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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8276)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“THE STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the “Directors”) of Huazhang Technology Holding Limited (the “Company”) collectively and individually accept full responsibility, include particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“the GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL HIGHLIGHTS

- Turnover of the Group for the six months ended 31 December 2013 was approximately HK\$139,655,000, representing an increase of approximately 16.7% as compared with that of the corresponding period in 2012.
- Net profit attributable to owners of the Company for the six months ended 31 December 2013 was approximately HK\$11,118,000, representing an increase of 77.9%, as compared with that of the corresponding period in 2012.
- The Board does not recommend the payment of interim dividend for the six months ended 31 December 2013.

INTERIM RESULTS

The board (the “**Board**”) of Directors of the Company is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 31 December 2013, together with the comparative figures for the corresponding as follows.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Three months ended 31 December | | Six months ended 31 December | |
|---|------|-----------------------------------|-----------------------------|---------------------------------|---------------------------|
| | | 2013 HK\$ (Unaudited) | 2012 HK\$ (Unaudited) | 2013 HK\$ (Unaudited) | 2012 HK\$ (Audited) |
| Revenue | 6 | 77,764,533 | 66,507,162 | 139,654,722 | 119,650,158 |
| Cost of sales | | (56,735,775) | (45,980,007) | (100,862,177) | (85,136,466) |
| Gross profit | | 21,028,758 | 20,527,155 | 38,792,545 | 34,513,692 |
| Distribution costs | | (2,986,853) | (4,365,078) | (5,992,103) | (6,884,292) |
| Administrative expenses | | (7,364,667) | (6,880,905) | (15,424,688) | (13,739,971) |
| Research and development expenses | | (3,537,050) | (4,312,573) | (4,855,499) | (5,780,912) |
| Other income | 10 | 394,763 | 373,169 | 473,282 | 373,169 |
| Other losses — net | | (31,256) | — | (31,256) | — |
| Operating profit | | 7,503,695 | 5,341,768 | 12,962,281 | 8,481,686 |
| Finance income | | 330,010 | 7,192 | 517,845 | 114,557 |
| Finance costs | | (18,889) | (346,470) | (62,867) | (594,373) |
| Finance income/(costs) — net | | 311,121 | (339,278) | 454,978 | (479,816) |
| Profit before income tax | | 7,814,816 | 5,002,490 | 13,417,259 | 8,001,870 |
| Income tax expense | 12 | (1,525,517) | (1,277,298) | (2,299,310) | (1,753,328) |
| Profit for the period, all attributable to the owners of the Company | | 6,289,299 | 3,725,192 | 11,117,949 | 6,248,542 |
| Other comprehensive income for the period | | | | | |
| Currency translation differences | | 1,157,213 | 683,116 | 2,315,212 | 436,007 |
| Other comprehensive income for the period | | 1,157,213 | 683,116 | 2,315,212 | 436,007 |
| Total comprehensive income for the period, all attributable to the owners of the Company | | 7,446,512 | 4,408,308 | 13,433,161 | 6,684,549 |
| Earnings per share for profit attributable to the owners of the Company | 13 | | | | |
| — Basic earnings per share | | 0.02 | 0.02 | 0.04 | 0.03 |
| — Diluted earnings per share | | 0.02 | 0.02 | 0.04 | 0.03 |

UNAUDITED CONSOLIDATED INTERIM BALANCE SHEET

| | <i>Note</i> | As at 31 December 2013 Unaudited HK\$ | As at 30 June 2013 Audited HK\$ |
|--|-------------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | 7 | 9,031,399 | 9,039,689 |
| Property, plant and equipment | 7 | 38,915,805 | 38,194,654 |
| Deferred income tax assets | | 1,600,488 | 1,175,292 |
| Trade and other receivables | 8 | — | 828,573 |
| Prepayments — non-current portion | 8 | 1,749,963 | 433,700 |
| | | <u>51,297,655</u> | <u>49,671,908</u> |
| Current assets | | | |
| Inventories | | 109,174,007 | 95,032,774 |
| Trade and other receivables | 8 | 91,095,728 | 52,072,397 |
| Prepayments | 8 | 18,954,400 | 11,190,500 |
| Restricted cash | | 14,819,392 | 5,025,347 |
| Cash and cash equivalents | | 64,423,059 | 80,920,622 |
| | | <u>298,466,586</u> | <u>244,241,640</u> |
| Total assets | | <u><u>349,764,241</u></u> | <u><u>293,913,548</u></u> |
| EQUITY | | | |
| Capital and reserves attributable to the owner of the Company | | | |
| Share capital | | 2,720,000 | 2,720,000 |
| Share premium | | 61,934,254 | 70,910,254 |
| Other reserves | | 66,137,877 | 60,488,810 |
| Retained earnings | | 49,872,952 | 42,088,858 |
| Total equity | | <u><u>180,665,083</u></u> | <u><u>176,207,922</u></u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 290,483 | 807,350 |
| Current liabilities | | | |
| Trade and other payables | 9 | 168,808,675 | 116,122,519 |
| Current income tax liabilities | | — | 775,757 |
| | | <u>168,808,675</u> | <u>116,898,276</u> |
| Total liabilities | | <u>169,099,158</u> | <u>117,705,626</u> |
| Total equity and liabilities | | <u><u>349,764,241</u></u> | <u><u>293,913,548</u></u> |
| Net current assets | | <u><u>129,657,911</u></u> | <u><u>127,343,364</u></u> |
| Total assets less current liabilities | | <u><u>180,955,566</u></u> | <u><u>177,015,272</u></u> |

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

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

The Company's ordinary shares were listed on GEM on 16 May 2013 (the "Listing") by way of placing.

This condensed consolidated interim financial information are presented in Hong Kong Dollars ("HK\$"), unless otherwise stated. These condensed consolidated interim financial information were approved and authorised for issue by the Board on 10 February 2014.

These condensed consolidated interim financial information have not been audited, but has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, *review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Key events

On 16 December 2013, Zhejiang Huazhang Technology Limited ("Huazhang Technology"), the PRC subsidiary, has signed a construction contract for a new production plant with the total amount of HK\$17,297,737. As at 31 December 2013, the Group has made prepayment amounting to HK\$1,271,892.

2. BASIS OF PREPARATION

These condensed consolidated interim financial information for the six months ended 31 December 2013 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by HKICPA. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2013, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

New standards and amendments to standards have been issued and are relevant to the Group's operation but are not yet effective for the financial year beginning 1 July 2013 and have not been early adopted by the Group are as below:

| | | Effective for accounting period beginning on or after |
|---|---|--|
| Amendments to HKAS 36 | Recoverable amount disclosures for non-financial assets | 1 January 2014 |
| HKFRS 9 | Financial instruments | 1 January 2015 |
| HKAS 32 (Amendment) | Financial instruments: Presentation — Offsetting financial assets and financial liabilities | 1 January 2014 |
| HKFRS 7 and HKFRS 9 (Amendment) | Mandatory effective date and transition disclosures | 1 January 2015 |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (revise 2011) | Investment entities | 1 January 2014 |
| HK (IFRIC) Interpretation 21 | Levies | 1 January 2014 |

Management is in the process of making an assessment of the impact of above new standards and amendments to standards on the financial statements of the Group in the initial application. The adoption of above is not expected to have a material effect on the Group's operating results or financial position.

4. ESTIMATES

The preparation of condensed consolidated interim financial information require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30 June 2013.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow 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.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2013.

There have been no changes in the risk management department since year end or in any risk management policies.

5.2 Fair value estimation

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents and restricted cash) and short term liabilities (including trade and other payables and short term borrowings) are assumed to approximate their fair values due to their short-term maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

6. SEGMENT INFORMATION

The reportable operating segments derive their revenue primarily from the research and development, supply and sale of (i) industrial automation systems, (ii) sludge treatment products, and (iii) provision of after-sales service.

Revenue from one customer of the sludge treatment products segment represents HK\$15,206,394 of the Group's total revenue for the six months ended 31 December 2013. Revenue from two customers of the sludge treatment products segment represents HK\$26,574,447 of the Group's total revenue for the six months ended 31 December 2012.

The Board assesses the performance of the operating segments based on a measure of adjusted operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the condensed consolidated interim financial information. The common administrative expenses, other losses, other income, financing (including finance costs and interest income) and income taxes are managed on a group basis and are not allocated to operating segments.

Segment assets consist primarily of land use rights, property, plant and equipment, inventories, trade and other receivables and prepayment. They exclude deferred income tax assets and prepaid tax, restricted cash and the cash and cash equivalents. Segment liabilities comprise operating liabilities. They exclude tax liabilities and other payables.

Revenue

Turnover of the Group consists of the following revenues for the six months ended 31 December 2013 and 2012.

| | Six months ended 31 December | |
|--|-------------------------------------|-------------------------------|
| | 2013 | 2012 |
| | <i>Unaudited</i> <i>HK\$</i> | <i>Audited</i> <i>HK\$</i> |
| Sales of industrial automation systems | 90,853,359 | 69,381,447 |
| Sales of sludge treatment products | 36,371,748 | 41,839,930 |
| Provision of after-sales service | 12,429,615 | 8,428,781 |
| | <u>139,654,722</u> | <u>119,650,158</u> |

The segment results for the six months ended 31 December 2013:

| | Unaudited | | | |
|---|--|--|--------------------------------|---------------------------------|
| | Industrial automation systems | Sludge treatment products | After-sales service | Total |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Segment revenue from external customers | 90,853,359 | 36,371,748 | 12,429,615 | 139,654,722 |
| Segment cost of sales | (65,945,582) | (26,791,442) | (8,125,153) | (100,862,177) |
| Segment gross profit | 24,907,777 | 9,580,306 | 4,304,462 | 38,792,545 |
| Segment results | <u>15,168,100</u> | <u>5,259,962</u> | <u>4,068,567</u> | <u>24,496,629</u> |
| Common administrative expenses | | | | (11,976,374) |
| Other income | | | | 473,282 |
| Other losses — net | | | | (31,256) |
| Finance costs — net | | | | <u>454,978</u> |
| Profit before income tax | | | | 13,417,259 |
| Income tax expense | | | | <u>(2,299,310)</u> |
| Profit for the period | | | | <u><u>11,117,949</u></u> |

Other segment items included in the condensed consolidated interim information of comprehensive income for the six months ended 31 December 2013:

| | Unaudited | | | | |
|--|---|---|---|-----------------------------|-----------------------|
| | Industrial automation systems HK\$ | Sludge treatment products HK\$ | After-sales service HK\$ | Unallocated HK\$ | Total HK\$ |
| Capital expenditure | 1,040,613 | 716,034 | — | 201,080 | 1,957,727 |
| Depreciation of property, plant and equipment | 665,605 | 544,832 | — | 528,655 | 1,739,092 |
| Amortization of land use rights | <u>35,795</u> | <u>47,492</u> | <u>—</u> | <u>42,829</u> | <u>126,116</u> |

The segment assets and liabilities as at 31 December 2013 are as follows:

| | Unaudited | | | | |
|---------------------|---|---|---|-----------------------------|-----------------------|
| | Industrial automation systems HK\$ | Sludge treatment products HK\$ | After-sales service HK\$ | Unallocated HK\$ | Total HK\$ |
| Segment assets | <u>149,575,987</u> | <u>88,651,931</u> | <u>14,135,113</u> | <u>97,401,210</u> | <u>349,764,241</u> |
| Segment liabilities | <u>(125,076,458)</u> | <u>(38,153,314)</u> | <u>—</u> | <u>(5,869,386)</u> | <u>(169,099,158)</u> |

The segment results for the six months ended 31 December 2012:

| | Audited | | | |
|---|--|--|--------------------------------|-------------------------|
| | Industrial automation systems | Sludge treatment products | After-sales service | Total |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Segment revenue from external customers | 69,381,447 | 41,839,930 | 8,428,781 | 119,650,158 |
| Segment cost of sales | <u>(49,081,870)</u> | <u>(30,949,432)</u> | <u>(5,105,164)</u> | <u>(85,136,466)</u> |
| Segment gross profit | 20,299,577 | 10,890,498 | 3,323,617 | 34,513,692 |
| Segment results | <u>11,073,015</u> | <u>4,560,581</u> | <u>3,275,942</u> | <u>18,909,538</u> |
| Common administrative expenses | | | | (10,801,021) |
| Other income | | | | 373,169 |
| Finance costs — net | | | | <u>(479,816)</u> |
| Profit before income tax | | | | 8,001,870 |
| Income tax expense | | | | <u>(1,753,328)</u> |
| Profit for the period | | | | <u><u>6,248,542</u></u> |

Other segment items included in the condensed consolidated interim information of comprehensive income for the six months ended 31 December 2012:

| | Audited | | | | |
|--|--|--|--------------------------------|--------------------|----------------|
| | Industrial automation systems | Sludge treatment products | After-sales service | Unallocated | Total |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Capital expenditure | — | 576,803 | — | 164,337 | 741,140 |
| Depreciation of property, plant and equipment | 596,579 | 574,597 | — | 493,454 | 1,664,630 |
| Amortization of land use rights | <u>34,842</u> | <u>46,228</u> | <u>—</u> | <u>41,689</u> | <u>122,759</u> |

The segment assets and liabilities as at 31 December 2012 are as follows:

| | Audited | | | | |
|---------------------|--|--|--------------------------------|--------------------|----------------------|
| | Industrial automation systems | Sludge treatment products | After-sales service | Unallocated | Total |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Segment assets | <u>119,596,047</u> | <u>53,290,562</u> | <u>12,131,886</u> | <u>48,873,744</u> | <u>233,892,239</u> |
| Segment liabilities | <u>(117,159,467)</u> | <u>(17,080,798)</u> | <u>—</u> | <u>(9,431,655)</u> | <u>(143,671,920)</u> |

7 LAND USE RIGHTS AND PROPERTY, PLANT AND EQUIPMENT

| | Land use rights | Property, plant and equipment |
|--|-------------------------|--|
| | <i>HK\$</i> | <i>HK\$</i> |
| Six months ended 31 December 2013 (unaudited) | | |
| Net book amount as at 1 July 2013 | 9,039,689 | 38,194,654 |
| Additions | — | 1,957,727 |
| Foreign exchange difference | 117,826 | 502,516 |
| Depreciation and amortisation (<i>Note 11</i>) | <u>(126,116)</u> | <u>(1,739,092)</u> |
| Net book amount as at 31 December 2013 | <u>9,031,399</u> | <u>38,915,805</u> |
| Six months ended 31 December 2012 (audited) | | |
| Net book amount as at 1 July 2012 | 9,077,521 | 39,702,425 |
| Additions | — | 741,140 |
| Foreign exchange difference | 48,593 | 211,486 |
| Depreciation and amortisation (<i>Note 11</i>) | <u>(122,759)</u> | <u>(1,664,630)</u> |
| Net book amount as at 31 December 2012 | <u>9,003,355</u> | <u>38,990,421</u> |

8 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(i) Trade and other receivables

| | As at 31 December 2013 Unaudited HK\$ | As at 30 June 2013 Audited HK\$ |
|--|---|---|
| Warranty receivables — due from third parties <i>(i)</i> | 26,798,319 | 23,040,517 |
| Other trade receivables — due from third parties | 34,879,757 | 24,282,747 |
| Other trade receivables — due from a related party | 359,735 | 2,152,565 |
| | <u>62,037,811</u> | <u>49,475,829</u> |
| Less: provision for impairment of trade receivables | <u>(4,622,174)</u> | <u>(3,617,438)</u> |
| Trade receivables — net | 57,415,637 | 45,858,391 |
| Bills receivable | 31,869,095 | 4,748,783 |
| | <u>89,284,732</u> | <u>50,607,174</u> |
| Other receivables due from a related party | 44,307 | 21,880 |
| Others | 1,766,689 | 2,271,916 |
| | <u>1,810,996</u> | <u>2,293,796</u> |
| Total trade and other receivables | 91,095,728 | 52,900,970 |
| Less: trade receivables — non-current portion | — | (828,573) |
| | <u>91,095,728</u> | <u>52,072,397</u> |

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

The ageing analysis of the warranty receivables (including non-current portion) is as follows:

| | As at 31 December 2013 Unaudited HK\$ | As at 30 June 2013 Audited HK\$ |
|----------------------|--|--|
| Warranty receivables | | |
| Up to 3 months | 3,055,727 | 5,130,520 |
| 3 months to 6 months | 1,013,382 | 1,708,071 |
| 6 months to 1 year | 8,899,152 | 4,098,100 |
| 1 year to 2 years | 10,200,956 | 7,964,120 |
| Over 2 years | 3,629,102 | 4,139,706 |
| | <u>26,798,319</u> | <u>23,040,517</u> |

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

| | As at 31 December 2013 Unaudited HK\$ | As at 30 June 2013 Audited HK\$ |
|-------------------------|--|--|
| Other trade receivables | | |
| Up to 3 months | 10,630,906 | 7,653,062 |
| 3 months to 6 months | 11,129,012 | 1,244,621 |
| 6 months to 1 year | 4,145,630 | 14,014,175 |
| 1 year to 2 years | 7,963,349 | 1,956,242 |
| Over 2 years | 1,370,595 | 1,567,212 |
| | <u>35,239,492</u> | <u>26,435,312</u> |

(ii) Prepayments

| | As at 31 December 2013 Unaudited HK\$ | As at 30 June 2013 Audited HK\$ |
|---|---|---|
| Prepayments for raw materials | | |
| — third parties | 11,214,878 | 11,015,461 |
| Prepayments for raw materials | | |
| — a related party | 7,211,152 | — |
| Others | 2,278,333 | 608,739 |
| | <hr/> | <hr/> |
| Total prepayments | 20,704,363 | 11,624,200 |
| Less: prepayments — non-current portion | (1,749,963) | (433,700) |
| | <hr/> | <hr/> |
| | 18,954,400 | 11,190,500 |
| | <hr/> <hr/> | <hr/> <hr/> |

9 TRADE AND OTHER PAYABLES

| | As at 31 December 2013 Unaudited HK\$ | As at 30 June 2013 Audited HK\$ |
|--|---|---|
| Trade payables — due to third parties | 18,021,858 | 20,193,031 |
| Trade payables — due to a related party | — | 968,581 |
| Bills payable | 48,321,876 | 15,757,999 |
| | <hr/> | <hr/> |
| | 66,343,734 | 36,919,611 |
| | <hr/> | <hr/> |
| Other taxes payable | 2,818,013 | 2,564,940 |
| Employee benefit payables | 5,087,570 | 2,510,828 |
| Accrued operating expenses | 107,500 | 50,000 |
| Advances from customers (i) | 89,344,220 | 68,465,543 |
| Provision for warranty expenses | 1,144,930 | 1,489,942 |
| Payables for property, plant and equipment | 1,632,398 | 2,053,096 |
| Others | 2,330,310 | 2,068,559 |
| | <hr/> | <hr/> |
| | 102,464,941 | 79,202,908 |
| | <hr/> | <hr/> |
| | 168,808,675 | 116,122,519 |
| | <hr/> <hr/> | <hr/> <hr/> |

- (i) Advances from customers represent the down payment from the customers according to the contract payment schedules. The Group usually requires a down payment of approximately 10 % to 30% of the total contract value to be paid upon signing of the relevant contract or within 30 days from the date of the contract; up to approximately 90% to 95% of the contract sum upon delivery, but before the completion of the installation and debugging.

The ageing analysis of the trade payables (including amounts due to related parties of trading in nature) is as follows:

| | As at 31 December 2013 Unaudited HK\$ | As at 30 June 2013 Audited HK\$ |
|----------------------|--|--|
| Up to 3 months | 11,714,648 | 18,215,552 |
| 3 months to 6 months | 5,186,116 | 895,368 |
| 6 months to 1 year | 480,311 | 1,196,756 |
| 1 year to 2 years | 205,708 | 552,177 |
| Over 2 years | 435,075 | 301,759 |
| | 18,021,858 | 21,161,612 |

10 OTHER INCOME

| | Six months ended 31 December | |
|------------------------|-------------------------------------|----------------------------------|
| | 2013 Unaudited HK\$ | 2012 Audited HK\$ |
| Government grants | 243,117 | 46,000 |
| Operating lease income | 230,165 | 81,177 |
| Others | — | 245,992 |
| | 473,282 | 373,169 |

11 EXPENSES BY NATURE

| | Six months ended 31 December | |
|---|------------------------------|-----------|
| | 2013 | 2012 |
| | Unaudited | Audited |
| | HK\$ | HK\$ |
| Amortisation of land use rights | 126,116 | 122,759 |
| Depreciation of property, plant and equipment | 1,739,092 | 1,664,630 |
| Provision/(reversal of) for impairment of trade receivables | 951,012 | (693,390) |
| Provision for/(reversal of) write-down of inventories | 2,125,166 | (744,492) |
| Auditors' remuneration | 769,887 | 59,736 |
| Professional service fees | 1,025,649 | 4,684,906 |

12 INCOME TAX EXPENSE

| | Six months ended 31 December | |
|-----------------------------|------------------------------|-----------|
| | 2013 | 2012 |
| | Unaudited | Audited |
| | HK\$ | HK\$ |
| Current income tax | | |
| — Hong Kong profits tax | 23,753 | — |
| — PRC enterprise income tax | 2,736,430 | 1,587,901 |
| Deferred income tax | (460,873) | 165,427 |
| Income tax expense | 2,299,310 | 1,753,328 |

(i) Cayman Islands profits tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) Hong Kong profits tax

For the six months ended 31 December 2013, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the period. No Hong Kong profits tax has been provided for the six months ended 31 December 2012, as the Group has no taxable profit earned or derived in Hong Kong for the period.

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

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

Pursuant to the PRC Enterprise Income Tax Law (the “**New EIT Law**”), the EIT is unified at 25% for all types of entities, effective from 1 January 2008.

Huazhang Technology, the subsidiary established in the PRC is qualified as a foreign investment manufacturing enterprise. Huazhang Technology’s applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, Huazhang Technology obtained qualification as High and New Technology enterprise in 2011 for a period of three years effective from 2011. The applicable EIT rate would be 15% from 2011 till 2013. For the six months ended 31 December 2013 and 2012, the applicable income tax rate of Huazhang Technology is 15%.

(iv) PRC withholding income tax

According to the new EIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

Deferred tax liabilities have been provided for the relevant retained earnings of the PRC subsidiary according to the Group’s dividend policy.

13 EARNINGS PER SHARE

Basic earnings per share for the six months ended 31 December 2013 and 2012 is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue. In determining the weighted average number of ordinary shares in issue during the six months ended 31 December 2012, the 203,999,999 shares issued and allotted through capitalisation of the share premium account of the Company upon Listing on 16 May 2013 have been regarded as if these shares were in issue since 1 July 2011.

| | Six months ended 31 December | |
|---|------------------------------|--------------------|
| | 2013 | 2012 |
| | Unaudited | Audited |
| | HK\$ | HK\$ |
| Profit attributable to the owners of the Company | <u>11,117,949</u> | <u>6,248,542</u> |
| Weighted average number of ordinary shares in issue | <u>272,000,000</u> | <u>204,000,000</u> |
| Basic earnings per share | <u>0.04</u> | <u>0.03</u> |

As there were no dilutive options and other dilutive potential shares in issue for the six months ended 31 December 2013 and 2012, diluted earnings per share is the same as basic earnings per share.

14 DIVIDENDS

The dividends of HK\$8,976,000 declared in the six months ended 31 December 2013 represents the final dividend for the year ended 30 June 2013 which was approved and paid during the six months ended 31 December 2013 (Six months ended 31 December 2012: HK\$ Nil).

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2013 (Six months ended 31 December 2012: HK\$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

In the second half of 2013, China's paper industry is slowly bottom out from severe conditions in the past year to show signs of moderate recovery. During the period, upon the efforts of our management team and our products recognized by the customers, overcapacity in the paper industry reducing the investments in fixed assets, revenue and profit of the Group were able to maintain a growth of approximately 16.7% and approximately 77.9% respectively, to approximately HK\$139,655,000 and approximately HK\$11,118,000 respectively.

In 2013, Ministry of Industry and Information Technology has successively announced two lists of outdated capacities to be phased out, including the low-end paper industry, mainly to phase out the outdated capacity due to a failure in environmental protection requirements. Although overcapacity in the paper industry, the process of eliminating outdated capacities in the industry is accelerating, we have optimistic business opportunities and prospects. In view of the huge China market, through our own advantages, and actively expand our share in the automation control systems in non-paper market; it will promote the environmental protection business steadily at the encouragement of favorable national policies.

In order to meet the future development and demands on the products, the Group has commenced construction of new production plant in December 2013, the investment amount is expected to be not less than approximately HK\$20,000,000 and expected to be completed and commenced operation in December 2014. The source of funding is expected from the proceeds raised through the placing in May 2013.

Financial review

Revenue and gross profit margin

Revenue of the Group increased by approximately 16.7% from approximately HK\$119,650,000 for the six months ended 31 December 2012 to approximately HK\$139,655,000 for the six months ended 31 December 2013. Gross profit margin decreased from approximately 28.8% for the six months ended 31 December 2012 to approximately 27.8% for the six months ended 31 December 2013.

(i) *Industrial automation system*

Revenue from sales of industrial automation systems increased by approximately 30.9% from approximately HK\$69,381,000 for the six months ended 31 December 2012 to approximately HK\$90,853,000 for the six months ended 31 December 2013. Such increase was primarily attributable to the number of completed contracts amounting to HK\$5,000,000 or above increased from 2 contracts amounting to approximately HK\$13,824,000 for the six months ended 31 December 2012 to 4 contracts amounting to approximately HK\$27,734,000 for the six months ended 31 December 2013. The gross profit margin of industrial automation systems decreased from approximately 29.3% for the six months ended 31 December 2012 to approximately 27.4% for the six months ended 31 December 2013.

(ii) *Sludge treatment products*

Revenue from sales of sludge treatment products decreased by approximately 13.1% from approximately HK\$41,840,000 for the six months ended 31 December 2012 to approximately HK\$36,372,000 for the six months ended 31 December 2013. Such decrease was primarily attributable to the delay in construction work of some of our customers, resulting in postponement of our final testing, such revenue was not recognized for the six months ended 31 December 2013. The gross profit margin for our sludge treatment products increased from approximately 26.0% for the six months ended 31 December 2012 to approximately 26.3% for the six months ended 31 December 2013.

(iii) *After-sales services*

Revenue from provision of after-sales services increased by approximately 47.5% from HK\$8,429,000 for the six months ended 31 December 2012 to HK\$12,430,000 for the six months ended 31 December 2013. Such increase was primarily attributable to increase in demand on after-sales services from our customers, including system improvement projects. The gross profit margin for provision of after-sales services decreased from approximately 39.4% for the six months ended 31 December 2012 to approximately 34.6% for the six months ended 31 December 2013.

Distribution costs and administrative expenses

Distribution costs and administrative expenses of the Group increased from approximately HK\$20,624,000 for the six months ended 31 December 2012 to approximately HK\$21,417,000 for the six months ended 31 December 2013, representing an increase of 3.8%. Stable growth of our business drove the increase of such costs.

Profit attributable to the owners of the Company and net profit margin

Profit attributable to the owners of the Company increased by approximately 77.9% from approximately HK\$6,249,000 for the six months ended 31 December 2012 to approximately HK\$11,118,000 for the six months ended 31 December 2013. In the same period, the net profit margin increased by approximately 2.8% from approximately 5.2% for the six months ended 31 December 2012 to approximately 8.0% for the six months ended 31 December 2013. Such change is primarily attributing to the Group exercised better control over its distribution costs and research and development expenses. For the six months ended 31 December 2013, the total of these costs and expenses attributable to revenue for the period as compared with the same period in 2012, decreased by approximately 2.8%.

Liquidity and financial resources

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources and net proceeds from the placing. As at 31 December 2013, the Group have net cash and cash equivalent balance amounting to approximately HK\$64,423,000 (30 June 2013: approximately HK\$80,921,000) as the Group did not have any bank loans as at 31 December 2013 (30 June 2013: Nil).

Significant investments held, material acquisition and disposals

The Group had no significant investments held or material acquisitions and disposals during the six months ended 31 December 2013.

Charges of assets

As at 31 December 2013, the Group did not have any charges on its assets.

Contingent liabilities

As at 31 December 2013, the Group had no material contingent liabilities.

Foreign Currency Risk

The Group's business is located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK\$, US\$ and RMB.

Employee and remuneration policies

As at 31 December 2013, the Group had 233 employees (30 June 2013: 202 employees), including the executive Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2013 were approximately HK\$21,180,000, as comparable to approximately HK\$17,522,000 for the six months ended 31 December 2012.

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

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any securities of the Company during the six months ended 31 December 2013.

SHARE OPTION SCHEME

During the period under review, no option has been granted and there has been no movement of any options granted (if any) under the share option scheme adopted by the Company on 6 May 2013.

Compliance of Non-competition Undertakings

In order to protect the Group's interest in its business activities, on 6 May 2013, each of Florescent Holdings Limited, Lian Shun Limited, Mr Zhu Gen Rong, Mr Wang Ai Yan, Mr Liu Chuan Jiang and Ms Zhu Ling Yun, the controlling shareholders of the Company, has given a non-competition undertaking in favour of the Company, pursuant to which each of them undertakes and covenants with the Company that, for as long as it/he and/or its/his associates, directly or indirectly, whether individually or taken together, remain to be the controlling shareholders, it/he will not and will procure its/his associates not to directly or indirectly carry on, participate, engage or otherwise be interested in any business which is or may be in competition with the business of any members of the Group from time to time.

To further delineate the respective business of Zhejiang Huazhang Automation Equipment Company Limited ("**Huazhang Automation (Zhejiang)**") and the Group and to protect the Group from any potential competition from Huazhang Automation (Zhejiang), Huazhang Electric Automation Holding Company Limited ("**Huazhang Automation (Hong Kong)**") and Huazhang Automation (Zhejiang) have entered into a deed of non-competition in favour of the Company on 6 May 2013, pursuant to which, they will not, and any company directly or indirectly controlled by any of them (excluding any member of the Group) will not, either on its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistant to any person, firm or company (except members of the Group) to conduct any business which, directly or indirectly, competes or may compete with the business of supply and sale of industrial automation systems and sludge treatment products in the PRC (including Hong Kong) from time to time after listing of the Company.

Details of the undertaking have been set out in the section headed "**Relationship with Controlling Shareholders**" of the prospectus.

Corporate Governance Code

The Board considers that the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 15 of the GEM Listings Rules during the six months ended 31 December 2013 except the following deviation (Code Provision A.2.1):

Mr Zhu Gen Rong is the Chairman of the Board. The Company has no such title as the chief executive and the daily operation and management of the Company is monitored by the executive Directors as well as the senior management. The Board is of the view that although there is no chief executive, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and they meet from time to time to discuss issues affecting the operations of the Company.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding the directors' securities transactions in securities of the Company. Specific enquiry has been made of all the Directors and the Directors have confirmed that they had complied with such code of conduct from the date of listing of the Company's shares on the Stock Exchange up to 31 December 2013.

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2013 (six months ended 31 December 2012: Nil).

Audit Committee

The audit committee was established with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and Paragraph C.3.3 of the Corporate Governance Code 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 internal controls of the Group. The audit committee consists of three independent non-executive Directors namely, Mr Kong Chi Mo, Ms Chen Jin Mei and Mr Dai Tian Zhu. The audit committee is chaired by Mr Kong Chi Mo.

The Audit Committee of the Company has discussed with the management and external auditors the accounting principles and policies adopted by the Group, and has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 31 December 2013.

By order of the Board
Huazhang Technology Holding Limited
Zhu Gen Rong
Chairman

Hong Kong, 10 February 2014

As at the date of this announcement, the executive Directors are Mr Zhu Gen Rong, Mr Jin Hao and Mr Zhong Xin Gang, and the independent non-executive Directors are Ms Chen Jin Mei, Mr Dai Tian Zhu and Mr Kong Chi Mo.