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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: 08276)

**THIRD QUARTERLY RESULTS
ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 31 MARCH 2014**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “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 nine months ended 31 March 2014 was approximately HK\$192,157,000, representing an increase of approximately 21.5% as compared with that of the corresponding period in 2013.
- Net profit attributable to owners of the Company for the nine months ended 31 March 2014 was approximately HK\$14,540,000 representing an increase of approximately 183.7%, as compared with that of the corresponding period in 2013.
- The Board does not recommend the payment of third quarterly dividend for the nine months ended 31 March 2014.

THIRD QUARTERLY RESULTS

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited consolidated third quarterly results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 31 March 2014 together with the comparative figures for the corresponding periods as follows.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Three months ended 31 March		Nine months ended 31 March	
		2014 HK\$ Unaudited	2013 HK\$ Unaudited	2014 HK\$ Unaudited	2013 HK\$ Unaudited
Revenue	3	52,502,391	38,490,434	192,157,113	158,140,592
Cost of sales		(38,192,758)	(27,983,184)	(139,054,935)	(113,119,650)
Gross profit		14,309,633	10,507,250	53,102,178	45,020,942
Distribution costs		(2,420,074)	(3,051,041)	(8,412,177)	(9,935,333)
Administrative expenses		(5,262,156)	(6,327,723)	(20,686,844)	(20,067,694)
Research and development expenses		(2,252,039)	(2,563,164)	(7,107,538)	(8,344,076)
Other income	4	46,121	226,293	519,403	599,462
Other gain/(losses) - net		-	29,046	(31,256)	29,046
Operating profit/(loss)	5	4,421,485	(1,179,339)	17,383,766	7,302,347
Finance income		661,462	23,015	1,179,307	137,572
Finance costs		(46,650)	(190,562)	(109,517)	(784,935)
Finance income/(costs) - net		614,812	(167,547)	1,069,790	(647,363)
Profit/(loss) before income tax		5,036,297	(1,346,886)	18,453,556	6,654,984
Income tax (expenses)/credit	6	(1,614,598)	222,682	(3,913,908)	(1,530,646)
Profit/(loss) for the period, all attributable to the owners of the Company		3,421,699	(1,124,204)	14,539,648	5,124,338
Other comprehensive (loss)/income for the period					
Currency translation differences		(1,504,050)	331,809	811,162	767,816
Other comprehensive (loss)/income for the period		(1,504,050)	331,809	811,162	767,816
Total comprehensive income/(loss) for the period, all attributable to the owners of the Company		1,917,649	(792,395)	15,350,810	5,892,154
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company	7				
—Basic earnings/(loss) per share (HK cents)		1.26	(0.55)	5.35	2.51
—Diluted earnings/(loss) per share (HK cents)		1.26	(0.55)	5.35	2.51

NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE 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 systems 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 GEM of the Stock Exchange on 16 May 2013 (the "Listing") by way of placing.

This condensed consolidated results are presented in Hong Kong Dollars ("HK\$"), unless otherwise stated. These condensed consolidated results has been approved for issue by the Board on 9 May 2014.

These condensed consolidated results have not been audited.

2. BASIS OF PREPARATION

These condensed consolidated results for the nine months ended 31 March 2014 have been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated results should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 30 June 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

3. REVENUE

	Three months ended 31 March		Nine months ended 31 March	
	2014	2013	2014	2013
	HK\$	HK\$	HK\$	HK\$
	Unaudited	Unaudited	Unaudited	Unaudited
Sales of industrial automation systems	32,179,326	30,089,451	123,032,685	99,470,898
Sales of sludge treatment products	13,488,975	2,012,372	49,860,723	43,852,302
Provision of after-sales service	6,834,090	6,388,611	19,263,705	14,817,392
	52,502,391	38,490,434	192,157,113	158,140,592

4. OTHER INCOME

	Three months ended 31 March		Nine months ended 31 March	
	2014 HK\$ Unaudited	2013 HK\$ Unaudited	2014 HK\$ Unaudited	2013 HK\$ Unaudited
Government grants	45,392	61,716	288,509	107,716
Operating lease income	-	40,835	230,165	122,012
Others	729	123,742	729	369,734
	46,121	226,293	519,403	599,462

5. OPERATING PROFIT/ (LOSS)

Operating profit / (loss) is arrived at after charging / (crediting):

	Three months ended 31 March		Nine months ended 31 March	
	2014 HK\$ Unaudited	2013 HK\$ Unaudited	2014 HK\$ Unaudited	2013 HK\$ Unaudited
Amortisation of land use rights	59,822	61,750	185,938	184,509
Depreciation of property, plant and equipment	750,360	685,595	2,489,452	2,350,225
Provision/(reversal of) for impairment of trade receivables	-	(163,546)	951,012	(856,936)
(Reversal of)/ provision for inventories	(1,453,083)	748,571	672,083	4,079
Auditors' remuneration	883,037	125,385	1,652,924	125,385
Professional service fees	248,871	2,253,047	1,274,520	6,937,953

6. INCOME TAX EXPENSE / (CREDIT)

	Three months ended 31 March		Nine months ended 31 March	
	2014 HK\$ Unaudited	2013 HK\$ Unaudited	2014 HK\$ Unaudited	2013 HK\$ Unaudited
Current income tax				
- Hong Kong profits tax	-	-	23,753	-
- PRC enterprise income tax	1,426,539	(236,969)	4,162,969	1,350,932
Deferred income tax	188,059	14,287	(272,814)	179,714
Income tax expense/ (credit)	1,614,598	(222,682)	3,913,908	1,530,646

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

For the nine months ended 31 March 2014, 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 nine months ended 31 March 2013, 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.

The subsidiary established in the PRC, Zhejiang Huazhang Technology Limited (the “Huazhang Technology”), 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, the 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 of the Huazhang Technology would be 15% from 2011 till 2013. Since the preferential tax treatment resulting from such a title is expired in December 2013, the Huazhang Technology intends to reapply to the relevant PRC authorities in June 2014 (which falls within the applicable application deadline) for the classification of the Huazhang Technology as a High and New Technology Enterprise and upon completion of such re-application, the Huazhang Technology will proceed to register with the tax authorities in-charge for the entitlement to the preferential tax rate of 15% for the period from January 2014 to December 2016. Due to this reason, the applicable tax rate of the Huazhang Technology is 15% and 25% for the six months ended 31 December 2013 and the three months ended 31 March 2014 respectively.

7 EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share for the nine months ended 31 March 2014 and 2013 is calculated by dividing the profit / (loss) 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 nine months ended 31 March 2013, 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.

	Three months ended 31 March		Nine months ended 31 March	
	2014 HK\$ Unaudited	2013 HK\$ Unaudited	2014 HK\$ Unaudited	2013 HK\$ Unaudited
Profit/(loss) attributable to the owners of the Company	<u>3,421,699</u>	<u>(1,124,204)</u>	<u>14,539,648</u>	<u>5,124,338</u>
Weighted average number of ordinary shares in issue	<u>272,000,000</u>	<u>204,000,000</u>	<u>272,000,000</u>	<u>204,000,000</u>
Basic earnings/(loss) per share (HK cents)	<u>1.26</u>	<u>(0.55)</u>	<u>5.35</u>	<u>2.51</u>

As there were no dilutive options and other dilutive potential shares in issue for the nine months ended 31 March 2014 and 2013, diluted earnings per share is the same as basic earnings per share.

8 DIVIDENDS

The dividends of HK\$8,976,000 declared in the nine months ended 31 March 2014 represents the final dividend for the year ended 30 June 2013 which was approved and paid during the nine months ended 31 March 2014. (Nine months ended 31 March 2013: HK\$ Nil).

The Board does not recommend the payment of any third quarterly dividend for the nine months ended 31 March 2014 (Nine months ended 31 March 2013: HK\$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

In the first quarter of 2014, China's economy still existed downside risks. However, the revenue growth of the Group in each quarter maintained an average of approximately 23.2% for the nine months ended 31 March 2014. Revenue and net profit for the nine months ended 31 March 2014 were approximately HK\$192,157,000 and approximately HK\$14,540,000 respectively, as compared with the same period in last year, which increased by approximately 21.5% and approximately 183.7% respectively.

Under a difficult operating environment faced by the Chinese paper industry, the Group is actively expanding its market share in non-paper industries. For the nine months ended 31 March 2014, the revenue from non-paper industries accounted for approximately 38.2% of the Group's revenue, as compared with approximately 28.4% over the same period in last year, an increase of approximately 9.8%. To further increase the market share in the non-paper industries, the Group has established a non-paper industries unit to responsible for developing such markets, the Group expects revenue from non-paper industries will be further enhanced.

In March 2014, the Chinese government further revealed the environmental and energy saving are the future direction of national policy. Therefore, the Group expected the environmental regulations relating to paper industry will be tightened and the outdated production facilities will be phased out faster, which will create many opportunities to us. While the Group is focusing on the revenue growth, we will continue to focus on enhancing management and strictly control costs in order to maintain competitive and increase profitability.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue of the Group increased by approximately 21.5% from approximately HK\$158,141,000 for the nine months ended 31 March 2013 to approximately HK\$192,157,000 for the nine months ended 31 March 2014. Gross profit margin decreased from approximately 28.5% for the nine months ended 31 March 2013 to approximately 27.6% for the nine months ended 31 March 2014.

(i) Industrial automation systems

Revenue from sales of industrial automation systems increased by approximately 23.7% from approximately HK\$99,471,000 for the nine months ended 31 March 2013 to approximately HK\$123,033,000 for the nine months ended 31 March 2014. 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 nine months ended 31 March 2013 to 5 contracts amounting to approximately HK\$41,528,000 for the nine months ended 31 March 2014. The gross profit margin of industrial automation systems decreased from approximately 28.1% for the nine months ended 31 March 2013 to approximately 26.6% for the nine months ended 31 March 2014.

(ii) Sludge treatment products

Revenue from sales of sludge treatment products increased by approximately 13.7% from approximately HK\$43,852,000 for the nine months ended 31 March 2013 to approximately HK\$49,861,000 for the nine months ended 31 March 2014. Such increase was primarily attributable to the increase in number of contracts completed. The Group completed 87 contracts for the nine months ended 31 March 2014 as compared with there were only 54 contracts completed for the nine months ended 31 March 2013. The gross profit margin for our sludge treatment products increased from approximately 25.1% for the nine months ended 31 March 2013 to approximately 28.7% for the nine months ended 31 March 2014.

(iii) After-sales services

Revenue from provision of after-sales services increased by approximately 30.0% from approximately HK\$14,817,000 for the nine months ended 31 March 2013 to approximately HK\$19,264,000 for the nine months ended 31 March 2014. Such increase was primarily attributable to the 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 40.6% for the nine months ended 31 March 2013 to approximately 31.3% for the nine months ended 31 March 2014. Such decrease is attributing to increase in supply of spare parts and components only with a lower gross profit margin.

Distribution costs and administrative expenses

Distribution costs and administrative expenses of the Group slightly decreased from approximately HK\$30,003,000 for the nine months ended 31 March 2013 to approximately HK\$29,099,000 for the nine months ended 31 March 2014. Such decrease is as a result of decrease in professional fee in relation to the Listing and warranty expense, which was offset by increase in employee benefit expenses and provision for impairment of trade receivables.

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

Profit attributable to the owners of the Company increased by approximately 183.7% from approximately HK\$5,124,000 for the nine months ended 31 March 2013 to approximately HK\$14,540,000 for the nine months ended 31 March 2014. In the same period, the net profit margin increased by approximately 4.4% from approximately 3.2% for the nine months ended 31 March 2013 to approximately 7.6% for the nine months ended 31 March 2014. Such change is primarily attributing to the Group exercised better control over its distribution costs and research and development expenses. For the nine months ended 31 March 2014, the total of these costs and expenses attributable to revenue for the period as compared with the same period in 2013, a decreased by approximately 3.5%.

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 nine months ended 31 March 2014.

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 Codes

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 nine months ended 31 March 2014 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 March 2014.

Third Quarterly Dividend

The Board does not recommend the payment of any third quarterly dividend for the nine months ended 31 March 2014. (Nine months ended 31 March 2013: 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 reviewed and discussed the Group's unaudited condensed consolidated results for the nine months ended 31 March 2014.

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

Hong Kong, 9 May 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.