Group also provides a variety of leaves to cater to the needs of its employee, such as marriage leave, study leave, etc. Employees' salaries and year-end bonuses are determined based on qualifications, work performance, performance appraisal results and market trends.

The Group pays "five social insurances and one housing fund" for employees under the Social Insurance Law of the PRC, namely, endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance, and housing provident fund to ensure employees are covered by social insurance. The Group also pays the Mandatory Provident Fund for employees in Hong Kong in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong.

Environmental, Social and Governance Report

As of 30 June 2024, the Group's employee breakdown was as below:

Indicators	2024	2023
Total number of employees	228	245
By Gender		
Male	171	181
Female	51	64
By Age		
Below 30	55	50
30–50	121	44
Above 50	52	51
By region		
Hong Kong	19	16
PRC	209	229
By Employment Type		
Full-time	222	242
Part-time	6	3

The table below shows the employee turnover rate* breakdown by gender, age group and region:

Indicators	2024	%
Total employee turnover	24	10.15%
By Gender		
Male	10	17.39%
Female	14	7.95%
By Age		
Below 30	9	17.14%
30–50	12	9.06%
Above 50	3	5.83%
By region		
Hong Kong	–	0%
PRC	24	10.96%

* Employee turnover rate is calculated by (the number of employees left during the Reporting Period/average number of employees at the beginning and at the end of the Reporting Period) x 100%.

Environmental, Social and Governance Report

B2 Health and safety

Employee safety is regarded as the top priority of the Group. The Group is committed to providing a healthy and safe working environment for all employees and strives to achieve zero tolerance towards hazards, non-compliance, and accidents.

During the Reporting Period, the Group was not aware of any material non-compliance with health and safety-related laws and regulations that would have a significant adverse impact on the Group. The relevant laws and regulations include but are not limited to the Labour Law of the PRC and the Prevention and Treatment of Occupational Diseases Law of the PRC, the Occupational Safety and Health Ordinance of Hong Kong and the Employees' Compensation Ordinance of Hong Kong.

Occupational Health and Safety Management Systems

To maintain a safe work environment, the Group has established occupational health and safety management systems and relevant procedures for the prevention and remediation of accidents in projects. The occupational health and safety management system has been implemented and certified in compliance with the requirements of ISO14001 international standards and reviewed annually. Besides, the Group has acquired staff medical insurance which reimburses employees for any unexpected medical costs. The insurance plan is closely monitored and adjusted according to the headcounts of the year.

Safety Training and Inspection

Employees should attend the training courses organised by the Group on occupational safety and environmental control. Emergency and evacuation procedures have been established for the employees to respond to major safety accidents timely and orderly. The safety officer conducts regular safety training for the Group's employees and workers arranged by subcontractors to ensure their competency to perform specifically assigned tasks and that a proper training record is kept. Employees are also free to provide feedbacks on improving workplace safety.

No work-related fatalities happened during the past 3 consecutive years:

Indicators	Unit	2024	2023	2022
Fatalities due to work	Cases	0	0	0
Indicators		Unit		2024
Lost days due to work injury		Days		7

Environmental, Social and Governance Report

COVID-19 Pandemic Preventive Measures

In response to the outbreak of the COVID-19 pandemic, the Group has taken proactive measures to safeguard the health and safety of its employees and business partners and has complied with public health measures implemented by the local authorities. The Group is highly conscious of the potential health and safety impacts brought to its staff and has taken preventive measures in our working environment. All employees are required to wear face masks at the office and check their body temperature before work every day. Besides, the Group has reminded our employees to maintain personal hygiene and report cases if they or their closely-related persons have been infected.

B3 Development and training

The Group recognises its staff as the most precious asset. Staff development and training contribute to the continuing success of the Group. The Group focuses on technological progress that improves the quality of paper-making equipment, has a leading technology and service team of engineers, with core competitiveness in research and development, design, manufacture, maintenance, and other aspects of integrated services. The Group firmly believes that the provision of training opportunities and continuous career development to its employees will strengthen the professional capabilities and growth of the employees and retains high-calibre talent, thereby providing a solid foundation for the Group's continuing success.

As said, the success and the sustainable growth of the Group heavily rely on our talent's knowledge of technology. During the Reporting Period, the Group won the enterprise listing of the 2022 "Specialised and New Technology Small to Medium Size Enterprise in the Zhejiang Province" 浙江省"專精特新"中小企業名單 presented by the Zhejiang Provincial Department of Economy and Information Technology (浙江省經濟和信息化廳).

The Group also won the enterprise listing of the 2022 "National Specialised and New Technology Little Giant Enterprise" 國家級專精特新"小巨人"企業名單 presented by the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部).

These listings refer to an enterprise with the four characteristics of "specialisation, refinement, precision, and novelty". The listed enterprises are at the leading level in the domestic industry in terms of technology, market, quality, and efficiency, and have an advanced nature.

The Group provides a wide range of training to its employees. Induction training is provided to all newly recruited employees, while regular on-the-job training is provided to all employees of the Group. The Group also encourages its employees to attend external training. Training subsidies are provided to employees who attend training courses related to job requirements.

Environmental, Social and Governance Report

During the Reporting Period, the Group provided 2,630 hours of training to our employees. The table below shows the employee training data* breakdown by gender and employee category:

Indicators	2024	
	Training hours	%
Average hours of training per employee and percentage of employees who received training	39.25	68.90%
By Gender		
Male	39.44	66.67%
Female	38.75	75.47%
By employee category		
Senior management	90.38	100.00%
Middle management	77.70	93.10%
General staff	17.25	60.38%

* Employee training data includes employees that received training and left the Group during the Reporting Period.

B4 Labor standards

Prohibiting forced child and labor

The Group strictly prohibits the use of child labour and forced labour in our operations. Below measures have been taken to avoid these illegal employment practices.

Prevention of child labour	During the recruitment process, the human resources department will verify the applicant's identity documents and ensure that they have reached the minimum age for employment.
Prohibition of forced labour	The Group specifies overtime compensation provisions in the Employee Handbook. The Group carefully monitors the employee working time and working schedule to ensure they work voluntarily and freely.

During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations, that would have a significant impact on the Group including but not limited to the Labour Law of the PRC, and the Provisions on the Prohibition of Using Child Labour of the PRC, the Employment Ordinance of Hong Kong and the Employment of Children Regulations of Hong Kong.

Environmental, Social and Governance Report

B5 Supply chain management

As the Group provide turnkey projects for our clients, we have different sourcing needs including sourcing of automation equipment such as electric motor control, distributed control system, and drive control system, sourcing of intelligent equipment, IT system, ERP, and key parts for paper-making production line. The Group recognises supply chain management is vital to our business.

Supplier Management System

To ensure that our suppliers meet our customers' requirements for quality, service levels and environmental and safety standards, we have established a supplier evaluation system when selecting suppliers. The Group has established and maintained a list of qualified suppliers under this system. Approved lists will be assessed to ensure that suppliers' products are fully aware of quality, efficiency, and safety issues, and meet the Group and customer standards.

Green Sourcing

In view of green supply chain management, the Group strives to engage suppliers who incorporate the consideration of environmental and social risks into their supply chain management. The Group is aware of the environmental and social practices of the suppliers and tries to engage suppliers with responsible acts for society.

The Group is committed to selecting environmentally friendly products with competitive prices and good quality, to safeguard customer health and safety, prevent pollution and efficiently use natural resources.

The Group prioritises local suppliers and environmentally friendly products and services, hoping to reduce the carbon footprint caused by procurement via local procurement, while supporting local economic development and creating employment opportunities for local communities. In addition to environmental factors, the Group will also adopt measures to monitor whether its suppliers or contractors comply with relevant social laws and regulations or meet other standards in terms of health, safety, forced labour and child labour.

Supplier Distribution by Region

Location	No. of Suppliers
Hong Kong	0
China	355
Others	0

Environmental, Social and Governance Report

B6 Commitment to product responsibility

Achieving and maintaining high-quality standards for projects are of utmost importance for the sustainable growth of an enterprise. The Group closely monitors our work to ensure we deliver high-quality services to our customers with good satisfaction levels.

During the Reporting Period, the Group was not aware of any incidents of non-compliance with related laws and regulations concerning health and safety, advertising, labelling, and privacy matters relating to products and services provided that would have a significant impact on the Group. The relevant laws and regulations include but are not limited to the Advertising Law of the PRC, the Trade Descriptions Ordinance of Hong Kong and the Personal Data (Privacy) Ordinance of Hong Kong.

Quality Management

To ensure delivering excellent quality service to our clients, the Group has established a quality management system. The system cultivates and develops a sustainable performance-oriented culture to pursue continuous quality improvement.

The Group has acquired “Security Engineering, Enterprise Design, Construction and Maintenance Ability Certificate 安防工程企業設計施工維護能力證書” issued by the “China Security Products Industry Association 中國安全防範產品行業協會” and “CQC Products Quality Certificate” issued by the “China Quality Certification Centre 中國質量認證中心”.



Environmental, Social and Governance Report

During the Reporting Period, the Group was not aware of any cases where products sold or shipped were subject to recalls for safety and health reasons, and no major complaints about products and services were received.

Customer Service

Our engineers work closely with customers at all stages during our delivery of service. We maintain on-going communication with our customers through regular meetings as well as phone and email communications. Projects' progress and obstacles are discussed honestly and openly. During the Reporting Period, no products and service-related complaints were received.

Protection of Customer Information and Privacy

All confidential data relating to the Group's business and customer information are securely protected and only use for its specific purposes. Employees who have access to the tender and quotation information are required to sign a confidential agreement to better protect customer privacy. No complaints regarding leakage of data have been reported during the Reporting Period.

Protection of Intellectual Property Rights

Intellectual Property Rights promote innovation and creativity, helping society to increase its competitiveness and to improve the well-being of humans. The Group respects the Intellectual Property Rights and has formulated procedures and guidelines to ensure our operations at all levels will not violate and breach of any intellectual property rights.

Advertising and Labelling

As the Group's operational process does not involve advertising and labelling practices, the disclosure on information relating to advertising and labelling does not apply to the Group.

Environmental, Social and Governance Report

B7 Anti-corruption

The Group believes in fairness and honesty in conducting business. Fraudulent behaviours such as corruption, bribery and collusion are strictly prohibited. Employees should comply with the rules stated in the Staff Handbook in performing business activities, and they should report to the management if they suspect any professional misconduct. The Group has zero tolerance for any corruption-related cases. The Group has stringent internal control systems governing anti-corruption practices.

During the Reporting Period, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to bribery, extortion, fraud, and money laundering that would have a significant impact on the Group, including but not limited to the Criminal Law of the PRC, and the Company Law of the PRC, the Prevention of Bribery Ordinance of Hong Kong.

During the Reporting Period, there were no concluded legal cases regarding corrupt practices brought against the Group or its employees.

Whistle-blowing Mechanism

A Whistle-blowing Policy is set up to encourage and allow employees to raise concerns about possible improprieties in matters of financial reporting, compliance, and other malpractices at the earliest. Employees can raise concerns, in confidence, about possible improprieties such as misconduct and malpractice in any matter related to the Group. Complaints received will be handled in a prompt and fair manner. The policy aims at protecting the whistle-blowers from unfair dismissal, victimisation, and unwarranted disciplinary actions.

Anti-corruption Training

Anti-corruption-related trainings are conducted annually. During the Reporting Period, all directors have received online anti-corruption training. The awareness of anti-corruption of the Group has been enhanced.

B8 Community investment

Community investment is an essential part of the Group's strategic development. The Group is committed to emboldening and supporting the public by various means of social participation and contribution as part of our strategic development.

Our area of contribution is to focus on inspiring our employees' sense of social responsibility by encouraging them to participate in charitable activities during their work and spare time. The Group also believes participating in activities that repay society can increase our employees' civic awareness while establishing correct values. The Group embraces the human capital in social management strategies to sustain our corporate social responsibility as a part of the strategic development of the Group.

The board (the "Board") of directors (the "Directors") of Huazhang Technology Holding Limited (the "Company") hereby present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2024.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 33 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 2024 and the financial position of the Group as at that date are set out in the consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of financial position on pages 86 to 89 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June 2024 (2023: nil).

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 30 June 2024 and a discussion on the Group's future development, together with the analysis of the key financial performance indicators of the Group are set out in the section headed "Management Discussion and Analysis" on pages 11 to 23 of this annual report.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in Note 26 to the consolidated financial statements.

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 32 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

As at 30 June 2024, the Company's reserves available for distribution, calculated in accordance with the Companies Act, Cap.22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB297.2 million, comprising the Company's share premium, share option reserve, accumulated losses and translation reserve, 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 the Group's borrowings as at 30 June 2024 are set out in Note 23 to the consolidated financial statements.

KEY RISKS AND UNCERTAINTIES

Details of the main financial risks faced by the Group and the Group's management objectives and policies regarding such risks are disclosed in Notes 3.1 to 3.2 to the consolidated financial statements. In addition to such financial risks, the Directors are of the view that demands on our products and services, fluctuations in costs of raw materials and difficulties in obtaining financing are also major 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 the results of our 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 global economic and market conditions and changes in the PRC government's policies.

Difficulties 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 of the Company's securities. If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 30 June 2024, 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 headed "Environmental, Social and Governance Report" on pages 24 to 44 of this annual report.

RELATIONSHIP WITH OUR STAFF, CUSTOMERS AND SUPPLIERS

The Directors are of the view that our staff are one of the most valuable assets of our Group and have contributed to the success of the Group. Since the establishment of the Group, 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 experienced staff. The Directors believe that we have maintained a very good relationship with our staff.

Through the efforts of the sales and marketing team, the Group has established solid relationships with many of our long-term customers. 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.

Directors' Report

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. The 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 approval and payment of dividends procedures have been set out in Articles 133 to 142 of the Company's articles of association (the "Articles") posted on the website of the Company.

Policy Review and Monitoring

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. 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.

ANNUAL GENERAL MEETING

The 2024 annual general meeting ("AGM") will be held on Friday, 29 November 2024. 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 published by the Company together with this annual report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 November 2024 (Tuesday) to 29 November 2024 (Friday), both days inclusive, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 25 November 2024 (Monday) for registration.

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

PRE-EMPTIVE RIGHTS

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

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company set out in the section headed "Share Option Scheme" in this report, no equity-linked agreements were entered into during the year ended 30 June 2024 or subsisted at the end of the year.

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 2024.

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

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

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

Directors' Report

As at 30 June 2024, the Group has temporarily used the proceeds from the subscription of approximately HK\$3.8 million as working capital to purchase waste material for processing and/or re-sale and the unused balance of approximately HK\$96.2 million was currently placed into deposits and/or money market instruments, which will remain for potential acquisition of the Group in the future. The expected timeline for use of unutilised proceeds is based on the Group's best estimate of future market conditions, subject to current and future changes of market developments.

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

USE OF PROCEEDS FROM OPEN OFFER

On 18 April 2024, the Group has successfully issued and allotted 532,044,689 new ordinary shares (with a nominal value of HK\$5,320,446.89) at HK\$0.20 per share (a discount of approximately 25.93% over the closing price of HK\$0.27 per share as quoted on the Stock Exchange on 11 March 2024, the latest practicable date, for the prospectus dated 15 March 2024 ("Prospectus") and a discount of approximately 49.37% over the closing price of HK\$0.395 per share as quoted on the Stock Exchange on the date of the underwriting agreement and the placing Agreement, 1 December 2023) through an open offer (the "Open Offer") to existing Shareholders on the basis of one open offer share for every two existing shares held by the qualifying shareholders on 16 February 2024, the record date. The net price per Open Offer share is approximately HK\$0.196. The gross proceeds raised from the Open Offer are approximately HK\$106.0 million and the net proceeds from the Open Offer after deducting the relevant expenses are approximately HK\$104.5 million, which would be used for (i) repayment of bank loans; (ii) the expansion of the Company's industrial automation and other related businesses and the supporting services; and (iii) general working capital of the Company.

The Board believes that it would be in the interest of the Company to raise equity funding via the Open Offer to facilitate long-term development of the Group and to save financial costs to be incurred for the Company's funding needs. In addition, the Open Offer would allow the Company to strengthen its capital base and provide an opportunity to all shareholders (other than the non-qualifying shareholders) to participate in the growth of the Company in proportion to their shareholdings.

Connected Transaction

An underwriting agreement dated 1 December 2023 ("Underwriting Agreement") was entered into between the Company and Dao He Investment Limited (the "Underwriter") in relation to the Open Offer. The Underwriter (which is wholly owned by Mr. Fang, a director) is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction for the Company under the Listing Rules. The Underwriting Agreement has been approved by the independent shareholders at the EGM held on 2 February 2024. A total of 398,745,798 open offer shares at HK\$0.20 per share was taken up by Dao He Investment Limited as the Underwriter upon the completion of the Open Offer.

Directors' Report

The table below sets out the proposed application and the status of utilisation of the net proceeds from the Open Offer as at 30 June 2024:

	Planned	Net proceeds utilised	Net proceeds unutilised
	as at 30 June	as at 30 June	as at 30 June
	2024	2024	2024
	HK\$'000	HK\$'000	HK\$'000
Repayment of bank loans	68,620	40,880	27,740
Expansion of the Company's industrial automation and other related businesses and the supporting services	31,380	–	31,380
General working capital	4,500	4,500	–
	104,500	45,380	59,120

As at 30 June 2024, the Group has used the proceeds from the Open Offer of approximately HK\$45.4 million and the unused balance of approximately HK\$59.1 million was currently placed into deposits and/or money market instruments. The expected timeline for use of unutilised proceeds is based on the Group's best estimate of future market conditions, subject to current and future changes of market developments.

Details in relation to the Open Offer are disclosed in the Prospectus, the circular of the Company dated 12 January 2024 and the announcements of the Company dated 1 December 2023, 11 April 2024 and 17 April 2024.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 30 June 2024 represented approximately 14.6% (30 June 2023: 18.6%) and approximately 29.6% (30 June 2023: 47.3%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 30 June 2024 represented approximately 23.2% (30 June 2023: 14.4%) and approximately 33.5% (30 June 2023: 29.9%), respectively, of the Group's total purchases.

Save as disclosed elsewhere in this annual report, none of the Directors or their respective associates or, so far as the Directors are aware, any shareholder who owns more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers and suppliers during the year.

Directors' Report

DIRECTORS

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

Executive Directors

Mr. Fang Hui (Chairman)
Mr. Chen Hongwei
Mr. Cai Haifeng (appointed on 3 May 2024)

Non-Executive Director

Mr. Shi Chenghu (resigned on 3 May 2024)

Independent Non-Executive Directors

Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

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

In accordance with the Articles, Mr. Cai Haifeng, Mr. Chen Hongwei and Ms. Zhang Dong Fang will retire and, being eligible, offer themselves for re-election at the 2024 AGM.

Mr. Cai Haifeng, an executive Director, appointed during the year, confirm that he has obtained the legal advice referred to under Rule 3.09D of the Listing Rules on 3 May 2024 and understand his legal obligations as director of a listed issuer under the Listing Rules.

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 (the "Listing Rules") on the Stock Exchange from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 30 June 2024.

* For identification purpose only.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Mr. Fang Hui has entered into a letter of appointment and a service contract with the Company for an initial term of three years commencing from 29 April 2021 and the appointment has been extended for a further term of three years commencing on 29 April 2024 and ending on 28 April 2027. Mr. Chen Hongwei has entered into a service contract with the Company for an initial term of three years commencing from 1 April 2022 and can be extended in accordance with the terms of the service contract. Mr. Cai Haifeng has entered into a service contract with the Company for an initial term of three years commencing from 3 May 2024 and can be extended in accordance with the terms of the service contract.

Independent non-executive Directors

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 to 1 January 2022 and he has entered into a new letter of appointment with the Company for a term of three years commencing from 2 January 2022. Mr. Yao Yang Yang has entered into a letter of appointment with the Company for an initial term of three years commencing from 31 March 2021 and he has entered into a new letter of appointment with the Company for a term of three years commencing from 31 March 2024. Ms. Zhang Dong Fang has entered into a letter of appointment with the Company commencing from 7 December 2021 to 30 June 2024 and the appointment has been extended for a further term of three years commencing on 1 July 2024 and ending on 30 June 2027.

Other than as disclosed above, no Director proposed for re-election at the 2024 AGM has a 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

Save as disclosed in this annual report, 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 or an entity connected with a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

On 8 June 2021, Huazhang Environmental Resources Investment Limited ("Environmental Resources"), an indirect wholly-owned subsidiary of the Company entered into a master sales agreement with Taizhou Hengshengtianyue Metal Co., Ltd.* (台州恒晟天悦金属有限公司) (the "Customer") in relation to the provision of metal scraps by Environmental Resources from time to time (the "Master Sales Agreement"). On 6 December 2023, the Master Sales Agreement has been renewed for a term commencing on 6 December 2023 and expired on 30 June 2024. On 6 August 2024, the Master Sales Agreement has been further renewed for a term commencing on 6 August 2024 and ending on 30 June 2025. The Customer is owned as to 51% by Ms. Fang Aiping and 49% by Mr. Fang Anlin. As Ms. Fang Aiping and Mr. Fang Anlin are respectively an aunt and an uncle of Mr. Fang Hui, an executive Director and a substantial shareholder of the Company, the Customer is a connected person of the Company under the Listing Rules and the transactions contemplated under the Master Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Directors' Report

The Customer is an established trader of metal scraps in the PRC which holds a AQSIQ permit which the Group currently lacks. AQSIQ permit is needed by the Group to export metal scraps into the PRC. The agreement would allow the Group to sell metal scraps to the Customer in the same way the Group is able to sell to non-connected persons of the Company.

During the year, the Group did not enter into any transactions with the Customer:

Nature of transactions	Amount RMB
Sales of metal scraps	–

For the year ended 30 June 2024, the total amount of fees payable by the Customer and/or its subsidiaries to Environmental Resources for the metal scraps under the Master Sales Agreement amounted to nil, which was within the annual cap of HK\$20 million for the same period. During the period from 6 December 2023 to 30 June 2024, the Group and the Customer were unable to reach agreement on the terms of the sale and purchase orders due to the fluctuations of the then metal scrap prices. The Company believed that such fluctuations would render any potential transaction unprofitable and would also make it difficult for the Group to control its cost of sales. Therefore, the Group did not incur any continuing connected transaction during the year ended 30 June 2024 and accordingly did not engage KTC Partners CPA Limited, the auditor of the Company, to issue any confirmation letter on the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

Save as disclosed in this report, there were no transactions required to be disclosed as connected transactions or continuing connected transaction in accordance with the requirements of the Listing Rules.

MANAGEMENT CONTRACTS

Save as disclosed elsewhere in this annual report, no contracts, other than service and/or employment 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.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, there were no transactions, arrangements or contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at 30 June 2024 or at any time during the year ended 30 June 2024.

CHANGES IN DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

After having made all reasonable enquiry, the Company is not aware of any information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the six months ended 31 December 2023 and up to the date of this report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are provided under Note 31 to the consolidated financial statements, and save as disclosed in the sections headed "Connected Transaction" and "Continuing Connected Transactions" in this report which have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules, 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 Notes 34 and 11(a), respectively, to the consolidated financial statements.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure of the remuneration for 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 situations, market conditions, 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 Scheme (the "MPF Scheme") has been set up for employees in Hong Kong, in accordance with the Mandatory Provident Fund Ordinance. All employees in Hong Kong are required to join the MPF Scheme and the employees and their employer are each required to contribute 5% of their gross earnings with a current ceiling of HK\$1,500 per person 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 profit or loss 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 according to a certain percentage to the applicable employee payroll.

Details of the retirement benefit schemes of the Group are set out in Note 2.19 to the consolidated financial statements.

Directors' Report

COMPETING INTERESTS

For the year ended 30 June 2024, the Directors are not aware of any business or interest of the Directors, the substantial shareholders of the Company or any of their respective associates had engaged in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests which any such person has or may have with the Company.

SHARE OPTION SCHEME

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

Share Option Scheme

The principal terms of the Share Option Scheme are summarised as below:

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 employee of the Company or any member of the Group, including any executive Director, non-executive Director, or independent non-executive Director to take up option(s).

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 Adoption Date which was 88,674,137 shares. The total number of shares of the Company available for issue upon exercise of all options granted and may be granted under the Share Option Scheme is 87,108,841 shares, representing 5.46% of the issued shares of the Company (i.e. 1,596,134,067 shares) as at the date of this annual report.

4. Maximum entitlement of each participant

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

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

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

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 offered. 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.

8. Life of the New Share Option Scheme

The Share Option Scheme became valid and effective for a period of ten years commencing on the Adoption Date to 9 February 2032 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.

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

Directors' Report

During the year ended 30 June 2024 and as at the date of this report, no Share Options were granted and exercised under the Share Option Scheme. On 18 April 2024, the Group has successfully issued and allotted 532,044,689 new ordinary shares at HK\$0.20 per share through an open offer (the "Open Offer") to existing Shareholders on the basis of one open offer share for every two existing shares held by the qualifying shareholders on 16 February 2024, the record date. Pursuant to the terms and conditions of the Share Option Scheme and the Listing Rules, the exercise price and the number of Shares to be issued upon exercise of the outstanding Share Options were adjusted immediately after the completion of the Open Offer.

As at 30 June 2024, the total number of ordinary shares in respect of which Share Options had been granted and remained outstanding under the Share Option Scheme was 34,374,704 (representing approximately 2.15% of the Company's Shares in issue as at 30 June 2024). The exercise price of the Share Options granted under the Share Option Scheme is HK\$0.461 per share. The number of Share Options available for grant under the Share Option Scheme as at 1 July 2023 and 30 June 2024 was 52,734,137 and 52,734,137, respectively.

The principal terms of the Share Option Scheme and details of the grant of Share Options are set out in the circular of the Company dated 21 January 2022 and the announcement of the Company dated 31 May 2022.

Particulars of the movement of the share options held by the Directors and employees of the Group during the year ended 30 June 2024 were as follows:

Name or category of participants	Date of Grant (Notes d)	Exercise price (Note a)	Vesting & exercise period	Number of share options						At 30 June 2024
				At 1 July 2023	Adjusted by the Open Offer during the year (Note a)	Granted during the year	Exercised during the year	Lapsed/ forfeited during the year	Cancelled during the year	
Directors										
Mr. Chen Hongwei	31 May 2022	HK\$0.461	Note d	500,000	53,359	-	-	-	-	553,359
Mr. Cai Haifeng	31 May 2022	HK\$0.461	Note d	500,000	53,360	-	-	-	-	553,360
Mr. Heng, Keith Kai Neng	31 May 2022	HK\$0.461	Note d	300,000	32,016	-	-	-	-	332,016
Mr. Yao Yang Yang	31 May 2022	HK\$0.461	Note d	300,000	32,016	-	-	-	-	332,016
Ms. Zhang Dong Fang	31 May 2022	HK\$0.461	Note d	300,000	32,016	-	-	-	-	332,016
Other Employees	31 May 2022	HK\$0.461	Note d	30,510,000	3,220,790	-	-	(1,458,853)	-	32,271,937
Mr. Shi Chenghu (Note b)	31 May 2022	HK\$0.461	Note d	1,000,000	106,719	-	-	(1,106,719)	-	-
Mr. Wang Ai Yan (Note c)	31 May 2022	HK\$0.461	Note d	1,000,000	-	-	-	(1,000,000)	-	-
In aggregate				34,410,000	3,530,276	-	-	(3,565,572)	-	34,374,704

Directors' Report

Notes:

- (a) Pursuant to the terms and conditions of the Share Option Scheme and the Listing Rules, the exercise price and the number of Shares to be issued upon exercise of the outstanding Share Options were adjusted immediately after the completion of the Open Offer (i.e. 18 April 2024). Save for the above adjustments, all other terms and conditions of the outstanding Share Options granted under the Share Option Scheme remain unchanged.
- (b) Being an ex-non-executive Director (resigned on 3 May 2024) of the Company.
- (c) Being an ex-executive Director (resigned on 1 December 2022) of the Company.
- (d) The validity period of the Share Options granted on 31 May 2022 is from 31 May 2022 to 30 May 2032.

The Share Options granted on 31 May 2022 shall be vested and are exercisable in the following manners:

- (i) 30% of the Share Options may be exercisable at any time commencing from the Date of Grant up to 30 May 2032;
- (ii) 30% of the Share Options and the first 30% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2023 up to 30 May 2032; and
- (iii) the remaining 40% of the Share Options and the first 60% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2024 up to 30 May 2032.

The closing price of the Company's shares immediately before the date on which the Share Options were granted was HK\$0.49 per share.

- (e) The aggregate number of options already granted to the five highest paid individuals (including one director and four employees) during the financial year is 2,656,126 Share Options.

If all such Share Options were exercised, there would be a dilution effect on the shareholdings of Shareholders of approximately 2.11% as at 30 June 2024.

The estimated value of the Share Options granted under the Share Option Scheme, calculated using the binomial lattice model, as at the Date of Grant of the Share Options was approximately HK\$9,034,000.

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 and early exercise multiple. The measurement date used in the valuation calculations was the date on which the options were granted.

Share price (HK\$)	0.51
Exercise price (HK\$)	0.51
Expected volatility (%)	70.1
Expected dividend yield (%)	0.0
Risk-free interest rate (%)	2.8

Directors' Report

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.

The fair value calculated for the Share Options is inherently subjective due to the assumptions made and the limitations of the model utilised.

The Group recognised the share-based compensation benefits of approximately RMB1,553,213 (2023: RMB3,718,575) for the year ended 30 June 2024 in relation to share options granted by the Company under the Share Option Scheme.

LEGAL PROCEEDINGS

Zhejiang Huazhang Technology Limited (“Zhejiang Huazhang”), a wholly owned subsidiary of the Company, received a first instance judgment (the “Judgment”) dated 24 December 2021 handed down by the Intermediate People’s Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the “Court”) in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) (“Plaintiff”) as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings.

Zhejiang Huazhang had lodged an appeal application (the “Appeal Application”) with the Higher People’s Court of Yunnan Province (雲南省高級人民法院) (the “Appeal Court”) against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the initial Judgement. However, the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts remains in effect.

On 20 December 2023, the Court accepted the Plaintiff’s request to continue to freeze certain bank accounts of Zhejiang Huazhang to the amount of approximately RMB37.6 million for an additional year.

On 28 June 2024, Zhejiang Huazhang received a judgment from the courts for the retrial of the first instance case in which the courts awarded the Plaintiff compensation for breach of contract in the amount of RMB32,994,295 which had already been recognised in the consolidated financial statements. A retrial of the second instance case or appeal commenced on 5 September 2024 and a judgment is yet to be finalized.

Management expects these funds would become unrestricted within 12 months. Details of the legal proceedings were set out in the Company’s announcements dated 21 January 2022 and 9 September 2022.

The above legal proceedings had no material adverse impact on the business operation and financials of the Group. The Company will continue to monitor the progress of the legal proceedings and assess the impact of the proceedings on the Group.

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 2024, 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 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 and/or underlying Shares

Name of directors	Capacity/Nature of interest	Number of Shares and/or underlying Shares held	Approximate percentage of shareholdings*
Mr. Chen Hongwei	Beneficial owner	273,000	0.02%
	Beneficial owner	553,359 (Note 1)	0.03%
Mr. Fang Hui	Interest of a controlled corporation	629,515,027 (Note 2)	39.44%
	Beneficial owner	11,100,000	0.70%
Mr. Cai Haifeng	Beneficial owner	553,360 (Note 1)	0.03%
Mr. Heng, Keith Kai Neng	Beneficial owner	332,016 (Note 1)	0.02%
Mr. Yao Yang Yang	Beneficial owner	332,016 (Note 1)	0.02%
Ms. Zhang Dong Fang	Beneficial owner	332,016 (Note 1)	0.02%

Notes:

- These are interests in underlying Shares which represent the interests in share options granted to the respective Director by the Company under the Share Option Scheme. Details of which are shown in the section headed "Share Option Scheme" of this report.
 - The 629,515,027 Shares are registered in the name of Dao He Investment Limited ("Dao He"), a company beneficially owned by Mr. Fang Hui ("Mr. Fang"). Under the SFO, Mr. Fang is deemed to be interested in all the Shares held by Dao He.
- * The percentage has been calculated based on the total number of shares of the Company in issue as at 30 June 2024 (i.e. 1,596,134,067 Shares) and rounded to two decimal places.

Directors' Report

Save as disclosed above, as at 30 June 2024, 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 2024, so far as the Directors are aware, persons/corporations (other than the Directors and the chief executive of the Company) which had interests and short positions in the shares and underlying shares of the Company or its associated corporations 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 or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group are as follows:

Long positions in the Shares and/or underlying Shares

Name of substantial shareholders	Capacity/Nature of interest	Number of Shares and/or underlying Shares held	Approximate percentage of shareholdings*
Dao He Investment Limited	Beneficial owner	629,515,027 (Note 1)	39.44%
Wealthy Land Investments Group Limited	Having a security interest in shares	123,964,000	7.77%
	Beneficial owner	230,326,400	14.43%
Mr. Yeung Wai	Interest of a controlled corporation	354,290,400 (Note 2)	22.20%
Mr. Yeung Yun Chuen	Interest of a controlled corporation	354,290,400 (Note 2)	22.20%
Mr. Shi Chenghu	Beneficial owner	89,452,000	5.60%

Notes:

1. The shares are registered in the name of Dao He, a company beneficially owned by Mr. Fang.
 2. Wealthy Land Investments Group Limited ("Wealthy Land") is owned as to 42.00% by Mr. Yeung Wai and as to 36.00% by Mr. Yeung Yun Chuen. Under the SFO, Mr. Yeung Wai and Mr. Yeung Yun Chuen are deemed to be interested in all the Shares held by Wealthy Land.
- * The percentage has been calculated based on the total number of shares of the Company in issue as at 30 June 2024 (i.e. 1,596,134,067 Shares) and rounded to two decimal places.

Save as disclosed above, as at 30 June 2024, the Directors are not aware of any interests or short positions owned by any persons/corporations (other than the Directors and the chief executive of the Company) in the shares or underlying shares of the Company or its associated corporations 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 or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the year ended 30 June 2024 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 (the "Audit Committee") of the Company 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. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang. The Audit Committee is chaired by Mr. Heng, Keith Kai Neng.

The Audit Committee has discussed with the management about the accounting principles and policies adopted by the Group and discussed risk management, internal controls and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 30 June 2024.

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. The Articles is available on the website of the Stock Exchange.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, the Group had no material events after the reporting period.

Directors' Report

AUDITOR

PricewaterhouseCoopers resigned as the auditor of the Company on 18 July 2022 and Zhonghui Anda CPA Limited (“Zhonghui Anda”) was appointed as the auditor of the Company with effect from 18 July 2022. Zhonghui Anda resigned as the auditor of the Company on 19 October 2022 and KTC Partners CPA Limited has been appointed as the new auditor of the Company with effect from 19 October 2022 to fill the casual vacancy following the resignation of Zhonghui Anda. Details of the change of auditor of the Company are set out in the announcements of the Company dated 18 July 2022 and 19 October 2022.

The auditor of the Company, KTC Partners CPA Limited, 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 2024 have been audited by KTC Partners CPA Limited.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in its shares on the Stock Exchange had been suspended with effect from 9:00 a.m. on 3 October 2022 and would remain suspended until the Company fulfilled the resumption guidance as disclosed in its announcement dated 28 November 2022. The Group fulfilled all the conditions of the resumption guidance of the Stock Exchange as scheduled and officially resumed trading on 10 August 2023. For further details of the fulfilment of the resumption guidance, please refer to the announcement of the Company dated 9 August 2023.

On behalf of the Board

Fang Hui

Chairman

Hong Kong

27 September 2024

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.

CORPORATE CULTURE

A positive corporate culture set up by the Company, including integrity and accountability, is vital for the Company to achieve its vision and mission towards sustainable growth. The Company's corporate culture instils all levels of the Group. The Group delivers responsible products and services to our customers in a fair and good manner. We also foster an inclusive and supportive working environment and implement a framework to maintain good governance and effective risk management systems.

The Board reported that the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Part 2 of Appendix C1 of the Listing Rules for the year ended 30 June 2024, except the following deviations:

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Mr. Zhu Gen Rong is the former chairman of the Company who was removed from the Board on 10 February 2022 and Mr. Fang Hui has been appointed as the chairman of the Board from 3 May 2024. Following the resignation of Mr. Wang Ai Yan as an executive Director and the Chief Executive Officer (the "CEO") of the Company on 1 December 2022, the Company has not appointed an individual to take up the vacancy of the CEO. The role and function of the CEO have been performed by all the executive Directors collectively.

Under code provision C.2 of the CG Code, there are certain roles and responsibilities to be carried out by the chairman of the Company. Due to the vacancy of the chairman of the Company, such roles are delegated to the executive Directors until Mr. Fang Hui has been appointed as the chairman of the Board from 3 May 2024.

Under code provision F.2.2 of the CG Code, the chairman of the Board should attend the annual general meeting of the Company and invite the chairman of the Board committees to attend. However, due to the vacancy of the chairman of the Company up to 3 May 2024, no person as chairman of the Company had attended the annual general meeting held on 30 November 2023.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix C3 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 2024 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. The Board should ensure that changes to its composition can be managed without undue disruption. The 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. Fang Hui (Chairman)
Mr. Chen Hongwei
Mr. Cai Haifeng (appointed on 3 May 2024)

Non-Executive Director

Mr. Shi Chenghu (resigned on 3 May 2024)

Independent Non-Executive Directors

Mr. Heng, Keith Kai Neng
Mr. Yao Yang Yang
Ms. Zhang Dong Fang

An updated list of Directors and their role and functions is maintained at the websites 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.

Corporate Governance Report

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.

ATTENDANCE OF BOARD MEETINGS AND PROFESSIONAL DEVELOPMENT

During the year, the Board convened 8 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 of the Board meetings would also ensure that all directors are properly briefed on matters arising at board meetings. During the year ended 30 June 2024, apart from holding Board meetings, the Board also passed resolutions in writing to approve certain matters.

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.

Corporate Governance Report

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 provided by the respective Directors are kept and updated by the company secretary of the Company.

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.

The annual general meeting of the Company were held on 30 November 2023. All Directors attended the annual general meeting. During the year ended 30 June 2024, an extraordinary general meeting was held on 2 February 2024. Directors' attendance at meetings of the Board and general meetings and their participation in continuous professional development during the year ended 30 June 2024 are set out in the table below:

Name of Directors	Meeting of the Board of Directors Attended/Entitled to attend	Annual general meeting Attended/Held	Extraordinary general meeting Attended/Held	Participation in continuous professional development
Mr. Fang Hui (Chairman)	8/8	1/1	1/1	✓
Mr. Chen Hongwei	8/8	1/1	1/1	✓
Mr. Cai Haifeng ^(Note 1)	0/0	N/A ^(Note 3)	N/A ^(Note 3)	✓
Mr. Shi Chenghu ^(Note 2)	7/8	1/1	1/1	N/A
Mr. Heng, Keith Kai Neng	8/8	1/1	1/1	✓
Mr. Yao Yang Yang	8/8	1/1	0/1	✓
Ms. Zhang Dong Fang	8/8	1/1	1/1	✓

Notes:

1. Appointed with effect from 3 May 2024.
2. Resigned with effect from 3 May 2024.
3. The general meeting was held during which the respective Director had not yet been appointed.

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 A.2 of the CG Code.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Zhu Gen Rong is the former chairman of the Company who was removed from the Board on 10 February 2022 and Mr. Fang Hui has been appointed as the chairman of the Board from 3 May 2024. The chairman's responsibility is to oversee the functioning of the Board and the strategies and policies of the Group.

Mr. Wang Ai Yan was the former CEO of the Company who resigned from the Board on 1 December 2022. The CEO's responsibility is to monitor the daily operation and management of the Company. Following the resignation of Mr. Wang Ai Yan as an executive Director and the CEO of the Company on 1 December 2022, the Company has not appointed an individual to take up the vacancy of the CEO.

The Company is in the process of identifying a suitable candidate to assume the role as the CEO and further announcement in this regard will be made as and when appropriate. In the meantime, the former roles and responsibilities of the CEO of the Company have been performed by all the executive Directors collectively.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "Articles") provide that at each annual general meeting, 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.

The 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.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors namely, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang. Mr. Heng, Keith Kai Neng is currently the chairman of the Audit Committee. 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 websites of the Company and 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.

Corporate Governance Report

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 independent consultant 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 2024. In addition, the Audit Committee has reviewed external auditor's remuneration.

Four Audit Committee meetings were held during the year ended 30 June 2024. Members of the Audit Committee and the attendance of each member are set out below:

Audit Committee members	Attended/Entitled to attend
Mr. Heng, Keith Kai Neng (Chairman)	4/4
Mr. Yao Yang Yang	4/4
Ms. Zhang Dong Fang	4/4

Corporate Governance Report

REMUNERATION COMMITTEE

The remuneration committee of the Company (the “Remuneration Committee”) was established on 6 May 2013 now comprising the 3 independent non-executive Directors and 2 executive Directors, Mr. Fang Hui and Mr. Cai Haifeng. Mr. Heng, Keith Kai Neng is currently the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the websites of the Company and 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. No director or any of his/her associates was involved in deciding his/her own remuneration.

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 two meetings. The Remuneration committee has reviewed and approved the remuneration package of the executive Directors. Details of the directors’ emoluments are set out in Note 34 to the audited consolidated financial statements contained in this annual report.

Members of the Remuneration Committee and the attendance of each member are set out below:

Remuneration Committee members	Attended/Entitled to attend
Mr. Heng, Keith Kai Neng (Chairman)	2/2
Mr. Cai Haifeng (appointed on 3 May 2024)	0/0
Mr. Fang Hui (appointed on 3 May 2024)	0/0
Mr. Yao Yang Yang	2/2
Ms. Zhang Dong Fang	2/2

The remuneration of the members of the senior management (other than Directors) by band for the year ended 30 June 2024 is set out below:

HK\$	Number of members of senior management
500,000 to 1,000,000	1
0 to 500,000	1

Corporate Governance Report

NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) was established on 6 May 2013 now comprising the 3 independent non-executive Directors and 2 executive Director, Mr. Fang Hui and Mr. Chen Hongwei. Mr. Yao Yang Yang is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the websites of the Company and 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 two meetings for reviewing and evaluating the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company’s corporate strategy, assessing independence of the independent non-executive Directors and reviewing and recommending the re-appointment of the retiring Directors at the general meeting of the Company and appointment of new director.

Members of the Nomination Committee and the attendance of each member are set out below:

Nomination Committee members	Attended/Entitled to attend
Mr. Yao Yang Yang (Chairman)	2/2
Mr. Chen Hongwei (appointed on 3 May 2024)	0/0
Mr. Fang Hui	2/2
Mr. Heng, Keith Kai Neng	2/2
Ms. Zhang Dong Fang	2/2

Corporate Governance Report

NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 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 Listing Rules (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.

Corporate Governance Report

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 or appointed by the Board as an addition to the existing Board shall hold office until the first annual general meeting after his/her appointment and be subject to re-election at such meeting.

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 procedures has been set out in the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

3. Policy Review and Monitoring

- (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.

Corporate Governance Report

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.

The Nomination Committee reviews the implementation and effectiveness of the board diversity policy at least annually to ensure it remains effective and appropriate for the Company and in compliance with regulatory requirements and good corporate governance practices.

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

As at the date of this report, the Board comprises six 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 believes that gender diversity is a representing manifestation of board diversity, among all other measurable objectives. While the Board has a domination of male composition, the Company has appointed one female director achieving a female representation in the Board. The Company targets to avoid a single gender Board and will timely review the gender diversity of the Board in accordance with the business development of the Group. The Board is also characterised by significant diversity, whether considered in terms of professional background and skills. The biographical details with the professional experience, skills and knowledge of the Directors are available in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

As at 30 June 2024, approximately 75% of the Company's workforce (including the Directors and senior management) is male and approximately 25% is female. Same as the gender diversity of the Board, the Company targets to avoid a single gender workforce and will timely review the gender diversity of the workforce in accordance with the business development of the Group.

To achieve diversity at workforce level, the Group has put in place appropriate recruitment and selection practices such that a diverse range of candidates are considered and ensure that gender diversity is taken into account when recruiting staff members.

Details of the Group's gender diversity at workforce level are set out in the Environmental, Social and Governance report of this annual report.

Corporate Governance Report

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 and control the impact of the identified risks and facilitate implementation of coordinated mitigating measures. The risks have been disclosed in the Directors' Report 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 and 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 2024. 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 2024.

Corporate Governance Report

AUDITOR'S REMUNERATION

During the year ended 30 June 2024, the fees paid/payable to the Company's auditor, KTC Partners CPA Limited, and its associated entities are set out as follows:

Nature of services	Fees paid/ payable HK\$
Audit services	1,900,000
Non-audit services	359,550
	2,259,550

Non-audit services primarily comprise review services provided to the Group.

COMPANY SECRETARY

The company secretary of the Company is Ms. Yeung Wing Yan ("Ms. Yeung") who was appointed on 26 November 2021. The company secretary assists the Board by ensuring good information flow within the Board and that Board policies and procedures are followed. Ms. Yeung has taken not less than 15 hours of relevant professional training during the year ended 30 June 2024.

The biographical details of Ms. Yeung are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting 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 annual general meeting, 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.

Corporate Governance Report

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 Suite 901, 9/F, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, 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 registrar 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 if the proposal constitutes an ordinary resolution of the Company;
- (b) At least 21 clear days' notice in writing if calling for an annual general meeting.

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 propose 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.

Corporate Governance Report

INVESTOR RELATIONS

Communication with Shareholders

The Company has established a shareholders' communication policy and the Board shall review it on a regular basis to ensure its effectiveness. The Company communicates with the shareholders and/or potential investors mainly by: (i) holding of annual general meeting ("AGM") and extraordinary general meetings which shall be convened for specific purposes (if any) which provide opportunities for the shareholders to communicate with the Board; (ii) the publication of announcements, annual reports, interim reports and/or circulars as required under the Listing Rules; (iii) the availability of information of the Group on the Company's website at www.hzeg.com.

Shareholders and investors are welcome to visit the Company's website where contact details are available on the Company's website for enquiries.

All members of the Board and the external auditor were available at the 2023 AGM to answer questions from the shareholders. The procedures for conducting a poll have been explained during the meeting.

Shareholder communication is effective during the year because shareholders can raise questions to the management of the Company at the 2023 AGM and the EGM and contact details are available for shareholders and stakeholders to contact the Company directly.

CONSTITUTIONAL DOCUMENTS

During the year ended 30 June 2024, there had been no significant change in the Company's constitutional documents.

The memorandum and articles of association of the Company is available on the websites of the Company and of the Stock Exchange.

Independent Auditor's Report



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

OPINION

We have audited the consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 86 to 184, which comprise the consolidated statement of financial position as at 30 June 2024, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2024, 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 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditor's Report

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 Matter

How our audit addressed the Key Audit Matter

Recognition of revenue from services

Refer to Note 2.23 "Summary of material accounting policy information — Revenue recognition", Note 4.2(a) "Critical accounting judgments — Revenue recognition" and Note 5 "Segment information" to the consolidated financial statements.

Revenue from provision of wastewater treatment solution and project contracting services is recognised on over time basis as the Group's performance under the contracts creates or enhances an asset that the customer controls as the asset is created or enhanced. For the year ended 30 June 2024, revenue of the Group from provision of wastewater treatment solution of RMB5,635,900 and project contracting service of RMB102,612,145 was recognised on the over time basis.

For the revenue from provision of wastewater treatment solution and project contracting services, 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 judgments and estimations were required in determining the estimated total costs and the estimation of progress towards complete satisfaction of the performance obligation at the end of the reporting period. Given the involvement of significant management's judgments and estimations, recognition of revenue from provision of wastewater treatment solution and project contracting services over time is considered a key audit matter.

We understood and evaluated the key controls on 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 costs 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 checked the mathematical accuracy of management's calculation of the revenues recognised over time using the input method.

We performed retrospective review to compare the current year's actual results with prior year's budgets, where applicable, to consider whether any past forecast including any assumptions had been reasonably adopted.

Based on our work performed, we found that management's judgments and estimations used in the Group's revenue recognised from provision of wastewater treatment solution and project contracting services on over time basis were supported by the available evidence.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Provision for impairment of trade and other receivables and contract assets</i>	
<p>Refer to Note 2.10 "Summary of material accounting policy information — Financial assets", Note 2.12 "Summary of material accounting policy information — Trade and other receivables", Note 4.1(a) "Critical accounting estimates — Impairment of trade and other receivables and contract assets", Note 3.1(b) "Financial Risk Management — Credit Risk", and Note 20 "Trade and other receivables, contract assets and prepayments" to the consolidated financial statements.</p>	<p>We understood and evaluated key controls, on the estimations adopted in the ECL assessment.</p>
	<p>We assessed the appropriateness of the Group's grouping by considering the credit risk characteristics.</p>
	<p>We evaluated the historical default rates of different groups by comparing with the actual losses recorded during the prior and current financial years.</p>
<p>As at 30 June 2024, the net carrying amounts of the Group's trade receivables, other receivables and contract assets were RMB94,933,065, RMB30,347,128 and RMB67,063,075, respectively, after netting off accumulated allowance for impairment provision of RMB183,367,508, RMB187,507,887 and RMB13,296,977, respectively.</p>	<p>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 publicly available information relating to the financial circumstances of the customers and their expected behaviour including method of payments or payments period.</p>
<p>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 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.</p>	<p>For those subject to 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 checking subsequent settlements, credit history and financial capability of these customers on a sample basis.</p>
	<p>We checked, on a sample basis, the accuracy of ageing profile on trade receivables and contract assets to supporting documents, including sales invoices, delivery notes, customer's receipts and payment demand notes.</p>

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Provision for impairment of trade and other receivables and contract assets (Continued)</i>	
We considered assessment of impairment provision of trade and other receivables and contract assets a key audit matter because significant management's judgments and estimations are involved.	<p>We checked the mathematical accuracy of management's ECL calculation.</p> <p>Based on our work performed, we found that management's judgments and estimations adopted in the assessment of provision for impairment of trade and other receivables and contract assets were supported by the available evidence.</p>

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 THE 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 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.

Independent Auditor's Report

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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional skepticism 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.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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.

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.

KTC Partners CPA Limited

Certified Public Accountants (Practising)

Chow Yiu Wah, Joseph

Practising Certificate Number: P04686

Hong Kong, 27 September 2024

Consolidated Statement of Profit or Loss

For the year ended 30 June 2024

	Notes	2024 RMB	2023 RMB
Revenue	5	448,044,777	528,921,014
Cost of sales		(368,325,069)	(445,757,404)
Gross profit		79,719,708	83,163,610
Other income and gains, net	6	21,569,767	13,161,604
Selling and distribution expenses		(9,717,572)	(9,666,951)
Administrative expenses		(75,982,779)	(79,964,429)
Research and development expenses		(25,680,569)	(28,571,835)
Net impairment losses on financial and contract assets	7	(8,137,196)	(16,366,419)
Operating loss		(18,228,641)	(38,244,420)
Finance income	8	2,943,254	6,613,505
Finance costs	8	(4,059,137)	(8,485,664)
Finance costs, net		(1,115,883)	(1,872,159)
Impairment loss on property, plant and equipment	13	–	(2,859,484)
Impairment loss on investment properties	15	–	(8,576,102)
Loss before income tax	9	(19,344,524)	(51,552,165)
Income tax credit/(expense)	10	747,255	(1,278,895)
Loss for the year		(18,597,269)	(52,831,060)
(Loss)/profit attributable to:			
The shareholders of the Company		(18,729,124)	(51,248,791)
Non-controlling interests		131,855	(1,582,269)
		(18,597,269)	(52,831,060)
			(Restated)
Loss per share attributable to the shareholders of the Company for the year (expressed in RMB cents per share)			
Basic loss per share	12	(1.60)	(4.41)
Diluted loss per share	12	(1.60)	(4.41)

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2024

	2024 RMB	2023 RMB
Loss for the year	(18,597,269)	(52,831,060)
Other comprehensive (loss)/income <i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	(5,465,503)	4,649,465
Other comprehensive (loss)/income for the year, net of tax	(5,465,503)	4,649,465
Total comprehensive loss for the year	(24,062,772)	(48,181,595)
Total comprehensive (loss)/profit for the year is attributable to:		
The shareholders of the Company	(24,194,627)	(46,599,326)
Non-controlling interests	131,855	(1,582,269)
	(24,062,772)	(48,181,595)

The notes on pages 93 to 184 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2024

	Notes	2024 RMB	2023 RMB
ASSETS			
Non-current assets			
Property, plant and equipment	13	54,480,494	62,548,161
Other right-of-use assets	14	3,308,587	6,193,168
Investment properties	15	78,082,033	83,536,088
Prepaid land lease payments	14, 16(i)	70,329,672	72,040,922
Other intangible assets	16(ii)	3,410,806	5,610,299
Goodwill	17	29,902,783	29,902,783
Financial assets at fair value through profit or loss	18	–	6,196,647
Trade and other receivables	20(i)	4,177,784	–
Prepayments	20(iii)	130,602	143,662
Deferred tax assets	24	1,675,488	842,536
		245,498,249	267,014,266
Current assets			
Inventories	19	176,049,957	153,647,680
Trade and other receivables	20(i)	157,260,749	175,290,217
Contract assets	20(ii)	67,063,075	102,243,112
Prepayments	20(iii)	62,004,742	95,212,255
Financial assets at fair value through other comprehensive income	20(iv)	52,115,288	33,342,049
Financial assets at fair value through profit or loss	18	246,314	–
Bank fixed deposits	21	60,012,000	–
Pledged deposits	21	28,647,539	63,050,840
Restricted deposits	21	37,599,411	38,523,211
Cash and cash equivalents	21	96,450,667	43,983,025
		737,449,742	705,292,389
Total assets		982,947,991	972,306,655
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	24	3,991,199	4,779,177
Deferred income	25	18,787,500	20,137,500
Lease liabilities	14	1,625,401	3,236,971
		24,404,100	28,153,648

Consolidated Statement of Financial Position

As at 30 June 2024

	Notes	2024 RMB	2023 RMB
Current liabilities			
Trade and other payables	22	300,081,917	390,255,878
Contract liabilities	5	152,879,736	123,064,299
Interest-bearing loans	23	73,367,184	68,990,000
Income tax payable		5,726,048	7,334,046
Lease liabilities	14	1,611,570	2,908,538
		533,666,455	592,552,761
Total liabilities		558,070,555	620,706,409
Net assets		424,877,436	351,600,246
EQUITY			
Share capital	26	13,824,333	8,907,761
Share premium	26	754,015,624	663,145,447
Other reserves	27	125,793,063	130,456,325
Accumulated losses		(462,382,400)	(444,404,248)
Capital and reserves attributable to the shareholders of the Company		431,250,620	358,105,285
Non-controlling interests		(6,373,184)	(6,505,039)
Total equity		424,877,436	351,600,246

The notes on pages 93 to 184 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 86 to 184 were approved by the Board of Directors on 27 September 2024 and were signed on its behalf by:

Fang Hui
Director

Chen Hongwei
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2024

	Notes	Attributable to the shareholders of the Company				Total	Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Accumulated losses			
		RMB	RMB	RMB	RMB	RMB	RMB	
Balance at 1 July 2023		8,907,761	663,145,447	130,456,325	(444,404,248)	358,105,285	(6,505,039)	351,600,246
(Loss)/profit for the year		-	-	-	(18,729,124)	(18,729,124)	131,855	(18,597,269)
Other comprehensive loss		-	-	(5,465,503)	-	(5,465,503)	-	(5,465,503)
Total comprehensive (loss)/income for the year		-	-	(5,465,503)	(18,729,124)	(24,194,627)	131,855	(24,062,772)
Issuance of shares upon open offer	26	4,916,572	90,870,177	-	-	95,786,749	-	95,786,749
Employee share options	27	-	-	1,553,213	-	1,553,213	-	1,553,213
Forfeited share options	27	-	-	(750,972)	750,972	-	-	-
Balance at 30 June 2024		13,824,333	754,015,624	125,793,063	(462,382,400)	431,250,620	(6,373,184)	424,877,436
Balance at 1 July 2022		8,907,761	663,145,447	122,088,285	(393,155,457)	400,986,036	(4,922,770)	396,063,266
Loss for the year		-	-	-	(51,248,791)	(51,248,791)	(1,582,269)	(52,831,060)
Other comprehensive income		-	-	4,649,465	-	4,649,465	-	4,649,465
Total comprehensive income/(loss) for the year		-	-	4,649,465	(51,248,791)	(46,599,326)	(1,582,269)	(48,181,595)
Employee share options	27	-	-	3,718,575	-	3,718,575	-	3,718,575
Balance at 30 June 2023		8,907,761	663,145,447	130,456,325	(444,404,248)	358,105,285	(6,505,039)	351,600,246

Consolidated Statement of Cash Flows

For the year ended 30 June 2024

	Notes	2024 RMB	2023 RMB
Operating activities			
Loss before income tax		(19,344,524)	(51,552,165)
Adjustments for:			
Interest income	8	(2,943,254)	(3,903,230)
Interest expense	8	3,620,675	8,485,664
Depreciation of property, plant and equipment	13	6,410,540	6,668,131
Depreciation of other right-of-use assets	14	2,877,196	2,689,433
Depreciation of investment properties	15	5,454,055	5,954,439
Amortisation of prepaid land lease payments	16(i)	1,711,250	1,711,250
Gain on disposal of investments in futures	18	(1,325,431)	–
Amortisation of other intangible assets	16(ii)	2,528,527	2,629,212
Amortisation of deferred income	25	(1,350,000)	(1,350,000)
(Over provision)/provision for claims, net	6	(16,609,004)	3,151,894
Net impairment losses on financial and contract assets	7	8,137,196	16,366,419
Allowance for inventories	19	2,806,716	952,728
Fair value loss on investments in futures at FVTPL	18	72,416	–
Loss on disposal of equity investment at FVTPL	18	1,196,647	–
Fair value gain on equity investment at FVTPL	18	–	(1,389,392)
Amortisation of employee share option scheme	27	1,553,213	3,718,575
Loss on disposals and write off of property, plant and equipment	6	2,166,989	607
Impairment of investment properties	15	–	8,576,102
Impairment of property, plant and equipment	13	–	2,859,484
Operating cash flows before movements in working capital		(3,036,793)	5,569,151
Purchase of investments in futures at FVTPL		(2,318,730)	–
Proceeds from sale of investments in futures at FVTPL		3,325,431	–
Increase in inventories	19	(25,208,993)	(16,495,851)
(Increase)/decrease in trade and bills receivables		(16,595,096)	21,796,682
Decrease in prepayments and other receivables		54,002,084	20,145,776
Decrease/(increase) in contract assets		36,025,671	(82,553,267)
(Increase)/decrease in financial assets at fair value through other comprehensive income		(18,773,239)	9,744,752
Decrease/(increase) in pledged and restricted deposits relating to operating activities	21	35,327,101	(20,416,917)
Decrease in trade and other payables		(73,564,957)	(21,717,423)
Increase/(decrease) in contract liabilities		29,815,437	(40,868,740)
Cash generated from/(used in) operations		18,997,916	(124,795,837)
Income tax paid		(2,481,673)	(158,511)
Net cash inflow/(outflow) from operating activities		16,516,243	(124,954,348)

Consolidated Statement of Cash Flows

For the year ended 30 June 2024

	Notes	2024 RMB	2023 RMB
Investing activities			
Purchase of property, plant and equipment		(525,964)	(1,104,051)
Increase in bank fixed deposits	21	(60,012,000)	–
Proceeds from disposal of property, plant and equipment		18,532	–
Proceeds from disposal of the associate		–	50,000
Proceeds from disposal of equity investments at FVTPL		200,000	–
Purchase of other intangible assets		(329,034)	(26,255)
Interest received		2,943,254	3,903,230
Net cash (outflow)/inflow from investing activities		(57,705,212)	2,822,924
Financing activities			
Proceeds from issue of shares from open offer	26	95,786,749	–
Proceeds from interest-bearing loans from banks	23	73,000,800	28,990,000
Proceeds from interest-bearing loans from third parties	23	360,000	40,000,000
Repayment of interest-bearing loans from banks		(68,990,000)	(38,500,000)
Interest paid		(3,281,288)	(3,267,704)
Principal element of lease payments		(3,224,273)	(2,545,878)
Net cash inflow from financing activities		93,651,988	24,676,418
Net increase/(decrease) in cash and cash equivalents		52,463,019	(97,455,006)
Cash and cash equivalents at beginning of the year	21	43,983,025	141,048,866
Effect of exchange rate changes on cash and cash equivalents		4,623	389,165
Cash and cash equivalents at end of the year	21	96,450,667	43,983,025

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

1 GENERAL INFORMATION

Huazhang Technology Holding Limited (the “Company”) was incorporated on 26 June 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The beneficial owner of the Company is Fang Hui, who is also an executive director and chief executive officer of the Company. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

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

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation

(a) Compliance with Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Companies Ordinance (“HKCO”)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and include applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and HKCO.

(b) Going concern assessment

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1 July 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 Insurance Contracts and February 2022 Amendments to HKFRS 17)	
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.1 Basis of preparation (Continued)

(c) New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

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

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies set out in Note 2 to the consolidated financial statements. In accordance with the guidance set out in the amendments, accounting policy information that is standardised information, or information that only duplicates or summarises the requirements of the HKFRSs, is considered immaterial accounting policy information and is no longer disclosed in the notes to the consolidated financial statements so as not to obscure the material accounting policy information disclosed in the notes to the consolidated financial statements.

(d) Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³
HKFRS 18	Presentation and Disclosure in Financial Statements ⁴

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

⁴ Effective for annual periods beginning on or after 1 January 2027.

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 18 Presentation and Disclosures in Financial Statements

HKFRS 18 sets out requirements on presentation and disclosures in financial statements and it will replace HKAS 1 Presentation of Financial Statements. The new HKFRS 18 introduces new requirements to present specified categories and defined subtotals in the consolidated statement of profit or loss and other comprehensive income; provide disclosures on management-defined performance measures in the notes to the consolidated financial statements and improve aggregation and disaggregation of information to be disclosed in the consolidated financial statements. Minor amendments to HKAS 7 Statement of Cash Flows and HKAS 33 Earnings per Share are also made. HKFRS 18 will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. The application of the new standard is not expected to have material impact on the financial position of the Group but is expected to affect the presentation of the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows and disclosures in the future consolidated financial statements. The Group will continue to assess the impact of HKFRS 18 on the Group's consolidated financial statements.

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.

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 the financial performance of the operating segments, has been identified as the Board that makes strategic decisions.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(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 Company's functional currency is Hong Kong Dollar ("HK\$"). The consolidated financial statements are presented in RMB, which is also the functional currency of the Company's major operating subsidiaries.

(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.

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within finance costs, 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 financial position presented are translated at the closing rate at the date of that financial position;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(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

Property, plant and equipment include buildings, machinery and vehicles and 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(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, 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(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 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.9 Impairment of non-financial assets

Goodwill 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) and Group of CGUs that have synergy effect since the acquisition. 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 its financial assets in the following measurement categories:

- (i) those to be measured subsequently at fair value (either through other comprehensive income ("TOCI") 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 TOCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at financial assets at FVTOCI.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(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 ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL 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, 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, 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) **Financial assets at FVTOCI:** 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 FVTOCI. Movements in the carrying amount are taken through TOCI, 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 TOCI is reclassified from equity to profit or loss and recognised in other income and gains, net. Interest income from these financial assets is included in other income and gains, net using the effective interest rate method. Foreign exchange gains and losses are presented in other income and gains, net and impairment expenses are presented as separate line item in the consolidated statement of profit or loss.
- (iii) **Financial assets at FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other income and gains, net in the period in which it arises.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Financial assets *(Continued)*

2.10.3 Measurement *(Continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in TOCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments.

Changes in the fair value of financial assets carried at FVTPL are recognised in "other income and gains, net" in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

2.10.4 Impairment

The Group assesses on a forward looking basis the expected credit loss ("ECL") associated with its debt instruments carried at amortised cost and FVTOCI. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

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. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

2.12 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Other receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. See Note 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 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

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.

2.16 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 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.18 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.19 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 the 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 11. 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.

2.20 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 employee benefits expense with a corresponding increase in equity. 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 hold shares for a specific period of time).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.20 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.

2.21 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 management's best estimate of the expenditures expected to be required to settle the present 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.22 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 other 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 other 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 other income in the consolidated statement of profit or loss.

2.23 Revenue recognition

(a) Sale of goods — industrial products (automation systems and headboxes)

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.

The Group provides installation services for the sale of industrial products. 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 automation systems and headboxes 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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.23 Revenue recognition *(Continued)*

(c) Provision of wastewater treatment solution

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 provision of wastewater treatment solution is 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) Supporting services

Revenue from supporting services (including after-sales and machine running services, warehouse and logistic services, supply chain services and renovation services) is recognised in the accounting period in which the services are rendered.

Revenue from rental income is 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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.23 Revenue recognition *(Continued)*

(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.

2.24 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).

2.25 Leases

As lessee

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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

2 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.25 Leases *(Continued)*

As lessee *(Continued)*

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 interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee 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.

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 following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all 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 without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

As lessor

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 15). 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 consolidated statement of financial position based on their nature.

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 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 recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB, except that certain trade receivables, contract assets, trade payables and bank deposits are denominated in United States Dollar ("USD") and Hong Kong Dollar ("HKD") which are exposed to foreign currency translation risk. If the USD had strengthened/weakened by 5% against the RMB while all other variables had been held constant, the Group's net result for the year ended 30 June 2024 would have been RMB431,540 better/worse (2023: RMB1,155,611), for various financial assets and liabilities denominated in USD. If the HKD had strengthened/weakened by 5% against the RMB while all other variables had been held constant, the Group's net result for the year ended 30 June 2024 would have been approximately RMB1,148,746 better/worse (2023: RMB238,728), for various financial assets and liabilities denominated in HKD.

(ii) Cash flow and fair value interest rate risk

The Group's operating 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 2024 and 2023, the Group has no interest-bearing loans with floating rate.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk arises from cash and cash equivalents, pledged deposits, restricted deposits, bank fixed deposits, financial assets at FVTOCI, 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, restricted deposits, bank fixed deposits and financial assets at FVTOCI, 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

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

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 ECL, 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 on trade receivables are based on the payment profiles of sales over a period of 36 months before 30 June 2024 or 2023 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 consumer price index and industrial added value 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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 2024 and 2023 was determined as follows for trade receivables and contract assets:

	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							
As at 30 June 2024							
Gross amount (RMB)	44,241,275	21,752,760	4,883,151	29,891,130	3,970,794	173,561,463	278,300,573
Expected loss rate	6%	12%	11%	22%	67%	97%	
Loss allowance (RMB)	2,548,262	2,676,717	554,239	6,566,286	2,649,882	168,372,122	183,367,508
Net carrying amount (RMB)	41,693,013	19,076,043	4,328,912	23,324,844	1,320,912	5,189,341	94,933,065
Contract asset							
As at 30 June 2024							
Gross amount (RMB)	45,301,001	12,580,251	1,283,400	4,862,150	2,195,989	14,137,261	80,360,052
Expected loss rate	6%	11%	15%	11%	47%	51%	
Loss allowance (RMB)	2,866,011	1,423,224	187,323	550,072	1,039,862	7,230,485	13,296,977
Net carrying amount (RMB)	42,434,990	11,157,027	1,096,077	4,312,078	1,156,127	6,906,776	67,063,075
Trade receivables							
As at 30 June 2023							
Gross amount (RMB)	71,164,945	14,684,581	9,820,666	6,428,233	17,267,073	173,405,452	292,770,950
Expected loss rate	6%	23%	22%	25%	44%	93%	
Loss allowance (RMB)	4,084,329	3,432,314	2,191,264	1,636,320	7,620,794	160,601,772	179,566,793
Net carrying amount (RMB)	67,080,616	11,252,267	7,629,402	4,791,913	9,646,279	12,803,680	113,204,157
Contract asset							
As at 30 June 2023							
Gross amount (RMB)	79,519,061	12,449,089	746,765	3,190,374	4,570,573	15,919,670	116,395,532
Expected loss rate	2%	24%	17%	17%	44%	43%	
Loss allowance (RMB)	1,628,107	2,931,875	130,608	552,481	2,015,216	6,894,133	14,152,420
Net carrying amount (RMB)	77,890,954	9,517,214	616,157	2,637,893	2,555,357	9,025,537	102,243,112

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

As at 30 June 2024	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000
Financial assets at amortised costs				
Cash and cash equivalent	21	N/A	12-month ECL	96,450,667
Pledged deposits	21	N/A	12-month ECL	28,647,539
Restricted deposits	21	N/A	12-month ECL	37,599,411
Bank fixed deposits	21	N/A	12-month ECL	60,012,000
Trade receivables	20(i)	(note i)	Lifetime ECL	108,740,140
		(note iii)	Lifetime ECL	169,560,433
Other receivables	20(i)	(note ii)	12-month ECL	34,196,439
		(note iii)	Lifetime ECL	183,658,576
Contract assets	20(ii)	(note i)	Lifetime ECL	80,360,052
Financial asset at FVTOCI	20(iv)	N/A	12-month ECL	52,115,288
As at 30 June 2023				
	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000
Financial assets at amortised costs				
Cash and cash equivalent	21	N/A	12-month ECL	43,983,025
Pledged deposits	21	N/A	12-month ECL	63,050,840
Restricted deposits	21	N/A	12-month ECL	38,523,211
Trade receivables	20(i)	(note i)	Lifetime ECL	158,248,433
		(note iii)	Lifetime ECL	134,522,517
Other receivables	20(i)	(note ii)	12-month ECL	26,782,865
		(note iii)	Lifetime ECL	177,712,503
Contract assets	20(ii)	(note i)	Lifetime ECL	116,395,532
Financial asset at FVTOCI	20(iv)	N/A	12-month ECL	33,342,049

Notes:

- (i) For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group assessed these balances are not credit-impaired.
- (ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 30 June 2024 and 2023, these balances are either not past due or do not have fixed repayment. The Group assessed these balances are not credit impaired.
- (iii) The Group assessed that there is evidence indicating these balances are credit-impaired.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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 2024	Less than 1 year RMB	Between 1 and 2 years RMB	Between 2 and 5 years RMB	Total RMB
Trade and other payables	300,081,917	–	–	300,081,917
Interest-bearing loans	74,527,864	–	–	74,527,864
Lease liabilities	1,800,777	1,485,708	225,000	3,511,485
	376,410,558	1,485,708	225,000	378,121,266
As at 30 June 2023	Less than 1 year RMB	Between 1 and 2 years RMB	Between 2 and 5 years RMB	Total RMB
Trade and other payables	390,255,878	–	–	390,255,878
Interest-bearing loans	71,019,227	–	–	71,019,227
Lease liabilities	3,231,946	1,800,777	1,710,708	6,743,431
	464,507,051	1,800,777	1,710,708	468,018,536

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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 the 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, lease liabilities and interest-free loan from independent third 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 2024 and 2023 were as follows:

	2024 RMB	2023 RMB
Total debt	89,684,955	88,216,309
Total equity	424,877,436	351,600,246
Total capital	514,562,391	439,816,555
Gearing ratio	17%	20%

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2024 and 2023.

At 30 June 2024	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Assets				
Financial assets at FVTOCI:				
— Bills receivables	–	52,115,288	–	52,115,288
Financial assets at FVTPL:				
— Investments in futures	246,314	–	–	246,314
<hr/>				
At 30 June 2023	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Assets				
Financial assets at FVTOCI:				
— Bills receivables	–	33,342,049	–	33,342,049
Financial assets at FVTPL:				
— Unlisted equity investments	–	–	6,196,647	6,196,647

(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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(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 financial assets at FVTOCI are bills receivable, which the fair value is approximate to their carrying amount due to short term maturities of the instruments.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Company uses valuation techniques to determine the fair values of financial instruments except as detailed above, including the latest quote price, Monte Carlo Simulation and etc. The fair values of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore have been classified by the Group as level 3.

(d) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 30 June 2024 and 2023:

	Financial assets at FVTPL Unlisted equity investments RMB
Balance at 1 July 2022	4,807,255
Gain recognised in profit or loss	1,389,392
<hr/>	
Balance at 30 June 2023	6,196,647
Disposed of during the year	(6,196,647)
<hr/>	
Balance at 30 June 2024	–

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(e) Valuation inputs and relationships to fair value

Financial instruments	Fair value hierarchy	Valuation Techniques and key inputs	Significant Unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at FVTPL: — Unlisted equity investments	Level 3	Monte Carlo Simulation, discount rate (2024: N/A)	Revenue growth rate: 20.9% Profit margin: 16.48% Discount rate: 9.94%	The earlier the exit date, the lower the fair value; the higher the probability, the higher the fair value and the higher the performance threshold, the higher the fair value

At 30 June 2023, an increase in the expected performance threshold which is based on the profit after interest and tax of the investee company used in isolation would result in an increase in the fair value measurement of the redemption of the unlisted equity investment and vice versa. As a result of the volatile financial market in 2023, the management used the sensitivity rate 15% for the purpose of performing the sensitivity analysis. A 5% increase in performance threshold holding all other variables constant would increase the carrying amount of the investment by RMB714,998.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. There were no transfers between level 1, level 2 and level 3 fair value hierarchy during the year ended 30 June 2024 and 2023.

The carrying amounts of the Group's other financial assets (including trade and other receivables, bank fixed deposits, pledged deposits, restricted deposits and cash and cash equivalents) and financial liabilities (including trade and other payables and interest-bearing loans) approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 judgment in applying the Group's accounting policies.

Estimates and judgments 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 ECL 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 judgments 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. As at 30 June 2024 and 2023, the recoverable amount of the CGU containing the goodwill was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

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

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

(c) Impairment of property, plant and equipment, prepaid land lease payments and investment properties

In considering the impairment losses that may be required for the property, plant and equipment, prepaid land lease payments and investment properties of the Group, their recoverable amounts need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgment. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.2 Critical accounting judgments

Revenue recognition

For the revenue from project contracting services recognised on over time basis, 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 judgments 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 and operating segments as follows:

Industrial products — sales and manufacturing of industrial automation systems and headboxes;

Project contracting services — provision of design, procurement of parts, installation and project management services of production line in paper production factories;

Environmental products — provision of total wastewater treatment solution to customers including sales of sludge treatment products; and

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION (Continued)

The segment results for the year ended 30 June 2024:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers within the scope of HKFRS 15					
Sales of industrial products	288,329,929	–	–	–	288,329,929
Provision of project contracting services	–	102,612,145	–	–	102,612,145
Provision of after sales and machine running services	–	–	–	45,199,207	45,199,207
Provision of sludge treatment products	–	–	5,635,900	–	5,635,900
Revenue from other sources					
Rental income from investment properties	–	–	–	6,267,596	6,267,596
Total segment revenue	288,329,929	102,612,145	5,635,900	51,466,803	448,044,777
Timing of revenue recognition					
At a point in time	288,329,929	–	–	45,199,207	333,529,136
Over time	–	102,612,145	5,635,900	6,267,596	114,515,641
Total segment revenue	288,329,929	102,612,145	5,635,900	51,466,803	448,044,777
Segment cost of sales	(237,962,273)	(87,268,183)	(2,559,662)	(40,534,951)	(368,325,069)
Segment gross profit	50,367,656	15,343,962	3,076,238	10,931,852	79,719,708
Segment results	9,592,891	(1,276,164)	758,424	(11,324,916)	(2,249,765)
Common administrative expenses					(35,750,595)
Other income and gains, net					19,771,719
Finance costs, net (Note 8)					(1,115,883)
Loss before income tax					(19,344,524)
Income tax credit					747,255
Loss for the year					(18,597,269)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2024: *(Continued)*

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	78,736	–	–	776,262	–	854,998
Depreciation of property, plant and equipment	1,320,885	22,068	953,676	4,113,911	–	6,410,540
Depreciation of other right-of-use assets	–	–	–	–	2,877,196	2,877,196
Depreciation of investment properties	–	–	–	5,143,314	310,741	5,454,055
Loss on disposal and write off of property, plant and equipment	8,427	20	9,212	2,149,330	–	2,166,989
Net impairment loss on financial and contract assets	5,534,623	1,850,895	(433,713)	1,185,391	–	8,137,196
Amortisation of prepaid land lease payments	106,387	–	141,153	1,336,419	127,291	1,711,250
Amortisation of other intangible assets	2,517,799	–	–	10,728	–	2,528,527
Allowance for inventories	1,513,142	898,012	–	395,562	–	2,806,716
Fair value loss on investments in futures at FVTPL	–	–	–	–	72,416	72,416
Gain on disposal of investments in futures at FVTPL	–	–	–	–	1,325,431	1,325,431
Loss on disposal of equity investment at FVTPL	–	–	–	–	1,196,647	1,196,647
Forfeit of contract liabilities	(1,458,662)	(865,679)	–	(381,320)	–	(2,705,661)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2023:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Total RMB
Segment revenue from external customers within the scope of HKFRS 15					
Sales of industrial products	289,550,869	–	–	–	289,550,869
Provision of project contracting services	–	178,454,466	–	–	178,454,466
Provision of after sales and machine running services	–	–	–	43,995,278	43,995,278
Provision of sludge treatment products	–	–	10,110,117	–	10,110,117
Revenue from other sources					
Rental income from investment properties	–	–	–	6,810,284	6,810,284
Total segment revenue	289,550,869	178,454,466	10,110,117	50,805,562	528,921,014
Timing of revenue recognition					
At a point in time	289,550,869	–	9,889,352	43,995,278	343,435,499
Over time	–	178,454,466	220,765	6,810,284	185,485,515
Total segment revenue	289,550,869	178,454,466	10,110,117	50,805,562	528,921,014
Segment cost of sales	(230,742,366)	(169,494,292)	(7,339,609)	(38,181,137)	(445,757,404)
Segment gross profit	58,808,503	8,960,174	2,770,508	12,624,425	83,163,610
Segment results	14,542,797	(15,788,184)	(5,096,411)	(15,372,504)	(21,714,302)
Common administrative expenses					(41,127,308)
Other income and gains, net (Note 6)					13,161,604
Finance costs, net (Note 8)					(1,872,159)
Loss before income tax					(51,552,165)
Income tax expense					(1,278,895)
Loss for the year					(52,831,060)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 30 June 2023: *(Continued)*

Other segment information:

	Industrial products RMB	Project contracting services RMB	Environmental products RMB	Supporting services RMB	Unallocated RMB	Total RMB
Capital expenditure	86,011	–	–	1,044,295	–	1,130,306
Depreciation of property, plant and equipment	1,367,636	22,901	954,620	4,322,974	–	6,668,131
Depreciation of other right-of-use assets	–	–	–	–	2,689,433	2,689,433
Depreciation of investment properties	–	–	–	5,643,697	310,742	5,954,439
Loss on disposals of property, plant and equipment	607	–	–	–	–	607
Net impairment loss on financial and contract assets	9,850,448	926,855	2,355,059	3,234,057	–	16,366,419
Impairment loss on property, plant and equipment	–	–	–	2,859,484	–	2,859,484
Impairment loss on investment property	–	–	–	8,576,102	–	8,576,102
Amortisation of prepaid land lease payments	106,387	–	141,153	1,336,419	127,291	1,711,250
Amortisation of other intangible assets	2,618,484	–	–	10,728	–	2,629,212
Allowance for inventories	381,788	441,846	20,163	108,931	–	952,728

Notes:

There were no inter-segment sales during the years.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION (Continued)

Revenue from one (2023: two) customers, accounted for more than 10% of the Group's total revenue for the year, which are shown as follows:

	2024 RMB	2023 RMB
Customer A from project contracting services segment	65,313,695	N/A ¹
Customer B from project contracting services segment	N/A ¹	99,344,402
Customer C from industrial products segment	N/A ¹	53,539,823

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

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

	2024 RMB	2023 RMB
PRC	446,937,247	527,801,471
Others	1,107,530	1,119,543
	448,044,777	528,921,014

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION (Continued)

As at 30 June 2024 and 2023, all of the non-current assets of the Group were located in the People's Republic of China.

Segment assets	2024 RMB	2023 RMB
Industrial products	365,203,685	330,511,003
Project contracting services	143,770,517	210,461,872
Environmental products	9,885,299	34,041,858
Supporting services	231,892,533	240,119,390
Total segment assets	750,752,034	815,134,123
Unallocated:		
Cash and cash equivalents	96,450,667	43,983,025
Restricted deposits	37,599,411	38,523,211
Pledged deposits	28,647,539	63,050,840
Bank fixed deposits	60,012,000	–
Deferred tax assets	1,675,488	842,536
Other right-of-use assets	3,308,587	6,193,168
Investment properties	4,125,349	4,436,090
Financial assets at FVTPL	246,314	–
Prepayments — non-current portion (Note 20(iii))	130,602	143,662
Total assets	982,947,991	972,306,655
Segment liabilities	2024 RMB	2023 RMB
Industrial products	249,669,032	255,257,412
Project contracting services	119,920,227	151,668,186
Environmental products	9,258,555	19,566,425
Supporting services	91,195,875	103,260,486
Total segment liabilities	470,043,689	529,752,509
Unallocated:		
Deferred tax liabilities	3,991,199	4,779,177
Interest-bearing loans	73,367,184	68,990,000
Other payables	1,705,464	3,705,168
Income tax payable	5,726,048	7,334,046
Lease liabilities	3,236,971	6,145,509
Total liabilities	558,070,555	620,706,409

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION *(Continued)*

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

	2024 RMB	2023 RMB
Contract assets (Note 20(ii)) (i)(ii):		
Retention receivables	29,033,525	31,137,525
Contract assets relating to project contracting services	51,326,527	85,258,007
Less: provision for impairment of contract assets	(13,296,977)	(14,152,420)
	67,063,075	102,243,112
Contract liabilities (i) (iii):		
Contract liabilities relating to sales of goods for industrial products	126,621,439	93,511,162
Contract liabilities relating to project contracting services	26,258,297	29,553,137
	152,879,736	123,064,299

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional. The contract liabilities primarily relate to the advanced consideration received from customers.

(i) Significant changes in contract assets and liabilities

The decrease in contract assets was mainly due to some projects have reached for billing to recognise trade receivables. The increase in contract liabilities was mainly due to sign the new contracts during the year.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

5 SEGMENT INFORMATION *(Continued)*

(ii) Contract assets transferred to trade receivables

The following table shows how much the contract assets transferred to trade receivables in current reporting period relates to carried-forward contract assets:

	2024 RMB	2023 RMB
Transferred to trade receivables that was included in contract assets balance at the beginning of the period	47,901,829	9,894,053

(iii) 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:

	2024 RMB	2023 RMB
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	73,488,926	81,213,540

The transaction price allocated to the remaining performance obligations of sales of certain goods and project contracting services contracts (unsatisfied or partially unsatisfied) and the expected timing of recognised revenue are as follows:

	2024 RMB	2023 RMB
Within one year	271,408,828	360,723,024
More than one year	129,888,858	89,155,433
	401,297,686	449,878,457

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

6 OTHER INCOME AND GAINS, NET

	2024 RMB	2023 RMB
Interest income recognised from project contracting services	232,221	1,698,856
Government grants (note i)	2,508,665	8,480,808
Tax refund	–	1,389,210
Rental income from property, plant and equipment	1,027,155	830,947
Fair value gain on equity investments at FVTPL	–	1,389,392
Fair value loss on investments in futures at FVTPL	(72,416)	–
Gain on disposal of investments in futures at FVTPL	1,325,431	–
Loss on disposal of equity investments at FVTPL	(1,196,647)	–
Over provision/(provision) for claims, net (note ii)	16,609,004	(3,151,894)
Loss on disposal and write off of property, plant and equipment	(2,166,989)	–
Forfeit of contract liabilities (note iii)	2,705,661	–
Write back of trade and other payables	–	2,168,183
Others	597,682	356,102
	21,569,767	13,161,604

Notes:

- (i) During the year ended 30 June 2023, the Group recognised government grants amounted RMB135,746 in respect of COVID-19-related subsidies which were granted to the Group under the Employment Support Scheme provided by the Hong Kong government. The remaining grants mainly related to subsidies granted to certain subsidiaries in respect of their operations in the PRC from governments bodies which are either unconditional grants or grants with conditions having been satisfied. During the year ended 30 June 2024, all grants mainly related to subsidies granted to certain subsidiaries in respect of their operations in the PRC from government bodies which are either unconditional grants or grants with conditions having been satisfied.
- (ii) As disclosed in note 35 to the consolidated financial statements, Zhejiang Huazhang received a judgment from the courts dated 28 June 2024 for the retrial of the first instance case. The judgment awarded claims amounting to approximately RMB32,994,295 to be paid by Zhejiang Huazhang to the plaintiff. Based on this judgment, an overprovision of RMB16,844,650 was derecognised during the year ended 30 June 2024.
- (iii) During the year, certain customers cancelled contracts and the related deposits received totalling RMB2,705,661 were forfeited and recognised as other income (2023: nil).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

7 NET IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	2024 RMB	2023 RMB
Reversal of/(recognition of) expected credit losses on:		
— trade receivables	(3,800,715)	(4,881,155)
— other receivables	(5,191,924)	(1,210,537)
— contract assets	855,443	(10,274,727)
	(8,137,196)	(16,366,419)

8 FINANCE COSTS, NET

	2024 RMB	2023 RMB
Finance income		
— Interest income	2,943,254	3,903,230
— Net foreign exchange gain	—	2,710,275
	2,943,254	6,613,505
Finance costs		
— Net foreign exchange loss	(438,462)	—
— Interest on bank overdraft	(7,104)	—
— Interest on other payables	—	(4,257,710)
— Interest on loans	(3,280,568)	(3,859,370)
— Interest paid/payable for lease liabilities	(333,003)	(368,584)
	(4,059,137)	(8,485,664)
Finance costs, net	(1,115,883)	(1,872,159)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

9 LOSS BEFORE INCOME TAX

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

	2024 RMB	2023 RMB
Allowance for inventories	2,806,716	952,728
Amortisation of prepaid land lease payments	1,711,250	1,711,250
Amortisation of other intangible asset	2,528,527	2,629,212
Auditor's remuneration	2,168,880	2,427,483
Cost of inventories		
— Sales of goods for industrial products	261,874,531	262,471,021
— Project contracting services	89,043,514	170,622,756
	350,918,045	433,093,777
Depreciation of property, plant and equipment included in:		
— Cost of sales	2,777,306	155,798
— Administrative expenses	3,432,137	6,344,401
— Selling and distribution expenses	98,276	24,663
— Research and development expenses	102,821	143,269
	6,410,540	6,668,131
Depreciation of other right-of-use assets included in:		
— Administrative expenses	2,877,196	2,689,433
Depreciation of investment properties included in:		
— Cost of sales	5,143,316	5,643,698
— Administrative expenses	310,739	310,741
	5,454,055	5,954,439
Employment benefit expenses included in:		
— Cost of sales	4,401,864	3,618,277
— Administrative expenses	32,763,580	38,224,988
— Selling and distribution expenses	3,747,945	6,972,095
— Research and development expenses	21,614,315	23,820,979
	62,527,704	72,636,339
Expense relating to short-term leases	133,257	734,583
Legal and professional fees	9,460,592	16,464,404
Loss on disposals of property, plant and equipment included in:		
— Administrative expenses	—	607

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

10 INCOME TAX (CREDIT)/EXPENSE

	2024 RMB	2023 RMB
PRC enterprise income tax (ii)		
Current income tax	604,734	1,625,776
Underprovision in prior year	268,941	–
Deferred income tax (Note 24)	(1,620,930)	(346,881)
	(747,255)	1,278,895

(i) Cayman Islands profits tax

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

(ii) PRC enterprise income tax (“EIT”)

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

The applicable EIT rate of Zhejiang Huazhang Technology Limited (“Zhejiang Huazhang”) is 25% according to the EIT Law. Under the relevant regulations of the EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar year of 2020 with a validation period of three years and extended in December 2023 for a further three years. The applicable EIT rate of Zhejiang Huazhang is 15% from December 2023 till November 2026 (2023: December 2020 to November 2023). Thus the applicable income tax rate for Zhejiang Huazhang was 15% (2023: 15%) for the year ended 30 June 2024.

The applicable EIT rate of Hangzhou Haorong Technology Co., Ltd (“Haorong”) is 25% according to the EIT Law. Under the relevant regulations of the EIT Law, Haorong had the qualification of Small and micro-profit enterprises in the 2024 and 2023, which is effective from 2023 to 2027. The applicable EIT rate of Haorong is 5% (2023: 25%). Thus the applicable income tax rate for Haorong was 5% (2023: 25%) for the year ended 30 June 2024.

(iii) Hong Kong profits tax

Under the two-tiered profits tax regime, Hong Kong profits tax is chargeable at the rate of 8.25% on assessable profits up to HK\$2,000,000 and at the rate of 16.5% on any part of assessable profits over HK\$2,000,000 for a corporation. No Hong Kong profits tax was provided as there was no estimated assessable profits for the year (2023: nil).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

10 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

(iv) Tax reconciliation

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

	2024 RMB	2023 RMB
Loss before income tax	(19,344,524)	(51,552,165)
Tax calculated at the statutory tax rate of 25%	(4,836,131)	(12,888,041)
Tax effects of:		
Different tax rate effects	137,546	1,712,295
Income not subject to tax	(24,017)	(380,683)
Expenses not deductible for income tax purpose	1,480,790	4,741,704
Research and development tax credit	(6,420,142)	(7,142,958)
Tax losses and temporary differences for which no deferred tax asset was recognised	8,645,758	15,161,403
Reversal of previously recognised deferred tax assets	–	45,024
Underprovision in prior year	268,941	–
Adjustments for current tax of prior years	–	30,151
Income tax (credit)/expense for the year	(747,255)	1,278,895

11 EMPLOYEE BENEFIT EXPENSES

	2024 RMB	2023 RMB
Employee benefit expenses (including directors' emoluments)		
Wages and salaries	42,173,950	45,739,556
Bonuses	7,460,116	12,512,249
Social security costs	5,383,966	4,830,906
Pension costs — defined contribution plans (Notes i and ii)	4,066,124	3,484,338
Share options (Note 27)	1,553,213	3,718,575
Other benefits	1,890,335	2,350,715
	62,527,704	72,636,339

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

11 EMPLOYEE BENEFIT EXPENSES (Continued)

(i) Hong Kong

Subsidiaries in Hong Kong operate the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Group contributes 5% (2023: 5%) of relevant payroll costs, capped at HK\$1,500 (2023: HK\$1,500) per month, to the MPF Scheme, in which the contribution is matched by employees. The assets of the MPF Scheme are held separately from those of the subsidiaries in an independent administered fund. The subsidiaries' employer contributions vest fully with the employees when contributed into the MPF Scheme. During the year ended 30 June 2024, a total contribution of RMB191,272 (2023: RMB129,137) was made by the Group in respect of this scheme.

There was no forfeited contribution during the years ended 30 June 2024 and 2023.

(ii) The PRC, other than Hong Kong

The employees of the Group who work in the PRC are required to participate in pension schemes operated by the local governments. The Group is required to contribute certain percentage of their payroll costs to the schemes. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the pension schemes. During the year ended 30 June 2024, a total contribution of RMB3,874,852 (2023: RMB3,355,201) was made by the Group in respect of this scheme.

There was no forfeited contribution during the years ended 30 June 2024 and 2023.

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 30 June 2024 include one (2023: no) director whose emoluments are reflected in the analysis shown in Note 34. The emoluments payable to the remaining four (2023: five) individuals for the year ended 30 June 2024 are as follows:

	2024 RMB	2023 RMB
Salaries, allowances and benefits in kind	2,316,744	1,162,157
Bonuses	1,686,000	6,407,288
Share options	112,027	133,946
Pension cost-defined contribution plans	437,934	335,419
	4,552,705	8,038,810

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

11 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Five highest paid individuals *(Continued)*

The emoluments fell within the following bands:

	2024	2023
Emolument bands		
HK\$1,000,000 to HK\$1,500,000 (equivalent to approximately RMB922,460 to RMB1,383,688)	4	–
HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately RMB1,383,689 to RMB1,844,917)	–	3
HK\$2,000,001 to HK\$2,500,000 (equivalent to approximately RMB1,844,918 to RMB2,306,146)	–	2

12 LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year attributable to the shareholders of the Company and the weighted average number of ordinary shares of 1,170,498,316 (2023: 1,162,897,677 (restated)) which represents the shares in issue during the year.

The Company has one (2023: one) category of potentially dilutive potential ordinary shares: share options (2023: share options). The diluted loss per share is same as the basic loss per share as these potential ordinary shares have anti-dilutive effect for the years ended 30 June 2024 and 2023.

	2024 RMB	2023 RMB (Restated)
Basic and diluted Loss		
Loss attributable to the shareholders of the Company	(18,729,124)	(51,248,791)
Number of shares		
Weighted average number of ordinary shares in issue during the year	1,170,498,316	1,162,897,677
Basic and diluted loss per share (RMB cents)	(1.60)	(4.41)

Note: The weighted average number of ordinary shares for the years ended 30 June 2024 and 2023 have been adjusted for the bonus element of the open offer of the Company's share in 2024.

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For the year ended 30 June 2024

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB	Machinery and vehicles RMB	Furniture, fittings and equipment RMB	Total RMB
Cost				
As at 1 July 2022	91,397,580	24,562,579	6,159,968	122,120,127
Additions	–	682,142	421,909	1,104,051
Disposals	–	–	(12,125)	(12,125)
Exchange difference	145,166	41,781	63,751	250,698
As at 30 June 2023	91,542,746	25,286,502	6,633,503	123,462,751
Additions	–	28,319	497,645	525,964
Write off	–	(7,203,265)	(43,998)	(7,247,263)
Disposals	–	(417,035)	–	(417,035)
Exchange difference	6,918	25,008	(19,978)	11,948
As at 30 June 2024	91,549,664	17,719,529	7,067,172	116,336,365
Accumulated depreciation				
As at 1 July 2022	(31,290,725)	(13,890,637)	(4,274,836)	(49,456,198)
Charge for the year	(4,415,229)	(1,621,381)	(631,521)	(6,668,131)
Disposals	–	–	11,518	11,518
Exchange difference	(33,236)	(11,783)	(7,276)	(52,295)
As at 30 June 2023	(35,739,190)	(15,523,801)	(4,902,115)	(56,165,106)
Charge for the year	(4,319,162)	(1,594,235)	(497,143)	(6,410,540)
Write off	–	3,842,506	40,488	3,882,994
Disposals	–	383,121	–	383,121
Exchange difference	(5,654)	(24,103)	20,238	(9,519)
As at 30 June 2024	(40,064,006)	(12,916,512)	(5,338,532)	(58,319,050)
Impairment				
As at 1 July 2022	–	(1,888,404)	(1,596)	(1,890,000)
Recognised for the year	(2,859,484)	–	–	(2,859,484)
As at 30 June 2023	(2,859,484)	(1,888,404)	(1,596)	(4,749,484)
Write off	–	1,212,663	–	1,212,663
As at 30 June 2024	(2,859,484)	(675,741)	(1,596)	(3,536,821)
Net carrying amount				
As at 30 June 2024	48,626,174	4,127,276	1,727,044	54,480,494
As at 30 June 2023	52,944,072	7,874,297	1,729,792	62,548,161

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 30 June 2024, buildings with an aggregate carrying amount of RMB20,883,837 (2023: RMB39,176,777) were pledged as collateral for the Group's banking facilities (Note 23).

Impairment assessment

The Group carried out a review of the recoverable amounts of the property, plant and equipment belonging to the cash-generating unit of logistic and warehousing services in the supporting services segment was loss making for the years ended 30 June 2024 and 2023.

Non-current assets of the warehouse services and logistics CGU subject to impairment testing:

	2024 RMB	2023 RMB
Net carrying amounts:		
Property, plant and equipment	25,809,946	31,678,473
Investment properties (note 15)	73,956,684	79,100,000
Intangible assets — prepaid lease payments (note 16(i))	67,621,386	69,228,232
	167,388,016	180,006,705

The Group engaged an independent and qualified professional valuer, Vincorn Consulting and Appraisal Limited ("Vincorn"), to perform a valuation of the property, plant and equipment of the warehouse services and logistics segment using the market approach. Based on the valuation, the recoverable amount is higher than the carrying amount of property, plant and equipment. No impairment was recognised for the year ended 30 June 2024. There has been no change from the valuation technique used in the prior year.

For the year ended 30 June 2023, the pandemic of COVID-19 and the downturn of the economy in mainland China drive down the valuation of the buildings. Based on the impairment review, an impairment loss of RMB2,859,484 was recognised to write down the carrying amount of the building to its recoverable amount. The recoverable amount of the building as at 30 June 2023 was determined by Vincorn using market approach.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Impairment assessment *(Continued)*

Details of the Group's owned building in the PRC and information about which the fair value hierarchy – level 3 as at the end of the reporting period are as follows:

At 30 June 2024

Description	Carrying amount RMB	Fair value RMB	Valuation technique	Significant unobservable inputs	Range
Industrial building in the PRC	24,611,047	24,690,000	Market approach	Market price of properties	RMB2,200 of average per square meter

At 30 June 2023

Description	Carrying amount RMB	Fair value RMB	Valuation technique	Significant unobservable inputs	Range
Industrial building in the PRC	26,300,000	26,300,000	Market approach	Market price of properties	RMB2,400 of average per square meter

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

14 LEASES

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

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2024 RMB	2023 RMB
Right-of-use assets		
Properties	3,308,587	6,193,168
Prepaid land lease payments (Note 16(ii))	70,329,672	72,040,922
	73,638,259	78,234,090
Lease liabilities		
Within one year	1,611,570	2,908,538
Within a period of more than one year but not more than two years	1,407,009	1,611,571
Within a period of more than two years but not more than five years	218,392	1,625,400
	3,236,971	6,145,509
Less: Amount due for settlement within 12 months shown under current liabilities	(1,611,570)	(2,908,538)
Amount due for settlement after 12 months shown under non-current liabilities	1,625,401	3,236,971

The Group has entered into lease contracts for various items of properties used in its operations. Lump sum payments were made upfront to acquire land in the PRC with land use rights periods between 33 and 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 2 and 4 years (2023: between 2 and 4 years).

No additions to the right-of-use assets during the year ended 30 June 2024 (2023: RMB4,091,992).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

14 LEASES (Continued)

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

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

	2024 RMB	2023 RMB
Depreciation charge of right-of-use assets		
Properties	(2,877,196)	(2,689,433)
Prepaid land lease payments (Note 16(i))	(1,711,250)	(1,711,250)
	(4,588,446)	(4,400,683)
Interest expense (Note 8)	(333,003)	(368,584)
Expense relating to short-term leases (Note 9)	(133,257)	(734,583)

The total cash outflow (including short-term lease) for leases during the year ended 30 June 2024 was RMB3,690,533 (2023: RMB3,649,045).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

15 INVESTMENT PROPERTIES

	Properties RMB	Prepaid land lease payments RMB	Total RMB
Cost			
As at 1 July 2022, 30 June 2023 and 2024	121,166,480	3,700,043	124,866,523
Accumulated depreciation			
As at 1 July 2022	(25,655,957)	(1,143,937)	(26,799,894)
Charge for the year	(5,859,768)	(94,671)	(5,954,439)
As at 30 June 2023	(31,515,725)	(1,238,608)	(32,754,333)
Charge for the year	(5,359,384)	(94,671)	(5,454,055)
As at 30 June 2024	(36,875,109)	(1,333,279)	(38,208,388)
Impairment			
As at 1 July 2022	–	–	–
Charge for the year	(8,576,102)	–	(8,576,102)
As at 30 June 2023 and 2024	(8,576,102)	–	(8,576,102)
Net carrying amount			
As at 30 June 2024	75,715,269	2,366,764	78,082,033
As at 30 June 2023	81,074,653	2,461,435	83,536,088

Amount recognised in profit or loss for investment properties included:

	2024 RMB	2023 RMB
Rental income	6,398,769	6,810,284
Depreciation of investment properties	(5,454,055)	(5,954,439)
Impairment loss recognised	–	(8,576,102)
	944,714	(7,720,257)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

15 INVESTMENT PROPERTIES (Continued)

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's investment properties at the end of each reporting period. As at 30 June 2024, the fair value of the investment properties, together with their related prepaid land lease payments whose fair value amounted to RMB9,240,000 (2023: RMB9,600,000), was approximately RMB86,080,000 (2023: RMB91,700,000), determined based on the valuations performed by an independent and qualified valuer, Vincorn, who has recent experience in the valuation of the industrial complex and commercial units in China, using market approach. The significant unobservable input is the gross unit rate, the valuer considered the recent transaction prices for similar properties adjusted for nature, location, and conditions of the properties. A significant increase in the gross unit rate used would result in a significant increase in fair value, and vice versa. There has been no change from the valuation technique used in the prior year.

For the year ended 30 June 2023, due to the weak economy of mainland China, and as well as the slow recovery pace of the business environment, drive down the valuation of the property markets. Based on the impairment review, an impairment loss of RMB8,576,102 (2024: nil) was recognised to write down the carrying amount of the industrial complex to its recoverable amount determined based on its fair value for the year ended 30 June 2023.

As at 30 June 2024, investment properties with an aggregate carrying amount of RMB75,715,269 (2023: RMB81,074,653) were pledged as collateral for the Group's banking facilities (Note 23).

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Carrying amount 2024 RMB	Fair value at Level 3 hierarchy 2024 RMB	Carrying amount 2023 RMB	Fair value at Level 3 hierarchy 2023 RMB
Industrial complex in the Mainland China	73,956,684	73,810,000	79,100,000	79,100,000
Commercial unit in the Mainland China	4,125,349	12,080,000	4,436,088	12,600,000
	78,082,033	85,890,000	83,536,088	91,700,000

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

15 INVESTMENT PROPERTIES (Continued)

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

At 30 June 2024

Description	Carrying amount RMB	Fair value RMB	Valuation technique	Significant unobservable inputs	Range
Investment properties — Industrial complex in the Mainland China	73,956,684	73,810,000	Market approach	Market price of properties	RMB2,200 of average per square meter
Investment properties — Commercial unit in the Mainland China	4,125,349	12,080,000	Market approach	Market price of properties	RMB14,500 to RMB18,500 per square meter

At 30 June 2023

Description	Carrying amount RMB	Fair value RMB	Valuation technique	Significant unobservable inputs	Range
Investment properties — Industrial complex in the Mainland China	79,100,000	79,100,000	Market approach	Market price of properties	RMB2,400 of average per square meter
Investment properties — Commercial unit in the Mainland China	4,436,088	12,600,000	Market approach	Market price of properties	RMB15,600 to RMB18,500 per square meter

Notes to the Consolidated Financial Statements

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16 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

(i) Prepaid land lease payments

	RMB
Cost	
As at 1 July 2022 and 30 June 2023 and 2024	84,572,940
Accumulated amortisation	
As at 1 July 2022	(10,820,768)
Charge for the year	(1,711,250)
As at 30 June 2023	(12,532,018)
Charge for the year	(1,711,250)
As at 30 June 2024	(14,243,268)
Net carrying amount	
As at 30 June 2024	70,329,672
As at 30 June 2023	72,040,922

As at 30 June 2024, prepaid land lease payments with an aggregate carrying amount of RMB2,708,286 (2023: RMB70,717,130) were pledged as collateral for the Group's banking facilities (Note 23).

Impairment assessment

The Group tested the carrying amounts of the prepaid land lease payments for impairment as the logistics and warehousing services in the supporting services segment was loss making for the years ended 30 June 2024 and 2023.

The Group engaged an independent and qualified valuer, Vincorn, who has recent experience in the valuation of the industrial complex and commercial units in China to perform a valuation, using the market approach. The significant unobservable input is the gross unit rate, the valuer considered the recent transaction prices for similar properties adjusted for nature, location, and conditions of the properties. A significant increase in the gross unit rate used would result in a significant increase in fair value, and vice versa. There has been no change from the valuation technique used in the prior year. No impairment was recognised for the years ended 30 June 2024 and 2023.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

16 PREPAID LAND LEASE PAYMENTS AND OTHER INTANGIBLE ASSETS

(Continued)

(ii) Other intangible assets

	Patents RMB (Note)	Software RMB	Total RMB
Cost			
As at 1 July 2022	16,382,800	3,100,451	19,483,251
Additions	–	26,255	26,255
As at 30 June 2023	16,382,800	3,126,706	19,509,506
Additions	–	329,034	329,034
As at 30 June 2024	16,382,800	3,455,740	19,838,540
Accumulated amortisation			
As at 1 July 2022	(9,727,288)	(1,542,707)	(11,269,995)
Charge for the year	(2,047,850)	(581,362)	(2,629,212)
As at 30 June 2023	(11,775,138)	(2,124,069)	(13,899,207)
Charge for the year	(2,047,850)	(480,677)	(2,528,527)
As at 30 June 2024	(13,822,988)	(2,604,746)	(16,427,734)
Net carrying amount			
As at 30 June 2024	2,559,812	850,994	3,410,806
As at 30 June 2023	4,607,662	1,002,637	5,610,299

Note: The Group's patents relate to electric linear reciprocate device and rotary linear control valve and have a useful life of 8 years.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

17 GOODWILL

	Headbox business RMB	Logistics and warehousing services RMB	Others RMB	Total RMB
Net carrying amount as at 1 July 2022, 30 July 2023 and 2024	29,306,413	–	596,370	29,902,783

Goodwill of the Group mainly arose from the acquisition of Hangzhou Haorong Technology Co., Ltd (“Haorong”) and Hangzhou MCN Paper Tech Co., Ltd (“MCN”) (together, the “MCN Group”) in 2017 which represent the group of CGUs in the headbox business and Fu An 777 Logistics Limited (“777 Logistics”, together with its subsidiaries, collectively known as the “777 Logistics Group”) in 2017 which represent the CGU of logistics and warehousing services.

MCN

MCN is a company established under the laws of the PRC and principally engaged in the research, development and distribution of headbox. Since its establishment in 2001, MCN has developed various kinds of stainless headboxes including rectifier roll headbox, hydraulic headbox, turbulence channel headbox, inclined wire and cylinder former headbox and turbulent flow away headbox etc which were customised for its customers. It also provides equipment installation, operation instruction and consultation services for its customers. Customers of MCN are located across the PRC and are primarily engaged in paper manufacturing.

Haorong

Haorong is a company established under the laws of the PRC. Since its establishment in 2006, it has principally engaged in the business of research, development and distribution of headboxes. It has developed various kinds of high frequency shake, headbox control system, etc. and provided equipment installation, operation instruction and consultation services in accordance with the specifications and requirements provided by its customers, which are primarily engaged in paper manufacturing in the PRC. Haorong was regarded as a “High-tech Enterprise in Hangzhou City” (杭州市高新技術企業) and a “Medium and Small Technology Enterprise in Zhejiang Province” (浙江省科技型中小企業).

Goodwill is allocated to the group of CGUs 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 testing purposes.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

17 GOODWILL (Continued)

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

	Headbox business	
	2024	2023
Sales (% annual growth rate)	2.0%	2.2%
Budgeted gross margin (%)	19.6%	19.6%
Long term growth rate (%)	2.0%	2.2%
Pre-tax discount rate (%)	16.74%	20.1%

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

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

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

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

For the years ended 30 June 2024 and 2023, based on the valuation report prepared by an independent professional valuer, Vincorn Consulting and Appraisal Limited ("Vincorn"), the recoverable amount of the headbox business CGU, determined based on value-in-use, exceeded its carrying amount, no impairment charge arose in the aforesaid CGUs. The management of the Group believes that any reasonably possible change in any of the aforementioned key assumptions would not cause the carrying amount of headbox business CGU to exceed its recoverable amount.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVTPL

The Group classifies equity investments for which the entity has not elected to recognise fair value gains and losses in OCI as financial assets carried at FVTPL:

	2024 RMB	2023 RMB
Non-current assets		
— Unlisted equity investments	—	6,196,647
Current assets		
— Investments in futures	246,314	—

(ii) Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss:

	2024 RMB	2023 RMB
Fair value loss on investments in futures at FVTPL	(72,416)	—
Fair value gain on equity investments at FVTPL recognised in other income and gains, net (note 6)	—	1,389,392
Loss on disposal of equity investment at FVTPL	(1,196,647)	—
Gain on disposal of investments in futures	1,325,431	—

(iii) Risk exposure and fair value measurements

Information about the fair value measurement is set out in note 3.3.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

19 INVENTORIES

	2024 RMB	2023 RMB
Raw materials	122,806,452	63,560,219
Work in progress	59,605,548	18,964,813
Finished goods	21,724,456	96,402,431
	204,136,456	178,927,463
Less: provision	(28,086,499)	(25,279,783)
	176,049,957	153,647,680

As at 30 June 2024, raw materials and finished goods with aggregate cost of RMB26,248,378 and RMB13,451,387 respectively were considered as obsolete (2023: RMB18,236,661 and RMB12,144,460 respectively) and a provision of RMB14,674,212 and RMB13,412,287 respectively (2023: RMB13,135,323 and RMB12,144,460 respectively) to write down their carrying amount to their net realisable value was made against those inventories.

Notes to the Consolidated Financial Statements

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20 TRADE AND OTHER RECEIVABLES, CONTRACT ASSETS AND PREPAYMENTS

(i) Trade and other receivables

	2024 RMB	2023 RMB
Trade receivables	278,300,573	292,770,950
Less: provision for impairment of trade receivables (c)	(183,367,508)	(179,566,793)
Trade receivables — net (a) & (b)	94,933,065	113,204,157
Bills receivables	36,158,340	39,906,657
	131,091,405	153,110,814
Consideration receivable for sale of equity investment at FVTPL	4,774,614	—
Deductible input value added tax	913,438	28,983
Loan to a customer	703,948	3,601,624
Other receivables — guarantee	1,220,243	188,300
Others (note a)	22,734,885	18,360,496
Other receivables	30,347,128	22,179,403
Total trade and other receivables	161,438,533	175,290,217
Less: trade and other receivables — non-current portion (note b)	(4,177,784)	—
	157,260,749	175,290,217

Notes:

- (a) As at 30 June 2024, included in others are the gross carrying amounts of RMB49,103,484 (2023: RMB49,103,484), RMB39,541,029 (2023: RMB39,541,029) and RMB6,999,500 (2023: RMB6,999,500) due from the abnormal transactions and balance of the Tongxiang Yuxin Electric Co., Ltd. ("Yuxin Electric"), Tongxiang Jiafu Papermaking Equipment Co., Ltd. ("Jiafu Paper") and Zhejiang Hua Zhang Fibertech Co., Ltd. ("Fibertech") related to the subject transactions which were all owned and connected to Mr. Zhu Gen Rong, a former chairman, executive director and substantial shareholder of the Company and the detail is reported to announcement on 26 October 2022, and provision for impairment of RMB49,103,484 (2023: RMB49,103,484), RMB39,541,029 (2023: RMB39,541,029), and RMB6,999,500 (2023: RMB6,999,500) respectively.

At 30 June 2024, the net carrying amount of others of RMB22,734,885 (2023: RMB18,360,496) included gross carrying amount of RMB10,000,000 (2023: nil) with a provision for impairment of RMB2,492 (2023: nil) in relation to a tender deposit for the investment in a distressed company, gross carrying amount of RMB12,794,746 (2023: RMB15,794,746) with a provision for impairment of RMB6,361,543 (2023: RMB408,541) in relation to performance deposits for contracts and remaining gross carrying amount of RMB9,272,674 (2023: RMB6,731,445) with a provision for impairment of RMB2,968,500 (2023: RMB3,757,154) due from several other independent third parties.

- (b) As at 30 June 2024, the consideration receivable for the sale of equity investment at FVTPL to the majoring shareholder of the investee is unsecured, interest-free. It includes a gross carrying amount of RMB600,000 (with a provision for impairment of RMB3,170) receivable within one year, and a remaining gross carrying amount of RMB4,200,000 (with a provision for impairment of RMB22,216) receivable within two to four years.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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

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

- (a) The ageing analysis of the net amount of trade receivables based on the date of the invoice is as follows:

	2024 RMB	2023 RMB
Up to 3 months	60,542,529	78,399,641
3 months to 6 months	4,589,665	7,664,258
6 months to 1 year	23,369,079	4,675,122
1 year to 2 years	1,213,549	9,632,173
Over 2 years	5,218,243	12,832,963
	94,933,065	113,204,157

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

	2024 RMB	2023 RMB
Not due	41,693,013	67,080,616
Up to 3 months past due	19,076,043	11,252,267
3 months to 6 months past due	4,328,912	7,629,402
6 months to 1 year past due	23,324,844	4,791,913
1 year to 2 years past due	1,320,912	9,646,279
Over 2 years past due	5,189,341	12,803,680
	94,933,065	113,204,157

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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

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

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

	2024 RMB	2023 RMB
At beginning of the year	179,566,793	174,667,301
Impairment loss recognised, net	3,800,715	4,881,155
Exchange difference	–	18,337
At the end of the year	183,367,508	179,566,793

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

	2024 RMB	2023 RMB
At beginning of the year	182,315,965	181,102,024
Impairment loss recognised, net	5,191,924	1,210,537
Exchange difference	(2)	3,404
At the end of the year	187,507,887	182,315,965

As at 30 June 2024, balances of RMB183,658,576 (2023: RMB177,712,503) were assessed as credit-impaired and full provision was recognised.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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

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

- (e) Due to the short-term nature of the current portion of the receivables, their carrying amounts approximate their fair value as at the end of the reporting period.
- (f) The net carrying amounts of trade and other receivables (including non-current portion) are denominated in the following currencies:

	2024 RMB	2023 RMB
RMB	154,973,704	153,438,736
HK\$	909,252	7,208,330
USD	5,555,577	14,643,151
	161,438,533	175,290,217

(ii) Contract assets

	2024 RMB	2023 RMB
Retention receivables (a)	29,033,525	31,137,525
Contract assets relating to project contracting services	51,326,527	85,258,007
	80,360,052	116,395,532
Less: provision for impairment of contract assets (b)	(13,296,977)	(14,152,420)
	67,063,075	102,243,112

- (a) The retention receivables represent approximately 5% to 10% of the contract value of the project contracting services 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).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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

(ii) Contract assets *(Continued)*

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

	2024 RMB	2023 RMB
At beginning of the year	14,152,420	3,749,132
(Reversal of impairment)/impairment losses recognised, net	(855,443)	10,274,727
Exchange difference	—	128,561
At the end of the year	13,296,977	14,152,420

As at 30 June 2024 and 2023, the net amounts of contract assets are denominated in the following currencies:

	2024 RMB	2023 RMB
RMB	66,685,126	98,675,437
USD	377,949	3,567,675
	67,063,075	102,243,112

(c) Contract assets relating to project contracting services are expected to be recovered within 12 months.

(iii) Prepayments

	2024 RMB	2023 RMB
Prepayments for procurements	58,497,187	94,789,330
Others	3,638,157	566,587
Total prepayments	62,135,344	95,355,917
Less: prepayments — non-current portion	(130,602)	(143,662)
	62,004,742	95,212,255

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

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

21 CASH AND CASH EQUIVALENTS/PLEDGED DEPOSITS/RESTRICTED DEPOSITS/BANK FIXED DEPOSITS

	2024 RMB	2023 RMB
Cash at bank and on hand	222,709,617	145,557,076
Less: bank fixed deposits (note i)	(60,012,000)	–
Less: pledged deposits (note ii)	(28,647,539)	(63,050,840)
Less: restricted deposits (note iii)	(37,599,411)	(38,523,211)
Cash and cash equivalents	96,450,667	43,983,025

- (i) Bank fixed deposits have a maturing of more than three months and carry interest at 0.3%–2.83% per annum.
- (ii) The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable.
- (iii) At 30 June 2024, as disclosed in note 35 to the consolidated financial statements, certain of the Group's bank accounts amounting to RMB37,599,411 (2023: RMB38,523,211) in aggregate were frozen by courts in the PRC in relation to certain claims against the Group. Management expects the cases to be concluded and the amounts becoming unrestricted within 12 months.
- (iv) The carrying amount of cash and cash equivalents, bank fixed deposits, pledged and restricted deposits are denominated in the following currencies:

	2024 RMB	2023 RMB
RMB (Note)	195,568,908	138,974,978
HK\$	24,441,659	1,659,899
USD	2,697,269	4,901,400
Euro	1,781	20,799
	222,709,617	145,557,076

Note:

Remittance of RMB outside of the Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the Mainland Chinese Government.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

22 TRADE AND OTHER PAYABLES

	2024 RMB	2023 RMB
Trade payables	166,907,010	204,050,587
Bills payable	32,646,273	59,541,901
	199,553,283	263,592,488
Other taxes payables — value added tax	26,414,207	40,123,900
Deposits for project contracting services	6,000,000	6,553,958
Interest-free loan from independent third parties	13,080,800	13,080,800
Amount due to suppliers on a customer's behalf	13,177,942	13,177,942
Provision for legal claims (note a)	9,045,762	14,799,444
Accruals	2,880,255	5,263,774
Employee benefit payables	5,679,290	5,451,620
Other deposits	588,039	600,568
Provision for warranty expenses	523,838	523,838
Payables for property, plant and equipment	335,180	325,418
Interest payable for loans (note 23)	—	591,666
Others (note b)	22,803,321	26,170,462
	100,528,634	126,663,390
Total trade and other payables	300,081,917	390,255,878

Notes:

- (a) As at 30 June 2024, provision for legal claims amounted to RMB7,299,949 (2023: RMB12,659,277) was related to a legal claim made by a supplier in July 2020 against the Group in respect of a construction contract.

During the year ended 30 June 2024, the Group recognised a provision for legal claim of RMB1,745,813 made by the supplier (2023: RMB2,140,167).

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

- (b) As at 30 June 2024, included the amount of RMB20,447,000 (2023: RMB20,447,000) to Hangzhou Taige Automatic Co., Ltd, a company held by a close family member of Mr. Zhu Gen Rong, a former executive director, chairman and substantial shareholder of the Company. The detail is reported in the announcement of the Company on 26 October 2022.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

22 TRADE AND OTHER PAYABLES (Continued)

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

	2024 RMB	2023 RMB
Up to 3 months	48,412,492	90,752,703
3 months to 6 months	38,405,304	38,541,414
6 months to 1 year	13,829,390	9,427,424
1 year to 2 years	25,613,435	30,921,474
Over 2 years	40,646,389	34,407,572
	166,907,010	204,050,587

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

	2024 RMB	2023 RMB
RMB	297,705,917	386,162,211
HK\$	2,376,000	4,093,667
	300,081,917	390,255,878

23 INTEREST-BEARING LOANS

	Notes	2024 RMB	2023 RMB
Bank borrowings	(i), (ii)	73,000,800	28,990,000
Loan from independent third parties	(i), (iii)	366,384	40,000,000
		73,367,184	68,990,000

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

23 INTEREST-BEARING LOANS (Continued)

Movement of interest-bearing loans is analysed as follows:

	Loan from banks RMB (note ii)	Loan from independent third parties RMB (note iii)	Total RMB
For the year ended 30 June 2024			
Opening net carrying amount as at 1 July 2023	28,990,000	40,000,000	68,990,000
Additions	73,000,800	360,000	73,360,800
Interest expenses (Note 8)	2,165,684	1,114,884	3,280,568
Repayments	(31,155,684)	(41,108,500)	(72,264,184)
Closing net carrying amount as at 30 June 2024	73,000,800	366,384	73,367,184
For the year ended 30 June 2023			
Opening net carrying amount as at 1 July 2022	38,500,000	–	38,500,000
Additions	28,990,000	40,000,000	68,990,000
Interest expenses (Note 8)	2,822,704	1,036,666	3,859,370
Repayments	(41,322,704)	(445,000)	(41,767,704)
Accrued interest (Note 22)	–	(591,666)	(591,666)
Closing net carrying amount as at 30 June 2023	28,990,000	40,000,000	68,990,000

Notes:

- (i) As at 30 June 2024 and 2023, the Group's interest-bearing loans were all denominated in RMB.
- (ii) As at 30 June 2024, the Group's loans of RMB73,000,800 (2023: RMB28,990,000) from banks bore interest at an average rate of 3.82% per annum (2023: 4.15%) and all of them were borrowed by using banking facilities.
- (iii) As at 30 June 2024, the loans from independent third parties are secured by personal grantee from the subsidiary's director, bear interest at an average rate of 1% per month and repayable within one year.

As at 30 June 2023, the loans from independent third parties are unsecured, bore interest at an average rate of 6% per annum and repayable on 31 December 2023.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

23 INTEREST-BEARING LOANS *(Continued)*

As at 30 June 2024 and 2023, the Group's loans were payable as follows:

	2024 RMB	2023 RMB
Within one year	73,367,184	68,990,000

As at 30 June 2024 and 2023, the Group had the following unutilised banking facilities:

	2024 RMB	2023 RMB
Authorised banking facilities — expiring within one year	80,290,000	80,290,000
Less: utilised banking facilities	(29,000,000)	(19,000,000)
	51,290,000	61,290,000

As at 30 June 2024, the banking facilities for short term loans granted by the bank were secured by property, plant and equipment, investment properties and prepaid land lease payments of the Group amounting to approximately RMB20,883,837, RMB75,715,269 and RMB2,708,286, respectively (2023: RMB39,176,777, RMB81,074,653 and RMB70,717,130, respectively).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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. At 30 June 2024, 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 2024 and 2023, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	2024 RMB	2023 RMB
Deferred tax assets		
— to be recovered within 12 months	1,675,488	842,536
Deferred tax liabilities		
— to be recovered after more than 12 months	3,411,631	4,199,609
— to be recovered within 12 months	579,568	579,568
	3,991,199	4,779,177

The movement on the deferred tax liabilities, prior to offsetting, are as follows:

	Gains on fair value changes of financial assets RMB	Fair value adjustments arising from acquisition of subsidiaries RMB	Others RMB	Total RMB
At 1 July 2023	208,409	4,570,768	–	4,779,177
Credited to the consolidated statement of profit or loss	(208,409)	(579,569)	–	(787,978)
At 30 June 2024	–	3,991,199	–	3,991,199
At 1 July 2022	–	5,150,336	3,557	5,153,893
Charged/(credited) to the consolidated statement of profit or loss	208,409	(579,568)	(3,557)	(374,716)
At 30 June 2023	208,409	4,570,768	–	4,779,177

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

24 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The movement on the deferred tax assets, prior to offsetting, are as follows:

	Provision for impairment of financial assets	Others	Total
	RMB	RMB	RMB
At 1 July 2023	842,536	–	842,536
Credited to the consolidated statement of profit or loss	832,952	–	832,952
At 30 June 2024	1,675,488	–	1,675,488
At 1 July 2022	841,711	28,660	870,371
Credited/(charged) to the consolidated statement of profit or loss	825	(28,660)	(27,835)
At 30 June 2023	842,536	–	842,536

Unrecognised deferred tax assets arising from:

	2024 RMB	2023 RMB
Deductible temporary differences	127,786,612	82,361,264
Tax losses	332,770,222	340,884,407
At the end of the reporting period	460,556,834	423,245,671

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

24 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The related deferred tax assets have not been recognised due to uncertainty of their recoverability. Deductible temporary differences have no expiry, while the expiry dates of tax losses at the end of the reporting period was as follows:

	2024 RMB	2023 RMB
Accumulated tax losses:		
In PRC expire for five years		
— 2024	—	25,423,508
— 2025	46,508,048	46,508,048
— 2026	8,943,275	8,943,275
— 2027	201,833,696	201,833,696
— 2028	27,810,156	27,810,156
— 2029	9,285,405	—
	294,380,580	310,518,683
In Hong Kong:		
— No expiration date	41,259,662	30,365,724
Total	335,640,242	340,884,407

25 DEFERRED INCOME

	2024 RMB	2023 RMB
Government grant (related to assets):		
At beginning of the year	20,137,500	21,487,500
Amortised as income	(1,350,000)	(1,350,000)
At end of the year	18,787,500	20,137,500

In 2017, Guangdong Huazhang Logistics Warehouse Limited, a subsidiary of the Group, received government grants totaling RMB27,000,000 from Yangjiang Gaoxin district Small and Medium sized Enterprise Service Centre as a special funding for building and upgrading logistics warehouse facilities. The deferred income is being amortised over the estimated useful life of the related assets of 20 years and recorded in the profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

26 SHARE CAPITAL AND SHARE PREMIUM

	RMB
Issued and full paid:	
At 1 July 2022 and 30 June 2023	8,907,761
Issuance of shares upon open offer	4,916,572
<hr/>	
At 30 June 2024	13,824,333

	Number of issued shares	Share capital RMB	Share premium RMB	Total RMB
At 1 July 2022, 30 June 2023 and 1 July 2023	1,064,089,378	8,907,761	663,145,447	672,053,208
<hr/>				
Issue of shares upon open offer (note)	532,044,689	4,916,572	90,870,177	95,786,749
<hr/>				
At 30 June 2024	1,596,134,067	13,824,333	754,015,624	767,839,957

Note: On 18 April 2024, the Company issued an aggregate of 532,044,689 new ordinary shares (which included 133,298,891 taken open offer shares and 398,745,798 untaken open offer shares by way of placement) at the open offer price of HK\$0.20. Proceeds from the open offer net of transaction costs of approximately HK\$1,500,000 (equivalent to approximately RMB1,374,929) amounted to approximately HK\$104,500,000 (equivalent to approximately RMB95,786,749) which was used for (i) repayment of certain bank loans; (ii) expansion of the Group's industrial automation and other related businesses and the supporting services; and (iii) general working capital of the Group. Details of the open offer were contained in the Company's announcements dated 17 April 2024, the Company's prospectus dated 15 March 2024 and the Company's circular dated 12 January 2024.

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

27 OTHER RESERVES

	Reorganisation reserve (iv) RMB	Merger reserve (v) RMB	Statutory reserves (i) RMB	Translation reserves RMB	Employee Share Option Scheme (ii) RMB	Fair value reserve (iii) RMB	Total RMB
At 1 July 2023	2,335,540	33,028,254	36,451,103	22,467,960	5,983,457	30,190,011	130,456,325
Translation differences	-	-	-	(5,465,503)	-	-	(5,465,503)
Employee share options (ii)	-	-	-	-	1,553,213	-	1,553,213
Forfeited share options	-	-	-	-	(750,972)	-	(750,972)
At 30 June 2024	2,335,540	33,028,254	36,451,103	17,002,457	6,785,698	30,190,011	125,793,063
At 1 July 2022	2,335,540	33,028,254	36,451,103	17,818,495	2,264,882	30,190,011	122,088,285
Translation differences	-	-	-	4,649,465	-	-	4,649,465
Employee share options (ii)	-	-	-	-	3,718,575	-	3,718,575
At 30 June 2023	2,335,540	33,028,254	36,451,103	22,467,960	5,983,457	30,190,011	130,456,325

(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 discretionary surplus reserve using its post-tax profits in accordance with resolutions of the Board.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

27 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme

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

The classes of eligible persons under the New Share Option Scheme are materially the same as those of the 2013 Share Option Scheme, namely, any full-time or part-time employee of the Company or any member of the Group, including any executive Directors, non-executive Directors and independent non-executive Directors. The basis of eligibility of any class of eligible persons to the grant of any Option will be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

The Board may, at its absolute discretion, invite any eligible person to take up Options. Upon acceptance of the Option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted.

Subject to obtaining approval from the Shareholders with respect to the adoption of the New Share Option Scheme, the total number of Shares which may be issued upon exercise of all Options to be granted under the New Share Option Scheme and any other scheme must not in aggregate exceed 10% of the Shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the New Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of calculating such 10% scheme mandate limit. The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme of the Company must not exceed 30% of the total number of Shares in issue from time to time.

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the New Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time. Where any further grant of Options to a Participant (the “Further Grant”) would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the New Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time, the Further Grant must be separately approved by the Shareholders in general meeting with such Participant and his close associates (as defined in the Listing Rules) (or his associates (as defined in the Listing Rules) if the Participant is a connected person) abstaining from voting.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

27 OTHER RESERVES (Continued)

(ii) Employee share option scheme (Continued)

Details of the share options granted and outstanding during the year were:

Name or category of participants	Date of Grant (Note c)	Exercise price (Note f)	Adjusted exercise price	Number of share options							Closing price per share immediately before the date of grant	
				At 1 July 2023	Granted during the year	Adjustment to share options (note f)	Exercised during the year	Lapsed/ expired during the year	Forfeited during the year	At 30 June 2024		Vesting & exercise period
Directors												
Mr. Wang Ai Yan (Note a)	31 May 2022	HK\$0.51	HK\$0.461	1,000,000	-	-	-	-	(1,000,000)	-	Note c	HK\$0.49
Mr. Chen Hongwei	31 May 2022	HK\$0.51	HK\$0.461	500,000	-	53,359	-	-	-	553,359	Note c	HK\$0.49
Mr. Shi Chenghu	31 May 2022	HK\$0.51	HK\$0.461	1,000,000	-	106,719	-	-	(1,106,719)	-	Note c	HK\$0.49
Mr. Heng, Keith Kai Neng	31 May 2022	HK\$0.51	HK\$0.461	300,000	-	32,016	-	-	-	332,016	Note c	HK\$0.49
Mr. Yao Yang Yang	31 May 2022	HK\$0.51	HK\$0.461	300,000	-	32,016	-	-	-	332,016	Note c	HK\$0.49
Ms. Zhang Dong Fang	31 May 2022	HK\$0.51	HK\$0.461	300,000	-	32,016	-	-	-	332,016	Note c	HK\$0.49
Other Employees	31 May 2022	HK\$0.51	HK\$0.461	31,010,000	-	3,274,150	-	-	(1,458,853)	32,825,297	Note c	HK\$0.49
In aggregate				34,410,000	-	3,530,276	-	-	(3,565,572)	34,374,704		

Details of the share options granted and outstanding during the prior year were:

Name or category of participants	Date of Grant (Note c)	Exercise price	Number of share options							Closing price per share immediately before the date of grant	
			At 1 July 2022	Granted during the year	Exercised during the year	Lapsed/ expired during the year	Forfeited during the year	At 30 June 2023	Vesting & exercise period		
Directors											
Mr. Wang Ai Yan (Note a)	31 May 2022	HK\$0.51	1,000,000	-	-	-	-	-	1,000,000	Note c	HK\$0.49
Mr. Chen Hongwei	31 May 2022	HK\$0.51	500,000	-	-	-	-	-	500,000	Note c	HK\$0.49
Mr. Fang Hui (Note b)	31 May 2022	HK\$0.51	50,000,000	-	-	-	(50,000,000)	-	-	Note c	HK\$0.49
Mr. Shi Chenghu	31 May 2022	HK\$0.51	1,000,000	-	-	-	-	-	1,000,000	Note c	HK\$0.49
Mr. Heng, Keith Kai Neng	31 May 2022	HK\$0.51	300,000	-	-	-	-	-	300,000	Note c	HK\$0.49
Mr. Yao Yang Yang	31 May 2022	HK\$0.51	300,000	-	-	-	-	-	300,000	Note c	HK\$0.49
Ms. Zhang Dong Fang	31 May 2022	HK\$0.51	300,000	-	-	-	-	-	300,000	Note c	HK\$0.49
Other Employees	31 May 2022	HK\$0.51	32,540,000	-	-	(1,530,000)	-	-	31,010,000	Note c	HK\$0.49
In aggregate			85,940,000	-	-	(1,530,000)	(50,000,000)		34,410,000		

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

27 OTHER RESERVES *(Continued)*

(ii) Employee share option scheme *(Continued)*

Notes:

- (a) Being also a substantial Shareholder of the Company.
- (b) The grant of 50,000,000 share options (the "Proposed Grant") was conditional and subject to the approval of the independent Shareholders at the extraordinary general meeting (the "EGM") of the Company. Subsequent to the reporting year, on 23 August 2022, the Board had resolved not to proceed with the conditional grant of share options to Mr. Fang Hui to subscribe for up to an aggregate of 50,000,000 Shares which decision was consented by Mr. Fang Hui. As a result, the Proposed Grant did not become unconditional and no Share Options were granted to Mr. Fang Hui under the New Share Option Scheme.
- (c) The validity period of the Share Options granted on 31 May 2022 is from 31 May 2022 to 30 May 2032.

The Share Options granted on 31 May 2022 shall be vested and are exercisable in the following manners:

- (i) 30% of the Share Options may be exercisable at any time commencing from the Date of Grant up to 30 May 2032;
- (ii) 30% of the Share Options and the first 30% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2023 up to 30 May 2032; and
- (iii) the remaining 40% of the Share Options and the first 60% of the Share Options which are yet to be exercised may be exercisable at any time commencing from 31 May 2024 up to 30 May 2032.

The closing price of the shares immediately before the date on which the Share Options were granted was HK\$0.49 per share.

- (d) On 31 May 2022, 85,940,000 share options were granted to the directors and employees of the Group under the New Share Option Scheme. The fair value of the share options granted was prepared by Valplus Consulting Limited, an independent qualified professional valuer not connected to the Group who holds a recognised and relevant professional qualification. The estimated fair value of the share options was approximately HK\$9,034,000 (equivalent to approximately RMB7,481,960).

The Group recognised the expense of RMB1,553,213 for the year ended 30 June 2024 (2023: RMB3,718,575) to share options granted by the Company. During the year ended 30 June 2024, no share options granted were exercised (2023: nil).

Other than as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) or their associates to acquire benefits by means of the acquisition of Shares and/or debt securities, including debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

27 OTHER RESERVES (Continued)

(ii) Employee share option scheme (Continued)

Notes: (Continued)

- (e) The relevant model has been used to estimate the fair value of the share options granted to directors and employees. The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the directors of the Company.

The following assumptions were used to calculate the fair values of share options granted to directors and employees:

	31 May 2022
Methodology	Binomial Model
Grant date share price	HK\$0.51
Exercise price	HK\$0.51
Expected life	10 years
Expected volatility	70.10%
Dividend yield	0%
Risk-free interest rate	2.80%

Expected volatility was determined by using quoted prices of comparable companies in active markets as of 31 May 2022.

Expected volatility was determined with reference to the annualised historical weekly volatility of the Company as of 15 January 2019.

Expected dividend yield is determined with reference to historical dividend payment of the Company.

The expected life used in the model is time to maturity of the financial instrument.

- (f) On 18 April 2024, the Company completed the open offer of the Company's shares and an adjustment was made to the exercise price and number of share options of the Company's outstanding share options granted on 31 May 2022, details per the announcement of the Company dated 17 April 2024.
- (g) At the end of the reporting period, the Company revises its estimates of number of share options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

(iii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income under HKFRS 9 that are held at the end of the reporting period.

(iv) Reorganisation reserve

The reorganisation reserve represented the share capital of Huazhang Electric Holding Limited ("Huazhang Electric"), a subsidiary of the Group, prior to the capital reorganisation on 3 May 2013. Details are set out on the prospectus dated 9 May 2013.

(v) Merger reserve

Merger reserve represented the difference between the share capital of Huazhang Electric issued for settlement of the payables to Huazhang Overseas Holding, Inc., the former parent company of Huazhang Electric which were capitalised pursuant to the board resolutions dated 30 June 2012 and 31 December 2012 respectively. Details are set out on the prospectus dated 9 May 2013.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

28 RECONCILIATION OF FINANCING ACTIVITIES

Net debt reconciliations

	2024 RMB	2023 RMB
Cash and cash equivalents (Note 21)	96,450,667	43,983,025
Interest-bearing loans (Note 23)	(73,367,184)	(68,990,000)
Lease liabilities (Note 14)	(3,236,971)	(6,145,509)
Interest-free loan from third parties (Note 22)	(13,080,800)	(13,080,800)
Net equity/(debt)	6,765,712	(44,233,284)
Cash and cash equivalents (Note 21)	96,450,667	43,983,025
Gross debt (Note 14, 22, 23)	(89,684,955)	(88,216,309)
Net equity/(debt)	6,765,712	(44,233,284)

	Liabilities from financing activities			Total RMB
	Interest- bearing loans RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	
Net debt as at 1 July 2023	(68,990,000)	(6,145,509)	(13,080,800)	(88,216,309)
Cash flows				
Cash outflow	72,271,288	3,224,273	–	75,495,561
Cash inflow	(73,360,800)	–	–	(73,360,800)
Other non-cash changes				
— Interest charged	(3,287,672)	–	–	(3,287,672)
— Increase in future finance charges on leases	–	(333,003)	–	(333,003)
— Exchange difference	–	17,268	–	17,268
Net debt as at 30 June 2024	(73,367,184)	(3,236,971)	(13,080,800)	(89,684,955)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

28 RECONCILIATION OF FINANCING ACTIVITIES (Continued)

Net debt reconciliations (Continued)

	Liabilities from financing activities			Total RMB
	Interest- bearing loans RMB	Lease liabilities RMB	Interest-free loan from third parties RMB	
Net debt as at 1 July 2022	(38,500,000)	(4,476,132)	(13,080,800)	(56,056,932)
Cash flows				
Cash outflow	41,767,704	2,545,878	–	44,313,582
Cash inflow	(68,990,000)	–	–	(68,990,000)
Other non-cash changes				
— Recognition of other right-of-use assets	–	(4,091,992)	–	(4,091,992)
— Interest charged	(3,859,370)	–	–	(3,859,370)
— Increase in future finance charges on leases	–	(368,584)	–	(368,584)
— Reclassify to trade and other payables	591,666	–	–	591,666
— Exchange difference	–	245,321	–	245,321
Net debt as at 30 June 2023	(68,990,000)	(6,145,509)	(13,080,800)	(88,216,309)

29 DIVIDENDS

No dividends were paid during the year ended 30 June 2024 and 2023.

The Board does not recommend to declare any dividend for the year ended 30 June 2024 (2023: nil).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

30 COMMITMENTS

As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2024 and 2023 are summarised as follows:

	2024 RMB	2023 RMB
No later than 1 year	5,939,341	5,263,089
Later than 1 year and no later than 5 years	4,867,602	1,397,720
	10,806,943	6,660,809

31 RELATED-PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 30 June 2024 and 30 June 2023 and balances arising from related party transactions as at 30 June 2024 and 30 June 2023.

(a) Name and relationship with related parties

Name of related parties	Relationships
Mr. Fang Hui	Controlling shareholder, chairman and executive director of the Company
Mr. Shi Chenghu	Non-executive director of the Company
Mr. Jin Hao	Director of Zhejiang Huazhang
Dao He Investment Limited ("Dao He")	A wholly owned company by Mr. Fang Hui
Taizhou Hengshengtianyue Metal Co., Ltd. ("Taizhou Metal")	Controlled by close family members of Mr. Fang Hui

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the years ended 30 June 2024 and 2023.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

31 RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

	2024 RMB	2023 RMB
Sales of metal scraps to Taizhou Metal	—	6,248,259
<hr/>		
	2024 RMB	2023 RMB
Key management compensation		
— Salaries	5,210,303	3,732,434
— Bonuses	1,772,106	166,700
— Other benefits	574,683	167,408
— Share options	232,402	538,682
	<hr/>	<hr/>
	7,789,494	4,605,224

(c) Balances with related parties

Due from related parties

	2024 RMB	2023 RMB
Other receivable (Note)		
— Jiafu Paper (Note 20)	—	—
	<hr/>	<hr/>
Trade receivable		
— Taizhou Metal (Note 20)	—	6,248,259

Note:

As at 30 June 2024, the gross carrying amount due from Jiafu Paper was RMB35,163,389 (2023: RMB39,541,029) and full provision for impairment was recognised in the year ended 30 June 2022.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	2024 RMB	2023 RMB
ASSETS		
Non-current assets		
Investments in subsidiaries	315,757,628	315,757,628
Current assets		
Other receivables	39,731	529
Prepayments	166,810	166,195
Amounts due from subsidiaries	27,251,299	–
Cash and cash equivalents	353,734	251,572
	27,811,574	418,296
Total assets	343,569,202	316,175,924
LIABILITIES		
Current liabilities		
Other payables	2,356,077	1,840,691
Total liabilities	2,356,077	1,840,691
EQUITY		
Share capital	13,824,333	8,907,761
Reserves (a)	327,388,792	305,427,472
Total equity	341,213,125	314,335,233
Total equity and liabilities	343,569,202	316,175,924

The statement of financial position of the Company was approved by the Board on 27 September 2024 and was signed on its behalf by:

Fang Hui
Director

Chen Hongwei
Director

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

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

	Share premium RMB	Share option reserve RMB	Translation reserve RMB	Fair value reserve RMB (Note 27(iii))	Accumulated losses RMB	Total RMB
Balance as at 1 July 2022	662,895,922	2,264,882	9,916,287	30,190,011	(429,870,843)	275,396,259
Employee share options	–	3,718,575	–	–	–	3,718,575
Profit for the year	–	–	–	–	2,119,804	2,119,804
Translation differences	–	–	24,192,834	–	–	24,192,834
Balance as at 30 June 2023	662,895,922	5,983,457	34,109,121	30,190,011	(427,751,039)	305,427,472
Employee share options	–	1,553,213	–	–	–	1,553,213
Forfeited share options	–	(750,972)	–	–	750,972	–
Issuance of shares under open offer (note 26)	90,870,177	–	–	–	–	90,870,177
Loss for the year	–	–	–	–	(70,514,870)	(70,514,870)
Translation differences	–	–	52,800	–	–	52,800
Balance as at 30 June 2024	753,766,099	6,785,698	34,161,921	30,190,011	(497,514,937)	327,388,792

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

33 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 30 June 2024 and 2023 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		Ownership interest held by non-controlling interests	
				2024 %	2023 %	2024 %	2023 %
Zhejiang Huazhang (note i)	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 the PRC	USD41,300,000	100	100	–	–
Huazhang Electric Holding Limited	Hong Kong/Limited Company	Investment holding and trading of electronic parts in Hong Kong	HK\$3,000,002	100	100	–	–
Likwin Limited	The British Virgin Islands (“BVI”)/Limited Company	Investment holding in the BVI	USD1	100	100	–	–
Huazhang Technology (Hangzhou) Limited	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 the PRC	RMB30,000,000	100	100	–	–
Wuhan Wukong Control System Engineering Co., Ltd. (“Wukong”)	PRC/Limited Company	Wastewater treatment business in the PRC	RMB8,553,000	70	70	30	30
Haorong	PRC/Limited Company	Computer software and hardware, and technical service in the PRC	RMB500,000	100	100	–	–
MCN	PRC/Limited Company	Research, development and distribution of headboxes used in paper-making production line in the PRC	RMB1,200,000	100	100	–	–

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

33 SUBSIDIARIES (Continued)

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		Ownership interest held by non-controlling interests	
				2024 %	2023 %	2024 %	2023 %
Guangdong Huazhang Logistics Warehouse Limited	PRC/Limited Company	Logistics and warehousing services in the PRC	USD25,000,000	100	100	–	–
Huazhang Technology Logistics Warehouse Limited	Hong Kong/Limited Company	Investment holding in Hong Kong	HK\$1	100	100	–	–
Huazhang Technology Logistics Limited	BVI/Limited Company	Investment holding in the BVI	USD100	100	100	–	–
Baoshan Jintaisheng Logistics Limited	PRC/Limited Company	Logistics and warehousing services in the PRC	RMB5,000,000	100	100	–	–
Jiaxing Woxun Technology Limited	PRC/Limited Company	Investment holding in the PRC	RMB500,000	100	100	–	–
Fine Global Enterprises Limited	BVI/Limited Company	Investment holding in the BVI	USD1	100	100	–	–
Huazhang Environmental Resources Investment Limited	Hong Kong/Limited Company	Investment holding in Hong Kong	HK\$10,000	100	100	–	–

Note:

- (i) Zhejiang Huazhang is registered as a wholly-foreign-owned enterprise under PRC law.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

34 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 2024 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	As fees RMB	Discretionary bonuses RMB	Contributions to retirement benefit schemes RMB	Share options RMB	Total remuneration RMB
<i>Executive directors</i>						
Mr. Fang Hui (Chairman) (ii)	1,383,688	–	–	15,221	–	1,398,909
Mr. Chen Hongwei	509,099	–	43,053	60,764	25,078	637,994
Mr. Cai Haifeng (iii)	511,869	–	43,053	60,764	–	615,686
<i>Non-executive director</i>						
Mr. Shi Chenghu (iv)	156,818	–	–	–	50,156	206,974
<i>Independent non-executive directors</i>						
Mr. Yao Yang Yang	–	110,695	–	–	15,047	125,742
Mr. Heng, Keith Kai Neng	–	110,695	–	–	15,047	125,742
Ms. Zhang Dong Fang	–	110,695	–	–	15,047	125,742
	2,561,474	332,085	86,106	136,749	120,375	3,236,789

The remuneration of each director and the chief executive of the Company for the year ended 30 June 2023 is set out as follows:

Name	Salaries, allowances and benefits in kind RMB	As fees RMB	Discretionary bonuses RMB	Contributions to retirement benefit schemes RMB	Share options RMB	Total remuneration RMB
<i>Executive directors</i>						
Mr. Wang Ai Yan (Chief Executive Officer) (i)	482,907	–	50,000	119,224	119,686	771,817
Mr. Fang Hui	1,071,680	–	–	–	–	1,071,680
Mr. Chen Hongwei	473,533	–	116,700	40,146	59,843	690,222
<i>Non-executive director</i>						
Mr. Shi Chenghu	178,613	–	–	–	119,686	298,299
<i>Independent non-executive directors</i>						
Mr. Yao Yang Yang	–	107,168	–	–	35,906	143,074
Mr. Heng, Keith Kai Neng	–	107,168	–	–	35,906	143,074
Ms. Zhang Dong Fang	–	107,168	–	–	35,906	143,074
	2,206,733	321,504	166,700	159,370	406,933	3,261,240

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

- (i) Mr. Wang Ai Yan retired from office on 24 November 2021, was reappointed on 7 December 2021 and has resigned on 1 December 2022 respectively as executive director and chief executive officer of the Company.
- (ii) Mr. Fang Hui was appointed as Chairman of the board of the Company with effect from 3 May 2024.
- (iii) Mr. Cai Haifeng was appointed as an executive director of the Company with effect from 3 May 2024.
- (iv) Mr. Shi Chenghu resigned as non-executive director of the Company with effect from 3 May 2024.

For the year ended 30 June 2024, none of the directors waived or agreed to waive any remuneration (2023: none of the directors waived or agreed to waive any remuneration).

(b) Director' termination benefits

There were no termination benefits paid to any director for the year ended 30 June 2024 and 2023.

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

During the year ended 30 June 2024 and 2023, 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2024

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(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.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments shown above were mainly for services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

35 LITIGATION

Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang"), a wholly-owned subsidiary of the Company, received a first instance judgment (the "Judgment") dated 24 December 2021 handed down by the Intermediate People's Court of Chuxiong Yi Autonomous Prefecture of Yunnan Province (雲南省楚雄彝族自治州中級人民法院) (the "Court") in the PRC in relation to a contractual dispute between Hubei Industrial Construction Group Installation Engineering Company Limited (湖北省工業建築集團安裝工程有限公司) ("Plaintiff") as plaintiff and Yunnan Yunhong Paper Company Limited (雲南雲泓紙業有限公司) as defendant. Zhejiang Huazhang was also named as a co-defendant in the legal proceedings.

Zhejiang Huazhang had lodged an appeal application (the "Appeal Application") with the Higher People's Court of Yunnan Province (雲南省高級人民法院) (the "Appeal Court") against the Judgment. The Appeal Application approved on 22 August 2022 whereby the Appeal Court ordered, among other things, to set aside the initial Judgement. However, the order made on 12 January 2022 to freeze the aggregate amount of approximately RMB37.6 million in the bank accounts remains in effect.

On 20 December 2023, the Court accepted the Plaintiff's request to continue to freeze certain bank accounts of Zhejiang Huazhang to the amount of approximately RMB37.6 million for an additional year.

On 28 June 2024, Zhejiang Huazhang received a judgement from the courts for the retrial of the first instance case in which the courts awarded the Plaintiff compensation for breach of contract in the amount of RMB32,994,295 which had already been recognised in the consolidated financial statements. A retrial of the second instance case or appeal commenced on 5 September 2024 and a judgement is yet to be finalized.

Management expects these funds would become unrestricted within 12 months. Details of the legal proceedings were set out in the Company's announcements dated 21 January 2022 and 9 September 2022.

Particulars of Principal Properties

Investment Properties

The following list contains investment properties held by the Group as at 30 June 2024.

Location	Term	Usage	Group's interest
Unit 801, Block B, Changdi Huoju Building, No. 259 Wensan Road, Xihu District, Hangzhou, Zhejiang Province, The PRC	Medium lease	Commercial	100%
An Industrial Plant Located at No. 4 Haigang Erheng Road, Gangkou Industrial Park, Jiangcheng District, Yangjiang, Guangdong Province, The PRC	Medium lease	Commercial	100%