



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

(Incorporated in Cayman Islands with limited liability)
Stock code : 8276

2014

INTERIM REPORT



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.

Hong Kong Exchange and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, 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 report 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 report misleading.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhu Gen Rong *(Chairman)*
Zhong Xin Gang
Jin Hao

Independent Non-Executive Directors

Kong Chi Mo
Dai Tian Zhu
Chen Jin Mei

AUDIT COMMITTEE

Kong Chi Mo *(Chairman)*
Dai Tian Zhu
Chen Jin Mei

NOMINATION COMMITTEE

Dai Tian Zhu *(Chairman)*
Zhu Gen Rong
Kong Chi Mo
Chen Jin Mei

REMUNERATION COMMITTEE

Chen Jin Mei *(Chairman)*
Kong Chi Mo
Dai Tian Zhu

COMPANY SECRETARY

So, Alan Wai Shing

CORPORATE INFORMATION (Continued)

COMPLIANCE OFFICER

Jin Hao

AUTHORISED REPRESENTATIVES

Zhu Gen Rong
So, Alan Wai Shing

LEGAL ADVISER

As to Hong Kong Law

Stevenson, Wong & Co.

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

AUDITOR

PricewaterhouseCoopers

REGISTERED ADDRESS

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

CORPORATE INFORMATION *(Continued)*

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPANY'S WEBSITE

www.hzeg.com

STOCK CODE

8276

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.

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 recognised 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 favourable 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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 ACQUISITIONS 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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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.

DISCLOSURE OF INTERESTS

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

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 9 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange, are as follows:

Long positions in the shares

Name of Director	Company/name of associated company	Nature of interest	Number of securities	Approximate percentage of shareholding
Mr Zhu Gen Rong	The Company	Interest of a controlled corporation	204,000,000 shares (Note 1)	75.00%
	Florescent Holdings Limited	Interest of a controlled corporation	779 shares of US\$1.00 each (Note 2)	77.90%
	Lian Shun Limited	Beneficial interest	5,005,500 shares of US\$0.001 each (Note 3)	53.79%

DISCLOSURE OF INTERESTS (*Continued*)

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 53.79% by Mr Zhu Gen Rong. Mr Zhu is deemed to be interested in the shares held by Florescent Holdings Limited.
2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited and as to 22.10% by Qunyun Limited.
3. Lian Shun Limited is owned as to 53.79% by Mr Zhu Gen Rong, as to 20.74% by Mr Wang Ai Yan, as to 17.95% by Mr Liu Chuan Jiang and as to 7.52% by Ms Zhu Ling Yun.

Save as disclosed above, as at 31 December 2013, 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 Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS (Continued)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 31 December 2013, so far as the Directors are aware, the interests and short positions owned by the following persons (other than the Directors and chief executive of the Company) in the shares, underlying shares and debentures of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the shares

Name of Substantial Shareholders	Capacity/Nature of interest	Number of shares directly or indirectly held	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owner	204,000,000	75%
Lian Shun Limited	Interest of a controlled corporation	204,000,000 (Note 1)	75%
Mr Zhu Gen Rong	Interest of a controlled corporation	204,000,000 (Note 2)	75%
Mr Wang Ai Yan	Interest of a controlled corporation	204,000,000 (Note 3)	75%
Mr Liu Chuan Jiang	Interest of a controlled corporation	204,000,000 (Note 4)	75%
Ms Zhu Ling Yun	Interest of a controlled corporation	204,000,000 (Note 5)	75%

DISCLOSURE OF INTERESTS *(Continued)*

Notes:

1. The shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited. Under the SFO, Lian Shun Limited is deemed to be interested in the shares held by Florescent Holdings Limited.
2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 53.79% by Mr Zhu Gen Rong. Under the SFO, Mr Zhu is deemed to be interested in the shares held by Florescent Holdings Limited.
3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 20.74% by Mr Wang Ai Yan. Mr Wang is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited.
4. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 17.95% by Mr Liu Chuan Jiang. Mr Liu is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited.
5. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 7.52% by Ms Zhu Ling Yun. Ms Zhu is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited.

Save as disclosed above, as at 31 December 2013, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

DISCLOSURE OF INTERESTS (Continued)

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as the information set out in the section headed "Compliance of Non-competition Undertakings", during the six months ended 31 December 2013 and up to the date of this report, none of the Directors or any of their respective associates, had engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As at 31 December 2013, as notified by the Company's compliance adviser, Guotai Junan Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 8 May 2013, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

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.

OTHER INFORMATION (Continued)

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).

OTHER INFORMATION (Continued)

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 auditor; 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 auditor 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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

TO THE BOARD OF DIRECTORS OF HUAZHANG TECHNOLOGY HOLDING LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 19 to 46, which comprises the interim condensed consolidated balance sheet of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2013 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion 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.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION *(Continued)*



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SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 February 2014

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2013

	Note	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
		51,297,655	49,671,908
Current assets			
Inventories	9	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	10	14,819,392	5,025,347
Cash and cash equivalents	10	64,423,059	80,920,622
		298,466,586	244,241,640
Total assets		349,764,241	293,913,548
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	11	2,720,000	2,720,000
Share premium	11	61,934,254	70,910,254
Other reserves	12	66,137,877	60,488,810
Retained earnings		49,872,952	42,088,858
Total equity		180,665,083	176,207,922

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 31 DECEMBER 2013

	Note	As at 31 December 2013 Unaudited HK\$	As at 30 June 2013 Audited HK\$
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		290,483	807,350
Current liabilities			
Trade and other payables	13	168,808,675	116,122,519
Current income tax liabilities		–	775,757
		168,808,675	116,898,276
Total liabilities		169,099,158	117,705,626
Total equity and liabilities		349,764,241	293,913,548
Net current assets		129,657,911	127,343,364
Total assets less current liabilities		180,955,566	177,015,272

The notes on pages 25 to 46 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	Note	Six months ended 31 December	
		2013 Unaudited HK\$	2012 Audited HK\$
Revenue	6	139,654,722	119,650,158
Cost of sales		(100,862,177)	(85,136,466)
Gross profit		38,792,545	34,513,692
Distribution costs		(5,992,103)	(6,884,292)
Administrative expenses		(15,424,688)	(13,739,971)
Research and development expenses		(4,855,499)	(5,780,912)
Other income	14	473,282	373,169
Other losses — net		(31,256)	—
Operating profit		12,962,281	8,481,686
Finance income		517,845	114,557
Finance costs		(62,867)	(594,373)
Finance income/(costs) — net		454,978	(479,816)
Profit before income tax		13,417,259	8,001,870
Income tax expense	16	(2,299,310)	(1,753,328)
Profit for the period, all attributable to the owners of the Company		11,117,949	6,248,542

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	Note	Six months ended 31 December	
		2013 Unaudited HK\$	2012 Audited HK\$
Other comprehensive income for the period			
Currency translation differences		2,315,212	436,007
Other comprehensive income for the period		2,315,212	436,007
Total comprehensive income for the period, all attributable to the owners of the Company		13,433,161	6,684,549
Earnings per share for profit attributable to the owners of the Company			
— Basic earnings per share	17	0.04	0.03
— Diluted earnings per share		0.04	0.03

The notes on pages 25 to 46 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	Attributable to the owners of the Company				
	Par value of ordinary shares	Share Premium	Other Reserves	Retained earnings	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$
(Unaudited)					
Balance at 1 July 2013	2,720,000	70,910,254	60,488,810	42,088,858	176,207,922
Comprehensive income					
Profit for the period	—	—	—	11,117,949	11,117,949
Translation differences	—	—	2,315,212	—	2,315,212
Total comprehensive income	—	—	2,315,212	11,117,949	13,433,161
Transactions with owners					
Dividends declared (Note 18)	—	(8,976,000)	—	—	(8,976,000)
Profit appropriation to statutory reserves	—	—	3,333,855	(3,333,855)	—
Total transactions with owners	—	(8,976,000)	3,333,855	(3,333,855)	(8,976,000)
Balance at 31 December 2013	2,720,000	61,934,254	66,137,877	49,872,952	180,665,083
(Audited)					
Balance at 1 July 2012	0.01	—	51,468,818	26,866,952	78,335,770
Comprehensive income					
Profit for the period	—	—	—	6,248,542	6,248,542
Translation differences	—	—	436,007	—	436,007
Total comprehensive income	—	—	436,007	6,248,542	6,684,549
Transactions with owners					
Capitalisation of loan from the former parent company	—	—	5,200,000	—	5,200,000
Profit appropriation to statutory reserves	—	—	2,445,217	(2,445,217)	—
Total transactions with owners	—	—	7,645,217	(2,445,217)	5,200,000
Balance at 31 December 2012	0.01	—	59,550,042	30,670,277	90,220,319

The notes on pages 25 to 46 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	Note	Six months ended 31 December	
		2013 Unaudited HK\$	2012 Audited HK\$
Cash flows from operating activities			
Cash generated from/(used in) operations		229,409	(4,297,783)
Interest paid		—	(594,373)
Income tax paid		(4,401,479)	(2,306,686)
Net cash outflow from operating activities		(4,172,070)	(7,198,842)
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,804,471)	(440,768)
Interest received		517,845	94,942
Net cash outflow from investing activities		(3,286,626)	(345,826)
Cash flows from financing activities			
Proceeds from borrowings		—	6,149,797
Repayments of borrowings		—	(24,685,284)
Dividends paid to the owners of the Company	18	(8,976,000)	—
Loan from a related party	20	—	5,200,000
Net cash outflow from financing activities		(8,976,000)	(13,335,487)
Net decrease in cash and cash equivalents			
Effect of foreign exchange rate changes		(16,434,696)	(20,880,155)
Cash and cash equivalents at beginning of the period		(62,867)	19,615
		80,920,622	43,817,397
Cash and cash equivalents at end of the period	10	64,423,059	22,956,857

The notes on pages 25 to 46 are an integral part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the research and development, manufacture and sale of industrial 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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "SEHK") on 16 May 2013 (the "Listing") by way of placing.

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

These condensed consolidated interim financial statements have not been audited.

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 statements 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 the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial statements 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

4 ESTIMATES

The preparation of condensed consolidated interim financial statements 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 statements, 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 statements 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

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 statements. 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 Unaudited HK\$	2012 Audited HK\$
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
	139,654,722	119,650,158

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

6 SEGMENT INFORMATION (CONTINUED)

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

	Unaudited			
	Industrial automation systems	Sludge treatment products	After-sales service	Total
	HK\$	HK\$	HK\$	HK\$
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	15,168,100	5,259,962	4,068,567	24,496,629
Common administrative expenses				(11,976,374)
Other income				473,282
Other losses — net				(31,256)
Finance costs — net				454,978
Profit before income tax				13,417,259
Income tax expense				(2,299,310)
Profit for the period				11,117,949

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

6 SEGMENT INFORMATION (CONTINUED)

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

	Unaudited				
	Industrial automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK\$	HK\$	HK\$	HK\$	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	35,795	47,492	–	42,829	126,116

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

6 SEGMENT INFORMATION (CONTINUED)

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

6 SEGMENT INFORMATION (CONTINUED)

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

	Audited				
	Industrial automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
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	34,842	46,228	–	41,689	122,759

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
	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	119,596,047	53,290,562	12,131,886	48,873,744	233,892,239
Segment liabilities	(117,159,467)	(17,080,798)	–	(9,431,655)	(143,671,920)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

7 LAND USE RIGHTS AND PROPERTY, PLANT AND EQUIPMENT

	Land use rights HK\$	Property, plant and equipment HK\$
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 (Note 15)	(126,116)	(1,739,092)
Net book amount as at		
31 December 2013	9,031,399	38,915,805
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 (Note 15)	(122,759)	(1,664,630)
Net book amount as at		
31 December 2012	9,003,355	38,990,421

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

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)	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 (Note 20)	359,735	2,152,565
	62,037,811	49,475,829
Less: provision for impairment of trade receivables	(4,622,174)	(3,617,438)
Trade receivables — net	57,415,637	45,858,391
Bills receivable	31,869,095	4,748,783
Trade and bills receivables	89,284,732	50,607,174
Other receivables due from a related party (Note 20)	44,307	21,880
Others	1,766,689	2,271,916
	1,810,996	2,293,796
Total trade and other receivables	91,095,728	52,900,970
Less: trade receivables — non-current portion	—	(828,573)
	91,095,728	52,072,397

(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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

8 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(i) Trade and other receivables (continued)

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
	26,798,319	23,040,517

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
	35,239,492	26,435,312

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

8 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(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 (Note 20)	7,211,152	–
Others	2,278,333	608,739
Total prepayments	20,704,363	11,624,200
Less: prepayments – non-current portion	(1,749,963)	(433,700)
	18,954,400	11,190,500

9 INVENTORIES

	As at 31 December 2013 Unaudited HK\$	As at 30 June 2013 Audited HK\$
Raw materials	40,871,322	28,960,234
Work in progress	42,422,791	39,939,254
Finished goods	25,879,894	26,133,286
	109,174,007	95,032,774

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

10 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December 2013 Unaudited HK\$	As at 30 June 2013 Audited HK\$
Cash at bank and on hand (a)	79,242,451	85,945,969
Less: Restricted cash (b)	(14,819,392)	(5,025,347)
Cash and cash equivalents	64,423,059	80,920,622

(a) All cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates.

(b) Restricted cash represents cash set aside as deposits for issuance of trade facilities such as bills payable and letter of credit.

11 SHARE CAPITAL AND PREMIUM

	Number of issued shares	Ordinary shares HK\$	Share premium HK\$	Total HK\$
(Unaudited)				
At 30 June 2013	272,000,000	2,720,000	70,910,254	73,630,254
Dividends (i)	—	—	(8,976,000)	(8,976,000)
At 31 December 2013	272,000,000	2,720,000	61,934,254	64,654,254
(Audited)				
At 30 June 2012 and 31 December 2012	1	0.01	—	0.01

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

11 SHARE CAPITAL AND PREMIUM (CONTINUED)

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

12 OTHER RESERVES

	Reorganisation reserve HK\$	Merger reserve HK\$	Statutory reserves HK\$	Translation differences HK\$	Total HK\$
(Unaudited)					
At 1 July 2013	3,000,000	40,424,773	5,272,939	11,791,098	60,488,810
Translation differences	-	-	-	2,315,212	2,315,212
Appropriation to statutory reserves	-	-	3,333,855	-	3,333,855
At 31 December 2013	3,000,000	40,424,773	8,606,794	14,106,310	66,137,877
(Audited)					
At 1 July 2012	3,000,000	35,224,773	2,812,658	10,431,387	51,468,818
Translation differences	-	-	-	436,007	436,007
Capitalisation of loan from the former parent company	-	5,200,000	-	-	5,200,000
Appropriation to statutory reserves	-	-	2,445,217	-	2,445,217
At 31 December 2012	3,000,000	40,424,773	5,257,875	10,867,394	59,550,042

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

13 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 (Note 20)	—	968,581
Bills payable	48,321,876	15,757,999
	66,343,734	36,919,611
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
	102,464,941	79,202,908
	168,808,675	116,122,519

- (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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

13 TRADE AND OTHER PAYABLES (CONTINUED)

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

14 OTHER INCOME

	Six months ended 31 December 2013 Unaudited HK\$	2012 Audited HK\$
Government grants	243,117	46,000
Operating lease income (Note 20)	230,165	81,177
Others	—	245,992
	473,282	373,169

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

15 EXPENSES BY NATURE

	Six months ended 31 December	
	2013 Unaudited HK\$	2012 Audited 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

16 INCOME TAX EXPENSE

	Six months ended 31 December	
	2013 Unaudited HK\$	2012 Audited 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

16 INCOME TAX EXPENSE (CONTINUED)

(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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

17 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 Unaudited HK\$	2012 Audited HK\$
Profit attributable to the owners of the Company	11,117,949	6,248,542
Weighted average number of ordinary shares in issue	272,000,000	204,000,000
Basic earnings per share	0.04	0.03

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

18 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).

19 CONTINGENCIES

The Group did not have contingent liabilities as at 31 December 2013 or 30 June 2013.

20 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 six months ended 31 December 2013 and 2012, balances arising from related party transactions as at 31 December 2013 and 30 June 2013.

(a) Name and relationship with related parties

Name of related parties	Relationships
Mr. Zhu Gen Rong (i)	Person Acting in Concert
Mr. Wang Ai Yan (i)	Person Acting in Concert
Mr. Liu Chuan Jiang (i)	Person Acting in Concert
Ms. Zhu Ling Yun (i)	Person Acting in Concert
Mr. Zhu Genyi	Brother of Mr. Zhu
Huazhang Overseas Holding, Inc. ("Huazhang Overseas")	The former parent company, controlled by the Controlling Shareholders
Zhejiang Huazhang Automation Equipment Company Limited ("Huazhang Automation (Zhejiang)")	30% of its indirect interests held by Huazhang Overseas

(i) Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu form the "Persons Acting in Concert" or the "Controlling Shareholders".

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

20 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties

	Six months ended 31 December	
	2013 Unaudited HK\$	2012 Audited HK\$
Huazhang Automation (Zhejiang)		
– Sales of goods and services	3,377,630	2,725,958
– Purchases of goods and services	32,943,790	31,196,439
– Rental income (Note 14)	164,879	81,177
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Huazhang Overseas		
– Loan from a related party	–	5,200,000
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Key management compensation		
– Salaries	1,795,085	1,654,260
– Bonus	609,055	448,953
– Other benefits	209,265	171,299
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	2,613,405	2,274,512
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

20 RELATED-PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

(i) Due from related parties (Note 8):

	As at 31 December 2013 Unaudited HK\$	As at 30 June 2013 Audited HK\$
Huazhang Automation (Zhejiang)		
— Included in prepayments	7,211,152	—
— Included in trade receivables	359,735	2,152,565
	<hr/>	<hr/>
Mr. Zhu Genyi		
— Included in other receivables	44,307	21,880
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The receivables from related parties as at 31 December 2013 and 30 June 2013 arise mainly from ordinary course of businesses.

The receivables are unsecured, bear no interest and are repayable on demand. There are no provisions made against receivables from related parties.

(ii) Due to related parties (Note 13):

	As at 31 December 2013 Unaudited HK\$	As at 30 June 2013 Audited HK\$
Huazhang Automation (Zhejiang)		
— Included in trade payables	—	968,581
	<hr/>	<hr/>

The payables to related parties as at 31 December 2013 and 30 June 2013 arise mainly from ordinary course of businesses.

The payables are unsecured, bear no interest and are repayable on demand.