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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: 08276)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 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 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

- Turnover of the Group for the three months ended 30 September 2014 was approximately HK\$83,143,000, representing an increase of approximately 34.3% as compared with that of the corresponding period in 2013.
- Net profit attributable to owners of the Company for the three months ended 30 September 2014 was approximately HK\$7,160,000, representing an increase of approximately 48.3%, as compared with that of the corresponding period in 2013.
- The Board does not recommend the payment of first quarterly dividend for the three months ended 30 September 2014.

FIRST QUARTERLY RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated first quarterly results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 September 2014 together with the comparative figures for the corresponding period as follows.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 30 September	
		2014	2013
		HK\$	HK\$
	Note	(Unaudited)	(Unaudited)
Revenue	3	83,143,289	61,890,189
Cost of sales		(59,945,776)	(44,126,402)
Gross profit		23,197,513	17,763,787
Distribution costs		(3,216,434)	(3,005,250)
Administrative expenses		(6,362,854)	(8,060,021)
Research and development expenses		(3,612,588)	(1,318,449)
Other income	4	35,732	78,519
Operating profit	5	10,041,369	5,458,586
Finance income		186,733	187,835
Finance costs		(281,742)	(43,978)
Finance (costs) /income - net		(95,009)	143,857
Profit before income tax		9,946,360	5,602,443
Income tax expenses	6	(2,786,186)	(773,793)
Profit for the period, all attributable to the owners of the Company		7,160,174	4,828,650
Other comprehensive (loss)/ income for the period			
Currency translation differences		(557,649)	1,157,999
Other comprehensive (loss)/income for the period		(557,649)	1,157,999
Total comprehensive income for the period, all attributable to the owners of the Company		6,602,525	5,986,649
Earnings per share for profit attributable to the owners of the Company	7		
- Basic earnings per share (HK cents)		2.63	1.78
- Diluted earnings per share (HK cents)		2.63	1.78

		Three months ended 30 September	
		2014	2013
		HK\$	HK\$
	Note	(Unaudited)	(Unaudited)
Dividends	8	-	-

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Company				
	Par value of ordinary shares HK\$	Share Premium HK\$	Other Reserves HK\$	Retained earnings HK\$	Total equity HK\$
Unaudited					
Balance at 1 July 2014	2,720,000	61,934,254	64,604,279	67,282,385	196,540,918
Comprehensive income					
Profit for the period	-	-	-	7,160,174	7,160,174
Translation differences	-	-	(557,649)	-	(557,649)
Total comprehensive income	-	-	(557,649)	7,160,174	6,602,525
Balance at 30 September 2014	2,720,000	61,934,254	64,046,630	74,442,559	203,143,443
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	-	-	-	4,828,650	4,828,650
Translation differences	-	-	1,157,999	-	1,157,999
Total comprehensive income	-	-	1,157,999	4,828,650	5,986,649
Balance at 30 September 2014	2,720,000	70,910,254	61,646,809	46,917,508	182,194,571

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 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 on 16 May 2013 (the "Listing") by way of placing.

The consolidated financial statements are presented in Hong Kong Dollars ("HK\$"), unless otherwise stated. These condensed consolidated results has been approved for issue by the Board on 10 November 2014.

These condensed consolidated results have not been audited.

2. BASIS OF PREPARATION

These condensed consolidated results for the three months ended 30 September 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 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

3. REVENUE

	Three months ended 30 September	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
Sales of industrial automation systems and related projects	65,843,914	45,763,703
Sales of sludge treatment products	7,660,799	11,375,604
Provision of after-sales and other services	9,638,576	4,750,882
	<u>83,143,289</u>	<u>61,890,189</u>

4. OTHER INCOME

	Three months ended 30 September	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
Government grants	35,732	78,519
	<u>35,732</u>	<u>78,519</u>

5. OPERATING PROFIT

Operating profit is arrived at after charging:

	Three months ended 30 September	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
Amortisation of land use rights	17,325	17,327
Depreciation of property, plant and equipment	838,915	749,807
Provision for impairment of trade receivables	616,234	-
Provision for inventories	702,910	-
Auditors' remuneration	125,818	251,664
Professional service fees	463,338	623,794
	<u>463,338</u>	<u>623,794</u>

6. INCOME TAX EXPENSE

	Three months ended 30 September	
	2014 HK\$ (Unaudited)	2013 HK\$ (Unaudited)
Current income tax		
– PRC enterprise income tax	3,115,972	773,793
Deferred income tax	(329,786)	-
Income tax expense	<u>2,786,186</u>	<u>773,793</u>

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the three months ended 30 September 2014 and 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.

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 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 25% for the three months period ended 30 September 2014 (2013: 15%).

7. EARNINGS PER SHARE

Basic earnings per share for the three months ended 30 September 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.

	Three months ended 30 September	
	2014	2013
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Profit attributable to the owners of the Company	7,160,174	4,828,650
Weighted average number of ordinary shares in issue	272,000,000	272,000,000
Basic earnings per share (HK cents)	<u>2.63</u>	<u>1.78</u>

As there were no dilutive options and other dilutive potential shares in issue for the three months ended 30 September 2014 and 2013, diluted earnings per share is the same as basic earnings per share

8. DIVIDENDS

The Board does not recommend the payment of any first quarterly dividend for the three months ended 30 September 2014 (2013: HK\$ Nil).

On 5 September 2014, the Board recommended a final dividend of HK5.0 cents per share for the year ended 30 June 2014 (2013: HK3.3 cents), representing HK\$13,600,000 (2013: HK\$8,976,000) using the share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

During the third quarter of 2014, the economy in China kept slowing down. The gross domestic product decreased from 7.5% in the second quarter to 7.2% in the third quarter. However, the fixed asset investment recorded a growth of 16.1% from the first nine months of 2014. In such a complicated economic environment, the Chinese government introduced more measures to stimulate the economy including the softening policy on the purchase of property and the increase in loan and financing.

Although the paper industry was still facing competition, the paper companies were still investing in the fixed asset, especially for investments in production facilities in relation to household papers and packaging papers. Such investments satisfied the demands on packaging papers generated from online shopping and demands on the household papers.

For the three months ended 30 September 2014, the Group has entered into contracts (including industrial automation systems, sludge treatment product and after-sales service) with amount of HK\$111,500,000, as compared with last year, an increase of 109.6%. Turnover of the Group for the three months ended 30 September 2014 was approximately HK\$83,143,000, representing an increase of approximately 34.3% as compared with that of the corresponding period in 2013. With our management team's efforts and customer recognition of the Group's products, even the Chinese economy was complicated, the competitive advantage of the Group's products and services in the industry prompted an increase in the revenue.

In September 2014, construction of the new production plant of the Group has been completed. Currently, the plant was under decoration and installation of the production facilities. The plant was expected to commence production before end of the year.

The Group is optimistic on prospects of the paper industry. Under the new stimulus measures, the industry is expected to recover gradually. In addition, there was the elimination of outdated production capacity taking place in the paper industry and it will bring opportunities to the Group.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue of the Group increased by approximately 34.3% from approximately HK\$61,890,000 for the three months ended 30 September 2013 to approximately HK\$83,143,000 for the three months ended 30 September 2014. Gross profit margin decreased from approximately 28.7% for the three months ended 30 September 2013 to approximately 27.9% for the three months ended 30 September 2014.

(i) Industrial automation business

Revenue from sales of industrial automation business increased by approximately 43.9% from approximately HK\$45,764,000 for the three months ended 30 September 2013 to approximately HK\$65,844,000 for the three months ended 30 September 2014. Such increase was primarily attributable to increase in the number of completed contracts. Contracts amounting to HK\$3,000,000 or above increased from 4 contracts of a total contract value approximately HK\$22,036,000 for the three months ended 30 September 2013 to 10 contracts of a total contract value approximately HK\$34,505,000 for the three months ended 30 September 2014. The gross profit margin of industrial automation business decreased from approximately 28.3% for the three months ended 30 September 2013 to approximately 26.3% for the three months ended 30 September 2014.

(ii) Sludge treatment products

Revenue from sales of sludge treatment products decreased by approximately 32.7% from approximately HK\$11,376,000 for the three months ended 30 September 2013 to approximately HK\$7,661,000 for the three months ended 30 September 2014. Such decrease was primarily attributable to the decrease in number of contracts completed. The Group completed 15 contracts for the three months ended 30 September 2014 as compared with there were 23 contracts completed for the three months ended 30 September 2013. The gross profit margin for our sludge treatment products increased from approximately 30.3% for the three months ended 30 September 2013 to approximately 31.0% for the three months ended 30 September 2014.

(iii) After-sales and other services

Revenue from provision of after-sales and other services increased by approximately 102.9% from approximately HK\$4,750,880 for the three months ended 30 September 2013 to approximately HK\$9,639,000 for the three months ended 30 September 2014. Such increase was primarily attributable to the increase in demand on after-sales and other services from our customers, including system improvement projects. The gross profit margin for provision of after-sales and other services increased from approximately 28.6% for the three months ended 30 September 2013 to approximately 36.2% for the three months ended 30 September 2014.

Distribution costs

The distribution costs slightly increased by approximately HK\$211,000 from approximately HK\$3,005,000 for the three months ended 30 September 2013 to approximately HK\$3,216,000 for the three months ended 30 September 2014, accounting for approximately 3.9% of the Group's revenue for the three months ended 30 September 2014, as compared with approximately 4.9% of the Group's revenue for the corresponding period last year, the decrease in distribution costs as a percentage of the Group's revenue is mainly attributable to the Group's effort in close monitoring the distribution costs.

Administrative expenses

The administrative expenses decreased by approximately HK\$1,697,000 from approximately HK\$8,060,000 for the three months ended 30 September 2013 to approximately HK\$6,363,000 for the three months ended 30 September 2014, accounting for approximately 7.7% of the Group's revenue for the three months ended 30 September 2014, as compared with approximately 13.0% of the Group's revenue for the corresponding period last year. Decrease in administrative expenses is mainly attributable to decrease in listing related activities and the Group closely monitored the administrative expenses.

Research and development expenses

The research and development expenses increased by approximately HK\$2,294,000 from approximately HK\$1,318,000 for the three months ended 30 September 2013 to approximately HK\$3,613,000 for the three months ended 30 September 2014, accounting for approximately 4.3% of the Group's revenue for the three months ended 30 September 2014, as compared with approximately 2.1% of the Group's revenue for the corresponding period last year. The increase in research and development expenses was mainly attributable to the continuous investment in research and development activities and business development, and the increase in use of the raw materials.

Income tax expense

The income tax expense increased by approximately HK\$2,012,000 from approximately HK\$774,000 for the three months ended 30 September 2013 to approximately HK\$2,786,000 for the three months ended 30 September 2014. The increase was mainly attributable to the increase in taxable profit earned by the Company's operating subsidiary for the three months ended 30 September 2014 and a tax rate of 25% adopted by the Company's operating subsidiary for the three months ended 30 September 2014 (2013: 15%). The subsidiary obtained qualification as High and New Technology Enterprise in 2011 for a period of three years effective from 2011. The applicable enterprise income tax 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.

The effective tax rates of the Group for the three months ended 30 September 2013 and 2014 were 13.8% and 28.0% respectively. The increase was mainly attributing to 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 48.3% from approximately HK\$4,829,000 for the three months ended 30 September 2013 to approximately HK\$7,160,000 for the three months ended 30 September 2014. The net profit margin increased by approximately 0.8% from approximately 7.8% for the three months ended 30 September 2013 to approximately 8.6% for the three months ended 30 September 2014. Such change is primarily attributable to the Group exercised better control over its distribution costs and administrative expenses. For the three months ended 30 September 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 6.4%.

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 three months ended 30 September 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.

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

APPOINTMENT OF EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr Wang Ai Yan, aged 48, appointed as executive director and chief executive officer with effective from 1 October 2014. Mr Wang is one of the controlling shareholders of the Group. The biographical details of Mr Wang are set out under the announcement, headed "Appointment of Executive Director and Chief Executive Officer", dated 30 September 2014.

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 three months ended 30 September 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 during the three months ended 30 September 2014 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 during the period, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting the operations of the Company.

The Company has appointed Mr Wang Ai Yan as chief executive officer with effect from 1 October 2014 and has complied with Code Provision A.2.1 since 1 October 2014.

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 three months ended 30 September 2014.

FIRST QUARTERLY DIVIDEND

The Board does not recommend the payment of any first quarterly dividend for the three months ended 30 September 2014. (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 three months ended 30 September 2014.

PROPOSED TRANSFER OF LISTING

The Company has submitted a formal application to the Stock Exchange on 30 October 2014 for the proposed transfer of listing of the shares from the GEM to the Main Board of the Stock Exchange pursuant to Chapter 9A of the Listing Rules. For details, please refer to the announcement "Proposed transfer of the listing from the Growth Enterprise Market to the Main Board of The Stock Exchange of Hong Kong Limited" dated 30 October 2014.

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

Hong Kong, 10 November 2014

As at the date of this announcement, the executive Directors of the Company are Mr Zhu Gen Rong, Mr Wang Ai Yan, 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.