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Huazhang Technology Holding Limited

華章科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8276)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2014

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 of the Stock Exchange 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

- Revenue increased by approximately 22.9% from approximately HK$251,362,000 for the year ended 30 June 2013 to approximately HK$308,906,000 for the year ended 30 June 2014.
- Gross profit margin decreased from approximately 28.5% for the year ended 30 June 2013 to approximately 27.9% for the year ended 30 June 2014.
- Profit attributable to the owners of the Company increased by approximately 61.2% from approximately HK$17,682,000 for the year ended 30 June 2013 to approximately HK$28,496,000 for the year ended 30 June 2014. At the same time, the net profit margin increased by approximately 2.2% from approximately 7.0% for the year ended 30 June 2013 to approximately 9.2% for the year ended 30 June 2014.
- Basic earnings per share for the year ended 30 June 2014 and 2013 were HK$0.10 and HK$0.08, respectively.
- The Board recommends the payment of a final dividend of 5.0 HK cents per share.

The Board of Directors (the “Board”) of the Company is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2014, together with the comparative figures for the year ended 30 June 2013, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) as below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 30 June 2014 HK$	2013 HK$
Revenue	3	**308,905,915**	251,362,209
Cost of sales		**(222,675,095)**	(179,689,213)
Gross profit		**86,230,820**	71,672,996
Distribution costs		**(12,200,366)**	(11,765,216)
Administrative expenses		**(30,712,604)**	(35,265,116)
Research and development expenses		**(10,137,341)**	(8,566,882)
Other income		**3,018,267**	8,213,826
Other (losses)/gains- net		**(56,259)**	180,631
Operating profit		**36,142,517**	24,470,239
Finance income		**1,380,747**	180,992
Finance costs		**(160,428)**	(838,332)
Finance income/(costs) – net	4	**1,220,319**	(657,340)
Profit before income tax		**37,362,836**	23,812,899
Income tax expense	5	**(8,867,247)**	(6,130,712)
Profit for the year, all attributable to the owners of the Company		**28,495,589**	17,682,187
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**813,407**	1,359,711
Other comprehensive income for the year, net of tax		**813,407**	1,359,711
Total comprehensive income for the year and attributable to equity holders of the Company		**29,308,996**	19,041,898
Earnings per share for profit attributable to the owners of the Company			
- Basic earnings per share	6	**0.10**	0.08
- Diluted earnings per share	6	**0.10**	0.08
Dividends	7	**13,600,000**	8,976,000

CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2014 HK$	2013 HK$
ASSETS			
Non-current assets			
Land use rights		**8,819,541**	9,039,689
Property, plant and equipment		**48,962,955**	38,194,654
Deferred income tax assets		**3,086,886**	1,175,292
Trade and other receivables	8	**1,251,763**	828,573
Prepayments		**509,453**	433,700
		62,630,598	49,671,908
Current assets			
Inventories		**108,652,096**	95,032,774
Trade and other receivables	8	**101,368,450**	52,072,397
Prepayments		**14,946,416**	11,190,500
Restricted cash		**957,225**	5,025,347
Cash and cash equivalents		**91,859,246**	80,920,622
		317,783,433	244,241,640
Total assets		**380,414,031**	293,913,548
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**2,720,000**	2,720,000
Share premium		**61,934,254**	70,910,254
Other reserves		**64,604,279**	60,488,810
Retained earnings		**67,282,385**	42,088,858
Total equity		**196,540,918**	176,207,922
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**1,360,000**	807,350
Current liabilities			
Trade and other payables	9	**155,912,619**	116,122,519
Current income tax liabilities		**4,600,494**	775,757
Borrowings	10	**22,000,000**	-
		182,513,113	116,898,276
Total liabilities		**183,873,113**	117,705,626
Total equity and liabilities		**380,414,031**	293,913,548
Net current assets		**135,270,320**	127,343,364
Total assets less current liabilities		**197,900,918**	177,015,272

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 the GEM on 16 May 2013 by way of placing.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 5 September 2014.

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with HKFRSs. The consolidated financial statements have been prepared under the historical cost convention.

Changes in accounting policies and disclosures

New and amended standards adopted by the Group in the year ended 30 June 2014.

The following new and amendment to standards are mandatory for the first time for the financial year beginning on 1 July 2013 and are relevant to the Group.

- Amendment to HKFRSs 10, 11 and 12 on transition guidance are effective for annual periods beginning on or after 1 January 2013. These amendments provide additional transition relief to HKFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

- HKFRS 10 'Consolidated financial statements' is effective for annual periods beginning on or after 1 January 2013. The objective of HKFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

- HKAS 27 (revised 2011) ‘Separate financial statements’ is effective for annual periods beginning on or after 1 January 2013. It includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10.

- HKFRS 13 ‘Fair value measurements’ is effective for annual periods beginning on or after 1 January 2013. It aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and Generally Accepted Accounting Principles (“US GAAP”), do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP.

- Amendment to HKFRS 7 ‘Financial instruments: Disclosures’ on asset and liability offsetting is effective for annual periods beginning on or after 1 January 2013. The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

The adoption of the above new standards and amendment starting from 1 July 2013 did not give rise to any significant impact on the Group’s results of operations and financial position for year ended 30 June 2014. There are no other new standards and amendments to standards which are mandatory for the first time for the financial year beginning on 1 July 2013 which had a material impact on the Group’s consolidated financial statements.

3 Segment information

The chief operating decision-maker has been identified as the Board. The Board reviews the Group’s internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

The Board considers the business from a product perspective. The Board assesses the performance of the operating segments based on a measure of segment profit or loss.

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

No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

No revenue from transactions with a single external customer amounted to 10% or more of the Group’s total revenue for the year ended 30 June 2014.

The segment results for the year ended 30 June 2014:

	Industrial automation system and related projects	Sludge treatment products	After-sales and other service	Total
	HK$	HK$	HK$	HK$
Segment revenue from external customers	203,948,533	65,685,847	39,271,535	308,905,915
Segment cost of sales	(149,363,059)	(47,116,238)	(26,195,798)	(222,675,095)
Segment gross profit	54,585,474	18,569,609	13,075,737	86,230,820
Segment results	31,158,805	9,069,057	12,410,175	52,638,037
Common administrative expenses				(19,457,528)
Other losses - net				(56,259)
Other income				3,018,267
Finance income - net				1,220,319
Profit before income tax				37,362,836
Income tax expense				(8,867,247)
Profit for the year				28,495,589

Other segment items included in the consolidated statement of comprehensive income:

	Industrial automation system and related projects	Sludge treatment products	After-sales and other service	Unallocated	Total
	HK$	HK$	HK$	HK$	HK$
Capital expenditure	7,487,085	6,696,111	-	-	14,156,196
Depreciation of property, plant and equipment	1,464,846	1,145,340	-	928,356	3,538,542
Amortization of land use rights	71,249	94,532	-	85,248	251,029

The segment results for the year ended 30 June 2013:

	Industrial automation business and related projects	Sludge treatment products	After-sales and other service	Total
	HK$	HK$	HK$	HK$
Segment revenue from external customers	174,946,086	54,851,876	21,564,247	251,362,209
Segment cost of sales	(126,016,342)	(40,375,705)	(13,297,166)	(179,689,213)
Segment gross profit	48,929,744	14,476,171	8,267,081	71,672,996
Segment results	33,796,200	6,029,449	7,195,767	47,021,416
Common administrative expenses				(30,945,634)
Other gains - net				180,631
Other income				8,213,826
Finance costs - net				(657,340)
Profit before income tax				23,812,899
Income tax expense				(6,130,712)
Profit for the year				17,682,187

Other segment items included in the consolidated statement of comprehensive income:

	Industrial automation system and related projects	Sludge treatment products	After-sales and other service	Unallocated	Total
	HK$	HK$	HK$	HK$	HK$
Capital expenditure	-	734,568	-	235,979	970,547
Depreciation of property, plant and equipment	1,327,375	1,068,968	-	984,070	3,380,413
Amortization of land use rights	70,302	93,276	-	84,116	247,694

4 Finance (income)/ costs – net

	Year ended 30 June	
	2014	2013
	HK$	HK$
Finance costs		
- Interest expenses on borrowings	**124,667**	838,332
- Net foreign exchange loss	**35,761**	-
	160,428	838,332
Finance income		
- Interest income on bank deposits and debenture securities	**(1,380,747)**	(164,027)
- Net foreign exchange gain	**-**	(16,965)
	(1,380,747)	(180,992)
Net finance (income)/costs	**(1,220,319)**	657,340

5 Income tax expense

	Year ended 30 June	
	2014	2013
	HK$	HK$
Current income tax		
- PRC enterprise income tax	**9,731,976**	5,395,083
- Hong Kong profits tax	**23,753**	-
Deferred income tax	**(888,482)**	735,629
Income tax expense	**8,867,247**	6,130,712

(i) Cayman Islands profits tax

The Company is not subject to income tax in the Cayman Islands.

(ii) Hong Kong profits tax

For the year ended 30 June 2014, Hong Kong profits tax has been provided at the rate of 16.5%. No Hong Kong profits tax has been provided for the year ended 30 June 2013, as the Group has no taxable profit earned or derived in Hong Kong for the year.

(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.

Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang") is qualified as a foreign investment manufacturing enterprise. Zhejiang Huazhang's applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, Zhejiang Huazhang obtained qualification as High and New Technology Enterprise in Calendar Year 2008 and 2011 respectively, with validation period of three years each. The applicable EIT rate of Zhejiang Huazhang will be 15% from 2008 till 2013. ("the tax benefit period"). The tax benefit period expired on 31 December 2013, hence the applicable income tax rate of Zhejiang Huazhang is 15% for the six months period ended 31 December 2013 and 25% for the six months period ended 30 June 2014 (Year ended 30 June 2013:15%).

(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.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 30 June	
	2014	2013
	HK$	HK$
Profit before income tax	**37,362,836**	23,812,899
Tax calculated at tax rates applicable to profits in the respective jurisdiction	**9,642,219**	8,524,651
Tax effects of:		
Effect of preferential tax rate	**(1,563,382)**	(3,555,142)
Expenses not deductible for tax purposes	**242,374**	165,797
Tax losses for which no deferred income tax asset was recognised	**585,284**	197,408
Re-measurement of deferred tax (Note)	**(1,054,990)**	-
Effect of withholding tax on the expected distributable profits of the subsidiary in mainland China	**1,015,742**	797,998
Income tax expense	**8,867,247**	6,130,712

Note: Zhejiang Huazhang's qualification as High and New Technology Enterprise expired on 31 December 2013 and the qualification for renewal is in progress. As at the date of this announcement, the above application has not been completed and the management used EIT rate of 25% to re-measure deferred tax balance due to uncertainty associated with the renewal application.

6 Earnings per share

Basic earnings per share for the years ended 30 June 2014 and 2013 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 year ended 30 June 2013, 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 2012.

	Year ended 30 June	
	2014	2013
	HK$	HK$
Profit attributable to the owners of the Company	**28,495,589**	17,682,187
Weighted average number of ordinary shares in issue	**272,000,000**	212,500,000
Basic earnings per share	**0.10**	0.08

As there were no dilutive options and other dilutive potential shares in issue during the years ended 30 June 2014 and 2013, diluted earnings per share is the same as basic earnings per share.

7 Dividends

	Year ended 30 June	
	2014	2013
	HK$	HK$
Proposed final dividends	**13,600,000**	8,976,000

At a meeting held on 5 September 2014, the Board proposed a final dividend of 5.0 HK cents (Year ended 30 June 2013: 3.3 HK cents) per share, representing HK$13,600,000 (Year ended 30 June 2013: HK$8,976,000) using the share premium account.

Such dividend is to be approved by the shareholders at the forthcoming Annual General Meeting. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 30 June 2015.

8 Trade and other receivables

	As at 30 June	
	2014	2013
	HK$	HK$
Warranty receivables - due from third parties (i)	**24,319,196**	23,040,517
Other trade receivables - due from third parties	**37,291,531**	24,282,747
Other trade receivables - due from related parties	**-**	2,152,565
	61,610,727	49,475,829
Less: provision for impairment of trade receivables	**(6,722,075)**	(3,617,438)
Trade receivables – net	**54,888,652**	45,858,391
Bills receivable	**44,019,889**	4,748,783
Trade and bills receivables	**98,908,541**	50,607,174
Other receivables due from related parties	**142,777**	21,880
Other receivables due from the sponsor	**-**	518,081
Others	**3,568,895**	1,753,835
	3,711,672	2,293,796
Total trade and other receivables	**102,620,213**	52,900,970
Less: trade receivables - non-current portion	**(1,251,763)**	(828,573)
	101,368,450	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).

As at 30 June 2014 and 2013, the ageing analysis of the warranty receivables and other trade receivables (including non-current portion) is as follows:

	As at 30 June	
	2014	2013
	HK$	HK$
Warranty receivables		
Up to 3 months	**3,478,647**	5,130,520
3 months to 6 months	**1,536,694**	1,708,071
6 months to 1 year	**6,114,641**	4,098,100
1 year to 2 years	**9,085,052**	7,964,120
Over 2 years	**4,104,162**	4,139,706
	24,319,196	23,040,517

	As at 30 June	
	2014	2013
	HK$	HK$
Other trade receivables		
Up to 3 months	**11,071,235**	7,653,062
3 months to 6 months	**8,462,070**	1,244,621
6 months to 1 year	**7,892,886**	14,014,175
1 year to 2 years	**8,037,689**	1,956,242
Over 2 years	**1,827,651**	1,567,212
	37,291,531	26,435,312

As at 30 June 2014 and 2013, trade receivables of HK$43,758,670 and HK$34,921,700, respectively, were past due but not impaired.

As at 30 June 2014 and 2013, trade receivables of HK$6,722,075 and HK$3,617,438 were impaired respectively. The amount of the provision was HK$6,722,075 and HK$3,617,438 as at 30 June 2014 and 2013 respectively. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

Movements on the Group’s provision for impairment of trade receivables are as follows:

	Year ended 30 June	
	2014	2013
	HK$	HK$
At 1 July	**3,617,438**	3,493,754
Provision for receivables impairment	**3,086,758**	41,312
Foreign exchange difference	**17,879**	82,372
At 30 June	**6,722,075**	3,617,438

The creation and release of provision for impaired receivables have been included in 'administrative expenses’ in the consolidated statement of comprehensive income.

Trade and other receivables are unsecured and interest - free. The carrying amounts of trade and other receivables approximates their fair values.

The carrying amounts of the Group's trade and other receivables are denominated in RMB.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

9 Trade and other payables

	As at 30 June	
	2014	2013
	HK$	HK$
Trade payables - due to third parties	**29,133,087**	20,193,031
Trade payables - due to a related party	**13,860,684**	968,581
Bills payable	**2,139,058**	15,757,999
	45,132,829	36,919,611
Advances from customers (a)	**94,341,429**	68,465,543
Others	**16,438,361**	10,737,365
Other payables	**110,779,790**	79,202,908
	155,912,619	116,122,519

(a) Advances from customers represent the down payment from the customers according to the contract payment schedule. 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.

At 30 June 2014 and 2013, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) is as follows:

	As at 30 June	
	2014	2013
	HK$	HK$
Up to 3 months	**41,603,159**	18,215,552
3 to 6 months	**508,821**	895,368
6 months to 1 year	**308,277**	1,196,756
1 to 2 years	**106,513**	552,177
Over 2 years	**467,001**	301,759
	42,993,771	21,161,612

10 Borrowings

	As at 30 June	
	2014	**2013**
	HK$	**HK$**
Loan from an independent third party	**22,000,000**	-

As at 30 June 2014, the Group's loan of HK$22,000,000 from an independent third party borne an interest at the rate of 6% per annum and was repayable in August 2014. The above loan was extended for another 12-month period after expiration of first loan contract.

The carrying amounts of the Group's borrowings are all denominated in HK$.

The fair value of current borrowings approximate their carrying amount.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the previous year, Chinese economic situation is complicated. Although the Chinese government announced that Chinese economic growth is maintained at 7.5% in the second quarter of 2014, in terms of the Chinese economic transformation, all industries were in difficult challenges. The paper industry in the previous year has been facing the problem of overcapacities. In 2013, the Ministry of Industry announced the elimination of outdated production capacities, which could not meet the environmental requirements, in the paper industry. It led to some uncertain factors in development of the industry. Although the paper industry was in the trough, many paper companies were still willing to increase capital expenditure, including the construction of a new production line or project for renovation of the plant, in order to meet future demands on its developments.

BUSINESS REVIEW

For the year ended 30 June 2014, the Group has entered into contracts (including industrial automation systems, sludge treatment product and after-sales service) with amount of HK$400,061,000, as compared with last year, an increase of 69.1%. As at 30 June 2014, the outstanding contracts amount was HK$297,436,000. Most of them was expected to be completed in the financial year ending 30 June 2015. For the year ended 30 June 2014, the Group's turnover was HK$308,906,000, an increase of 22.9% as compared to that of year ended 30 June 2013. With our management team's efforts and customer recognition of the Group's products, even the Chinese economic was complicated, the competitive advantage of the Group's products and services in the industry prompted an increase in the revenue.

Under the difficult business environment faced by the Chinese paper industry, the Group is actively expanding the market share in the non-paper industries. For the year ended 30 June 2014, revenue from the non-paper industry was accounted for approximately 27.5% of the Group's revenue, as compared with last year, an increase of 8.3%.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased by approximately 22.9% from approximately HK$251,362,000 for the year ended 30 June 2013 to approximately HK$308,906,000 for the year ended 30 June 2014. Gross profit margin decreased from approximately 28.5% for the year ended 30 June 2013 to approximately 27.9% for the year ended 30 June 2014.

Industrial automation system and related projects ("Industrial Automation Business")

Revenue from Industrial Automation Business increased by approximately 16.6% from approximately HK$174,946,000 for the year ended 30 June 2013 to approximately HK$203,949,000 for the year ended 30 June 2014. Such increase was primarily attributable to the number of completed contracts amounting to HK$5,000,000 or above increased from 7 contracts amounting to approximately HK$50,282,000 for the year ended 30 June 2013 to 10 contracts amounting to approximately HK$89,321,000 for the year ended 30 June 2014. The demand on Industrial Automation Business was high as the Group can provide one-stop value-added services to our customers. The gross profit margin of Industrial Automation Business decreased from approximately 28.0% for the year ended 30 June 2013 to approximately 26.8% for the year ended 30 June 2014. Such decrease is a result of the Group sold the systems with a lower profit margin in order to explore a new market as well as increase in provision of one-stop value-added services.

Sludge treatment products

Revenue from sales of sludge treatment products increased by approximately 19.8% from approximately HK$54,852,000 for the year ended 30 June 2013 to approximately HK$65,686,000 for the year ended 30 June 2014. Such increase was primarily attributable to the increase in number of contracts completed. The Group completed 127 contracts for the year ended 30 June 2014, as compared with there were only 91 contracts completed for the year ended 30 June 2013, due to our customers are more focused on the environmental protection policy. The gross profit margin of our sludge treatment products increased from approximately 26.4% for the year ended 30 June 2013 to approximately 28.3% for the year ended 30 June 2014. Such increase is mainly attributing to more recognition of our products in the markets under the new environmental protection policy.

After-sales and other services

Revenue from provision of after-sales and other services increased by approximately 82.1% from HK$21,564,000 for the year ended 30 June 2013 to HK$39,272,000 for the year ended 30 June 2014. Such increase was primarily attributable to increase in demand on after-sales and other services from our customers, including system improvement projects, as well as to increase our resources to provide the service. The gross profit margin for provision of after-sales and other services decreased from approximately 38.3% for the year ended 30 June 2013 to approximately 33.3% for the year ended 30 June 2014. Such decrease is attributing to increase in supply of spare parts and components only with a lower gross profit margin.

Other income

For the years ended 30 June 2013 and 2014, other income amounted to approximately HK$8,214,000 and HK$3,018,000 respectively. The decrease was mainly due to decrease in subsidy received from Tongxiang municipal government of Zhejiang Province amounting to HK$4,889,000 for the year.

Distribution costs

The distribution costs slightly increased by approximately HK$435,000 from approximately HK$11,765,000 for the year ended 30 June 2013 to approximately HK$12,200,000 for the year ended 30 June 2014, accounting for approximately 3.9% of the Group's revenue for the year ended 30 June 2014, as compared with approximately 4.7% last year. The increase in distribution costs is mainly attributing to the increase in costs of sales staff resulted from the growth in sales activities.

Administrative expenses

The administrative expenses decreased by approximately HK$4,553,000 from approximately HK$35,265,000 for the year ended 30 June 2013 to approximately HK$30,713,000 for the year ended 30 June 2014, accounting for approximately 9.9% of the Group's revenue for the year ended 30 June 2014, as compared with approximately 14.0% last year. The decrease in administrative expenses was mainly attributing to the expenses of approximately HK$12,479,000 incurred in connection with the listing of the Company for the year ended 30 June 2013 as no such expenses were incurred for the year. Decrease in such expense was partially offset by the increase in provision for impairment of trade receivables and increase in the headcount of administrative staff and the increase in remuneration.

Research and development expenses

The research and development expenses increased by approximately HK$1,570,000 from approximately HK$8,567,000 for the year ended 30 June 2013 to approximately HK$10,137,000 for the year ended 30 June 2014, accounting for approximately 3.3% of the Group's revenue for the year ended 30 June 2014, as compared with approximately 3.4% last year. The increase in research and development expenses was mainly attributing to the continuous investment in research and development activities and business development, and the increase in the headcount and salaries of research and development experts and engineers. The research and development expenses was mainly used in the research and development of sludge treatment products and the upgrade of existing product.

Finance (income)/costs - net

For the year ended 30 June 2014, the Group had a finance income - net of approximately HK$1,220,000 as compared with the finance costs - net of approximately HK$657,000 for the year ended 30 June 2013. Such change was mainly attributing to a significant increase in finance income in connection with the increase in the cash and cash equivalents balance after the listing of the Company.

Income tax expense

For the years ended 30 June 2013 and 2014, income tax expense were approximately HK$6,131,000 and HK$8,867,000 respectively. The increase was mainly attributable to the increase in taxable profit earned by the Company’s operating subsidiary for the year ended 30 June 2014 and a tax rate of 25% adopted by the Company's operating subsidiary for the six months ended 30 June 2014. The subsidiary 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 subsidiary was 15% from 2011 till 2013. Since the preferential tax treatment resulting from such a title is expired in December 2013, the subsidiary have applied to the relevant PRC authorities in June 2014 for the classification of the subsidiary as a High and New Technology Enterprise and upon completion of such re-application, the subsidiary will try 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 subsidiary was 15% and 25% for the six months ended 31 December 2013 and the six months ended 30 June 2014 respectively.

The effective tax rates of the Group for the years ended 30 June 2013 and 2014 were 25.7% and 23.7% respectively. The decrease was mainly attributing to re-measurement of deferred tax as a result of change in tax rate adopted by the subsidiary.

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

Profit attributable to the owners of the Company increased by approximately 61.2% from approximately HK$17,682,000 for the year ended 30 June 2013 to approximately HK$28,496,000 for the year ended 30 June 2014. At the same time, the net profit margin increased by approximately 2.2% from approximately 7.0% for the year ended 30 June 2013 to approximately 9.2% for the year ended 30 June 2014. Such increase is primarily attributing to the Group had enhanced its operating efficiency as well as no listing expenses incurred for the year ended 30 June 2014.

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 borrowing. As at 30 June 2014, the Group have net cash and cash equivalent balance amounting to approximately HK$69,859,000 (30 June 2013: approximately HK$80,921,000) as the Group had a borrowing amounting to HK$22,000,000 (30 June 2013: Nil).

Borrowing and charges of assets

As at 30 June 2014, the Group's interest-bearing loan was HK$22,000,000 (30 June 2013: Nil) which will be repayable within 1 year. Such borrowing is all denominated in HK$, and bear an interest at rate of 6.0% per annum.

As at 30 June 2014, the banking facilities granted by the bank was secured by land use rights and properties of the Group amounting to approximately HK$2,632,000 and HK$17,155,000 respectively (30 June 2013: Nil and Nil respectively).

Gearing ratio

The gearing ratio was 10.1% as at 30 June 2014 while the ratio as at 30 June 2013 was nil. The increase was mainly attributable to a loan from an independent third party amounting to approximately HK$22,000,000 which was borrowed as at 30 June 2014 (30 June 2013: Nil). Based on the gearing ratio as at 30 June 2014, the Group still maintained a good financial position.

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

Capital Expenditure

For the year ended 30 June 2014, the Group's capital expenditure amounted to approximately HK$14,156,000 (30 June 2013: HK$971,000), which was mainly used for the construction of 4th phase of production plant amounting to approximately HK$12,168,000.

Commitments

As at 30 June 2014, the Group had capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to approximately HK$5,140,000 (30 June 2013: Nil).

Foreign Currency Risk

The Group's principal business is located in the PRC and its major 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.

Contingent liabilities

As at 30 June 2014, the Group had no material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals during the year ended 30 June 2014.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2014, the Group had 228 employees (30 June 2013: 202 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2014 were approximately HK$40,132,000, as comparable to approximately HK$30,771,000 for the year ended 30 June 2013.

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.

FUTURE PROSPECTS

The Group expects the paper industry has reached bottom and will recover gradually. The elimination of outdated production capacity in the industry will be accelerated. It will bring opportunities to the Group. The Group will use our design experience in the industrial automation systems and sludge treatment products to further expand the Group's products to different markets and industries.

Effort to expand the share of the industrial automation systems in non-paper market

In the year, the Group established the general sales division to explore sales of industrial automation systems in the non-paper industry, such as metallurgy, electric power, chemical and other non-paper industries. The general sales division team will actively participate in various exhibitions and marketing activities to increase sales of industrial automation systems of the Group in the non-paper markets.

Promotion of "design" "production" "service" business model

In the year, the Group established the project division. Through working with the finance leasing companies, the division successfully providing customers an one-stop value-added service with "design" "production" "service". In the fiscal year of 2015, the Group will further promote such matured model to the markets. The Group is not only to assist our customers for designing the industrial automation systems and sludge treatment products, but also provides valued-added service on design or renovation of the whole production line, including to assist customers to obtain funds from the finance leasing companies. It is achieving a triple win situation. This business model will increase the Group's sales.

Investments in new capacity and cost-effectiveness

The Group expects the 4th phase of the production plant to be completed in September 2014 and production will be commenced thereafter. After the completion of the new plant, it will bring the Group to develop in more sustainable and secured way. The new plant will increase the production capacities of the industrial automation and sludge treatment products by approximately 100.0% to 5,000 units and 119.0% to 92 units. The Group believes that increase in the production capacity will enhance the economies scale of the Group, and the Group have enough capacities to sell our products to various industries. In addition, the Group will further strengthen our cost control to maximize our benefits.

Use of existing customer resources to explore the after-sales service business

The Group is one of the leading suppliers of drive control system in the paper industry with a huge high-quality customer resources. Currently, the reformation and enhancement of environmental protection in the industry will require our customers to upgrade their equipment, reduce energy consumption and pollution. The Group takes advantages in the customer networks which the Group can assist the customers by supplying the appropriate systems and products. In addition, the modern production emphasizes on stabilization and high quality, especially for non-stop production model. Therefore, the customers are more emphasis on timely and pre-warning service. The Group will gradually promote the annual service plan to our customers. Under the service plan, the Group will be actively to provide annual inspection, software upgrades and services for maintenance and replacement of the hardware to our customers. The customers can enjoy an excellent protection on its non-stop production environments.

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 year ended 30 June 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.

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 for the year ended 30 June 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 for the year ended 30 June 2014.

Audit committee

The 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 has discussed with the management and external auditor about the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the Group's audited consolidated financial statements for the year ended 30 June 2014.

Final dividend

The board of directors recommended to pay the final dividend for 2014 at 5.0 HK cents per share (2013: 3.3 HK cents per share). The proposed dividend account for approximately 47.7% of the profit attributable to equity owners of the Company of the year. The proposed distribution of final dividend is subject to the approval of the annual general meeting (the "AGM").

Closure of register of members

The register of members of the Company will be closed during the following periods:

(i) from 6 November 2014 (Thursday) to 10 November 2014 (Monday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 5 November 2014 (Wednesday); and

(ii) from 14 November 2014 (Friday) to 18 November 2014 (Tuesday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to the final dividend. In order to establish entitlements to the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 13 November 2014 (Thursday).

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

Annual general meeting

The AGM will be held on Monday, 10 November 2014. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

Publication of annual results announcement and annual report

The annual report for the year ended 30 June 2014 will be dispatched to shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hzeg.com in due course. This announcement can also be accessed on these websites.

On behalf of the Board
Huazhang Technology Holding Limited
Zhu Gen Rong
Chairman

Hong Kong, 5 September 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.

This announcement will remain on the "Latest Listed Company Information" page of the website of the Stock Exchange at www.hkexnews.hk for at least seven days from the date of its posting. This announcement will also be published on the Company's website at www.hzeg.com.