华章科技
HUAZHANG TECHNOLOGY

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1673)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

- Turnover of the Group for the six months ended 31 December 2014 was approximately HK$192,673,000, representing an increase of approximately 38.0% as compared with that of the corresponding period in 2013.

- Net profit attributable to owners of the Company for the six months ended 31 December 2014 was approximately HK$22,202,000, representing an increase of approximately 99.7%, as compared with that of the corresponding period in 2013.

- The Board declared an interim dividend of 2.5 HK cents per share. (Six months ended 31 December 2013: Nil)

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of the Company is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 31 December 2014, together with the unaudited comparative figures for the corresponding period in 2013.

Condensed consolidated statement of comprehensive income

		Six months ended 31 December	
	Note	2014 Unaudited HK$	2013 Unaudited HK$
Revenue	6	192,672,954	139,654,722
Cost of sales		(135,683,736)	(100,862,177)
Gross profit		56,989,218	38,792,545
Distribution costs		(5,509,391)	(5,992,103)
Administrative expenses		(13,442,015)	(15,424,688)
Research and development expenses		(9,047,671)	(4,855,499)
Other income	11	856,556	473,282
Other losses - net		-	(31,256)
Operating profit		29,846,697	12,962,281
Finance income		1,178,284	517,845
Finance costs		(417,833)	(62,867)
Finance costs – net		760,451	454,978
Profit before income tax		30,607,148	13,417,259
Income tax expense	13	(8,405,175)	(2,299,310)
Profit for the period, all attributable to the owners of the Company		22,201,973	11,117,949
Other comprehensive income for the period			
Items that may be reclassified to profit or loss			
Currency translation differences		1,392,913	2,315,212
Other comprehensive income for the period net of tax		1,392,913	2,315,212
Total comprehensive income for the period, all attributable to the owners of the Company		23,594,886	13,433,161
Earnings per share for profit attributable to the owners of the Company	14		
- Basic earnings per share		0.08	0.04
- Diluted earnings per share		0.08	0.04

		Six months ended 31 December	
	Note	2014 Unaudited HK$	2013 Unaudited HK$
Dividends	15	6,800,000	-

Condensed consolidated balance sheet

	Note	31 December 2014 Unaudited HK$	30 June 2014 Audited HK$
ASSETS			
Non-current assets			
Land use rights	7	8,735,861	8,819,541
Property, plant and equipment	7	58,108,161	48,962,955
Deferred income tax assets		3,621,346	3,086,886
Trade and other receivables	8	1,960,291	1,251,763
Prepayments - non-current portion	8	879,021	509,453
		73,304,680	62,630,598
Current assets			
Inventories		109,037,212	108,652,096
Trade and other receivables	8	76,524,138	101,368,450
Prepayments	8	28,514,238	14,946,416
Available-for-sale financial assets	9	63,379,389	-
Restricted cash		8,561,436	957,225
Cash and cash equivalents		44,968,247	91,859,246
		330,984,660	317,783,433
Total assets		404,289,340	380,414,031
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		2,720,000	2,720,000
Share premium		48,334,254	61,934,254
Other reserves		70,657,364	64,604,279
Retained earnings		84,824,186	67,282,385
Total equity		206,535,804	196,540,918
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		474,290	1,360,000
Current liabilities			
Trade and other payables	10	168,957,258	155,912,619
Current income tax liabilities		6,321,988	4,600,494
Borrowings		22,000,000	22,000,000
		197,279,246	182,513,113
Total liabilities		197,753,536	183,873,113
Total equity and liabilities		404,289,340	380,414,031
Net current assets		133,705,414	135,270,320
Total assets less current liabilities		207,010,094	197,900,918

1 General information

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

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

The Company's ordinary shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK") on 16 May 2013 (the "Listing") by way of placing and the Listing of its ordinary shares have been transferred from GEM to the Main Board of the SEHK on 5 January 2015.

This condensed consolidated interim financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These condensed consolidated interim financial statements were approved and authorised for issue by the Company's Board of Directors (the "Board") on 9 February 2015.

These condensed consolidated interim financial statements have not been audited.

2 Basis of preparation

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

3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2014, as described in those annual financial statements.

The following amendments to standards are mandatory for the first time for the financial year beginning on 1 July 2014 and are relevant to the Group.

HKAS 32 (Amendment)	Financial instruments: Presentation - Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 12 and HKAS 27(revise 2011)	Consolidation for investment entities
Amendments to HKAS 36	Impairment of assets on recoverable amount disclosures
HK (IFRIC) Interpretation 21	Levies
Amendments to HKFRS 8	Operating segments

The adoption of these standards and amendments to existing standards does not have significant impact on the Group's interim financial information. There are no other amended standards or interpretations effective for the first time for this interim period that could be expected to have a material impact on the Group.

The following accounting policy was newly adopted by the Group during the six months ended 31 December 2014:

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category ornot classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are subsequently carried at fair value.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss.

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

New standards and amendments to standards have been issued and are relevant to the Group's operation but are not yet effective for the financial year beginning 1 July 2014 and have not been early adopted by the Group are as below:

		Effective for accounting period beginning on or after
Amendments to HKAS 16 and HKAS 38	Depreciation and amortisation	1 January 2016
HKFRS 15	Revenue from Contracts and Customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018
Amendment to HKAS 27	Equity method in separate financial statements	1 January 2016
Amendment to HKFRS 5	Non-current assets held for sale and discontinued operation	1 January 2016
Amendment to HKFRS 7	Financial instruments: Disclosures	1 January 2016
Amendment to HKAS 19	Employee benefit	1 January 2016
Amendment to HKAS 34	Interim financial reporting	1 January 2016

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

4 Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30 June 2014.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2014.

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

5.2 Fair value estimation

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

6 Segment information

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

Revenues from two customer of the industrial automation systems and related projects and after-sales and other service segments represents HK$73,345,002 of the Group's total revenue for the six months ended 31 December 2014. Revenue from one customer of the sludge treatment products segment represents HK$15,206,394 of the Group's total revenue for the six months ended 31 December 2013.

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.

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

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

Revenue

Turnover of the Group consists of the following revenues for the six months ended 31 December 2014 and 2013.

	Six months ended 31 December	
	2014	**2013**
	Unaudited	**Unaudited**
	HK$	**HK$**
Revenue from sales of industrial automation systems and related projects	163,741,676	90,853,359
Revenue from sales of sludge treatment products	15,929,907	36,371,748
Revenue from provision of after-sale and other services	13,001,371	12,429,615
	192,672,954	139,654,722

6 Segment information (continued)

The segment results for the six months ended 31 December 2014:

	Unaudited			
	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sale and other services HK$	Total HK$
Segment revenue from external customers	163,741,676	15,929,907	13,001,371	192,672,954
Segment cost of sales	(116,554,833)	(11,093,707)	(8,035,196)	(135,683,736)
Segment gross profit	47,186,843	4,836,200	4,966,175	56,989,218
Segment results	33,515,462	902,447	4,792,658	39,210,567
Common administrative expenses				
Other income				(10,220,426)
Other losses - net				856,556
Finance costs - net				760,451
Profit before income tax				30,607,148
Income tax expense				(8,405,175)
Profit for the period				22,201,973

Other segment items included in the condensed consolidated interim statement of comprehensive income for the six months ended 31 December 2014:

	Unaudited				
	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sale and other services HK$	Unallocated HK$	Total HK$
Capital expenditure	10,126,431	110,198	-	454,922	10,691,551
Depreciation of property, plant and equipment	222,919	295,766	-	1,322,759	1,841,444
Amortization of land use rights	29,248	38,806	-	34,996	103,050

The segment assets and liabilities as at 31 December 2014 are as follows:

	Unaudited				
	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sale and other services HK$	Unallocated HK$	Total HK$
Segment assets	163,029,656	92,144,874	9,916,566	139,198,244	404,289,340
Segment liabilities	(119,596,303)	(33,514,050)	(1,049,242)	(43,593,941)	(197,753,536)

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

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

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

	Unaudited				
	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sale and other services HK$	Unallocated HK$	Total HK$
Capital expenditure	1,040,613	716,034	-	201,080	1,957,727
Depreciation of property, plant and equipment	665,605	544,832	-	528,655	1,739,092
Amortization of land use rights	35,795	47,492	-	42,829	126,116

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

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

7 Land use rights and property, plant and equipment

	Land use rights	Property, plant and equipment
	HK$	HK$
Six months ended 31 December 2014 (unaudited)		
Net book amount as at 1 July 2014	8,819,541	48,962,955
Additions	-	10,691,551
Foreign exchange difference	19,370	295,099
Depreciation and amortisation (Note 12)	(103,050)	(1,841,444)
Net book amount as at 31 December 2014	8,735,861	58,108,161
Six months ended 31 December 2013 (unaudited)		
Net book amount as at 1 July 2013	9,039,689	38,194,654
Additions	-	1,957,727
Foreign exchange difference	117,826	502,516
Depreciation and amortisation (Note 12)	(126,116)	(1,739,092)
Net book amount as at 31 December 2013	9,031,399	38,915,805

8 Trade and other receivables and prepayments

(i) Trade and other receivables

	As at 31 December 2014 Unaudited HK$	As at 30 June 2014 Audited HK$
Warranty receivables	25,796,539	24,319,196
Other trade receivables	42,457,012	37,291,531
	68,253,551	61,610,727
Less: provision for impairment of trade receivables	(6,763,827)	(6,722,075)
Trade receivables – net	61,489,724	54,888,652
Bills receivable	12,973,552	44,019,889
Trade and bills receivables	74,463,276	98,908,541
Other receivables due from a related party	89,697	142,777
Others	3,931,456	3,568,895
	4,021,153	3,711,672
Total trade and other receivables	78,484,429	102,620,213
Less: trade receivables - non-current portion	(1,960,291)	(1,251,763)
	76,524,138	101,368,450

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

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

	As at 31 December 2014 Unaudited HK$	As at 30 June 2014 Audited HK$
Warranty receivables		
Up to 3 months	3,102,962	3,478,647
3 months to 6 months	2,654,049	1,536,694
6 months to 1 year	4,957,459	6,114,641
1 year to 2 years	9,227,315	9,085,052
Over 2 years	5,854,754	4,104,162
	25,796,539	24,319,196

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

	As at 31 December 2014 Unaudited HK$	As at 30 June 2014 Audited HK$
Other trade receivables		
Up to 3 months	16,153,587	11,071,235
3 months to 6 months	3,919,202	8,462,070
6 months to 1 year	10,871,627	7,892,886
1 year to 2 years	6,338,858	8,037,689
Over 2 years	5,173,738	1,827,651
	42,457,012	37,291,531

(ii) Prepayments

	As at 31 December 2014 Unaudited HK$	As at 30 June 2014 Audited HK$
Prepayments for raw materials	28,948,979	14,627,384
Others	444,280	828,485
Total prepayments	29,393,259	15,455,869
Less: prepayments - non-current portion	(879,021)	(509,453)
	28,514,238	14,946,416

9 Available-for-sale financial assets

	As at 31 December 2014 Unaudited HK$	As at 30 June 2014 Audited HK$
Available-for-sale financial assets , at fair value	63,379,389	-
	63,379,389	-

On 30 December 2014, Zhejiang Huazhang Technology Limited ("Zhejiang Huazhang") purchased a RMB financial product amounted to RMB50,000,000 (equivalent to approximately HK$63,379,389). The return on the financial product was not fixed but subject to the return of the underlying investments as appropriate and there was no guarantee on full return of principal. On 15 January 2015, Zhejiang Huazhang redeemed the financial product and recognised a gain of RMB 41,096 (equivalent to approximately HK$52,074) as 'Other gains - net'.

10 Trade and other payables

	As at 31 December 2014 Unaudited HK$	As at 30 June 2014 Audited HK$
Trade payables – due to third parties	34,871,540	29,133,087
Trade payables – due to a related party	-	13,860,684
Bills payable	27,704,955	2,139,058
	62,576,495	45,132,829
Other taxes payable	4,669,012	2,475,826
Employee benefit payables	3,676,005	2,191,731
Advances from customers	87,696,002	94,341,429
Provision for warranty expenses	1,159,172	1,565,766
Payables for property, plant and equipment	6,704,111	8,311,239
Others	2,476,461	1,893,799
	106,380,763	110,779,790
	168,957,258	155,912,619

The advances from customers represent the down payments from the customers according to the contract payment schedules in contracts. 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, and up to approximately 90% to 95% of the contract sum upon delivery, but before the completion of the installation and debugging.

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

	As at 31 December 2014 Unaudited HK$	As at 30 June 2014 Audited HK$
Up to 3 months	30,012,710	41,603,159
3 months to 6 months	2,987,288	508,821
6 months to 1 year	1,438,716	308,277
1 year to 2 years	355,274	106,513
Over 2 years	77,552	467,001
	34,871,540	42,993,771

11 Other income

	Six months ended 31 December	
	2014	2013
	Unaudited	Unaudited
	HK$	HK$
Government grants	595,913	243,117
Operating lease income	260,643	230,165
	856,556	473,282

12 Expenses by nature

	Six months ended 31 December	
	2014	2013
	Unaudited	Unaudited
	HK$	HK$
Amortisation of land use rights (Note 7)	103,050	126,116
Depreciation of property, plant and equipment (Note 7)	1,841,444	1,739,092
Provision for impairment of trade receivables	-	951,012
Provision for write-down of inventories	695,639	2,125,166
Auditors' remuneration	331,856	769,887
Professional service fees	2,701,833	1,025,649

13 Income tax expense

	Six months ended 31 December	
	2014	2013
	Unaudited	Unaudited
	HK$	HK$
Current income tax		
- Hong Kong profits tax	-	23,753
- PRC enterprise income tax	8,950,353	2,736,430
Deferred income tax	(545,178)	(460,873)
Income tax expense	8,405,175	2,299,310

(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 six months ended 31 December 2014, as the Group has no taxable profit earned or derived in Hong Kong for the period. For the six months ended 31 December 2013, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the period.

(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 EIT is unified at 25% for all types of entities, effective from 1 January 2008.

Zhejiang Huazhang, the subsidiary established in the PRC is qualified as a foreign investment manufacturing enterprise and the applicable EIT rate is 25%. Under the relevant regulations of the PRC tax Law, Zhejiang Huazhang obtained qualification as High and New Technology enterprise in 2011 for a period of three years effective from 2011. The applicable EIT rate was 15% from 2011 till 2013("the tax benefit period"). The tax benefit period ended on 31 December 2013, hence for the six months ended 31 December 2014 and 2013, the applicable income tax rate of Zhejiang Huazhang was 25% and 15%, respectively.

(iv) PRC withholding income tax

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

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

14 Earnings per share

Basic earnings per share for the six months ended 31 December 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.

	Six months ended 31 December	
	2014	**2013**
	Unaudited	**Unaudited**
	HK$	**HK$**
Profit attributable to the owners of the Company	22,201,973	11,117,949
Weighted average number of ordinary shares in issue	272,000,000	272,000,000
Basic earnings per share	0.08	0.04

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

15 Dividends

The dividends of HK$13,600,000 declared in the six months ended 31 December 2014 represents the final dividend for the year ended 30 June 2014 which was approved and paid during the six months ended 31 December 2014 (Year ended 30 June 2014: HK$8,976,000).

On 9 February 2015, the Board proposed an interim dividend of 2.5 HK cents (2013: HK$ Nil) per share, representing HK$6,800,000, for the six months ended 31 December 2014, from the share premium account. This interim dividend was not recognised as dividend payable in the unaudited condensed consolidated financial information for the six months ended 31 December 2014.

BUSINESS REVIEW AND OUTLOOK

During the forth quarter of 2014, the pace of China's economic growth remained slow. The gross domestic product was stable at 7.2% and 7.3% in the third quarter and in the forth quarter of 2014, respectively. China's economy become at a steady growth. China will optimise it's the structure of the economy to achieve better quality and performance. The monetary policy will continue to be stable and loose in order to implement the deep structural reforms.

Currently, the paper industry faces over-capacities problem but demand on some types of papers (such as household papers and packaging papers) is still strong and the production capacities is still insufficient. In addition, the environmental standard of the industry have been uplifted which resulted in the establishment or modification of production line to meet the new demands.

For the six months ended 31 December 2014, the Group has entered into contracts (including industrial automation systems, sludge treatment products and after-sale services) in an aggregate amount of approximately HK$183,099,000, representing an increase of approximately 21.9%, as compared with the recorded during the same period in the last year. Turnover of the Group for the six months ended 31 December 2014 was approximately HK$192,673,000, representing an increase of approximately 38.0% as compared with that of the corresponding period in 2013. After the establishment of project division, provide one-stop service and became our business engine. As at 31 December 2014, the accumulated contract amounts of the projects entered by the project division was HK$225,487,000.

In September 2014, construction of the new production plant of the Group was completed, and it commenced the production at the end of December 2014. The Group believes that increase in the production capacity will enhance the economies of scale of the Group and the Group will have enough capacities to explore our products in various industries.

Currently, the paper industry is still in bottle neck but the Group is optimistic on prospects. The Group will continue to implement on our four business strategies during the financial year, (i) effort to expand the market share of the Industrial Automation Systems Segment in non-paper market; (ii) promotion of "design" "production" "service" business model; (iii) cost efficiency result from investments in new capacity; and (iv) use of existing customer resources to explore the after-sales service business.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue of the Group increased by approximately 38.0% from approximately HK$139,655,000 for the six months ended 31 December 2013 to approximately HK$192,673,000 for the six months ended 31 December 2014. Gross profit margin increased from approximately 27.8% for the six months ended 31 December 2013 to approximately 29.6% for the six months ended 31 December 2014.

(i) Industrial automation business

Revenue from sales of industrial automation business increased by approximately 80.2% from approximately HK$90,853,000 for the six months ended 31 December 2013 to approximately HK$163,742,000 for the six months ended 31 December 2014. Such increase was primarily attributable to provision of one-stop services in relation to industrial automation systems. In the early of 2014, the Group established project division which have contributed revenue of approximately HK$99,973,000 for the six months ended 31 December 2014. Such services include sales of industrial automation systems, installation and testing services. The gross profit margin of industrial automation business slightly increased from approximately 27.4% for the six months ended 31 December 2013 to approximately 28.8% for the six months ended 31 December 2014.

(ii) Sludge treatment products

Revenue from sales of sludge treatment products decreased by approximately 56.2% from approximately HK$36,372,000 for the six months ended 31 December 2013 to approximately HK$15,930,000 for the six months ended 31 December 2014. Such decrease was primarily attributable to face of keen competition in the markets. The gross profit margin for our sludge treatment products increased from approximately 26.3% for the six months ended 31 December 2013 to approximately 30.4% for the six months ended 31 December 2014.

(iii) After-sale and other services

Revenue from provision of after-sales and other services increased by approximately 4.6% from approximately HK$12,430,000 for the six months ended 31 December 2013 to approximately HK$13,001,000 for the six months ended 31 December 2014. The business is stable. The gross profit margin for provision of after-sales and other services increased from approximately 34.6% for the six months ended 31 December 2013 to approximately 38.2% for the six months ended 31 December 2014.

Distribution costs

The distribution costs slightly decreased by approximately HK$483,000 from approximately HK$5,992,000 for the six months ended 31 December 2013 to approximately HK$5,509,000 for the six months ended 31 December 2014, accounting for approximately 4.3% and approximately 2.9% of the Group’s revenue for the six months ended 31 December 2013 and 2014 respectively. 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$1,983,000 from approximately HK$15,425,000 for the six months ended 31 December 2013 to approximately HK$13,442,000 for the six months ended 31 December 2014, accounting for approximately 11.0% and approximately 7.0% of the Group’s revenue for the six months ended 31 December 2013 and 2014 respectively. The decrease in administrative expenses is mainly attributable to decrease in provision for impairment of trade receivables amounting to approximately HK$951,000 and effective control on administrative expenses.

Research and development expenses

The research and development expenses increased by approximately HK$4,192,000 from approximately HK$4,855,000 for the six months ended 31 December 2013 to approximately HK$9,048,000 for the six months ended 31 December 2014, accounting for approximately 4.7% and approximately 3.5% of the Group’s revenue for the six months ended 31 December 2013 and 2014 respectively. 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 for that purpose.

Income tax expense

The income tax expense increased by approximately HK$6,106,000 from approximately HK$2,299,000 for the six months ended 31 December 2013 to approximately HK$8,405,000 for the six months ended 31 December 2014. The increase was mainly attributable to the increase in taxable profit earned by the Company’s operating subsidiary for the six months ended 31 December 2014 and a tax rate of 25% imposed to the Company’s operating subsidiary for the six months ended 31 December 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 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 six months ended 31 December 2013 and 2014 were 17.1% and 27.5% respectively. The increase was mainly attributing to change in tax rate imposed 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 99.7% from approximately HK$11,118,000 for the six months ended 31 December 2013 to approximately HK$22,202,000 for the six months ended 31 December 2014. The net profit margin increased by approximately 3.5% from approximately 8.0% for the six months ended 31 December 2013 to approximately 11.5% for the six months ended 31 December 2014. Such change is primarily attributable to the improvement on gross profit margin of the Group and the Group exercised better control over its distribution costs and administrative expenses. For the six months ended 31 December 2014, the total of these costs and expenses as a percentage of revenue, a decreased by approximately 5.5%, which partially offset the increase in effective tax rate at 2.7% as compared with same period in 2013.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources and net proceeds from the placing. As at 31 December 2014, the Group have net cash and cash equivalent balance amounting to approximately HK$44,968,000 (30 June 2014: approximately HK$91,859,000) and borrowing amounting to HK$22,000,000 (30 June 2014: HK$22,000,000). Cash and cash equivalents decreased significantly due to the purchased of financial products by the Group amounting to approximately HK$63,380,000 to increase our return.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals during the six months ended 31 December 2014.

Borrowing and charges of assets

As at 31 December 2014, the Group’s interest-bearing loan was HK$22,000,000 (30 June 2014: HK$22,000,000) which will be repayable within 1 year. Such borrowing is all denominated in HK$, and bear an interest at rate of 3.6% per annum (30 June 2014:6.0% per annum).

As at 31 December 2014, the banking facilities granted by the bank was secured by land use rights and properties of the Group amounting to approximately HK$2,648,000 and HK$17,261,000 respectively (30 June 2014: HK$2,632,000 and HK$17,155,000 respectively).

CONTINGENT LIABILITIES

As at 31 December 2014, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISK

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

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

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2014, the Group had 245 employees (30 June 2014: 228 employees), including the executive Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2014 were approximately HK$20,269,000, as comparable to approximately HK$21,180,000 for the six months ended 31 December 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.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 Listing Rules during the six months ended 31 December 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 on or before 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 six months ended 31 December 2014.

TRANSFER OF LISTING FROM GEM TO THE MAIN BOARD

The Company applied for the transfer of listing from GEM to the Main Board on 30 October 2014. The approval-in-principle was granted by the Stock Exchange on 23 December 2014 for the Shares to be listed on the Main Board and de-listed from GEM (stock code: 8276). Dealings in the Shares on the Main Board(stock code: 1673) commenced on 5 January 2015.

INTERIM DIVIDEND

The Board declared an interim dividend of 2.5 HK cents per share for the six months ended 31 December 2014 (2013: Nil), payable on or about 6 March 2015, to the shareholders whose names appear on the register of members of the Company on 2 March 2015 (Monday).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed for the following period:

(i) For the purpose of determining shareholders who qualify for the interim dividend, the register of members of the Company will be closed on 26 February 2015 (Thursday) to 2 March 2015 (Monday), both days inclusive. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's Hong Kong branch share registrar, 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 25 February 2015 (Wednesday).

AUDIT COMMITTEE

The audit committee was established with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and Paragraph C.3.3 of the Corporate Governance Code on 6 May 2013. The primary duties of the audit committee are mainly to review the financial systems of the Group; to review the accounting policy, financial position and financial reporting procedures of the Group; to communicate with external auditors; to assess the performance of internal financial and audit personnel; and to assess the internal controls of the Group. The audit committee consists of three independent non-executive Directors namely, Mr Kong Chi Mo, Ms Chen Jin Mei and Mr Dai Tian Zhu. The audit committee is chaired by Mr Kong Chi Mo.

The Audit Committee of the Company has discussed with the management and external auditors the accounting principles and policies adopted by the Group, and has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 31 December 2014.

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

Hong Kong, 9 February 2015

As at the date of this announcement, the executive Directors 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.