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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: 1673)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2015

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 23.5% from approximately HK$308,906,000 for the year ended 30 June 2014 to approximately HK$381,355,000 for the year ended 30 June 2015.
- Gross profit margin decreased from approximately 27.9% for the year ended 30 June 2014 to approximately 24.7% for the year ended 30 June 2015.
- Profit attributable to the owners of the Company increased by approximately 20.9% from approximately HK$28,496,000 for the year ended 30 June 2014 to approximately HK$34,454,000 for the year ended 30 June 2015. At the same time, the net profit margin slightly decreased by approximately 0.2% from approximately 9.2% for the year ended 30 June 2014 to approximately 9.0% for the year ended 30 June 2015.
- Basic earnings per share for the year ended 30 June 2015 and 2014 were HK$0.13 and HK$0.10, respectively.
- The Board recommends the payment of a final dividend of 2.3 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 2015, together with the comparative figures for the year ended 30 June 2014, 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 2015 HK$	2014 HK$
Revenue	4	**381,355,419**	308,905,915
Cost of sales		**(287,081,429)**	(222,675,095)
Gross profit		**94,273,990**	86,230,820
Distribution costs		**(11,977,729)**	(12,200,366)
Administrative expenses		**(30,793,452)**	(30,712,604)
Research and development expenses		**(16,052,036)**	(10,137,341)
Other income		**3,907,416**	3,018,267
Other losses - net		**(947,989)**	(56,259)
Operating profit		**38,410,200**	36,142,517
Finance income		**1,682,320**	1,380,747
Finance costs		**(875,640)**	(160,428)
Finance income– net	5	**806,680**	1,220,319
Profit before income tax		**39,216,880**	37,362,836
Income tax expense	6	**(4,762,743)**	(8,867,247)
Profit for the year, all attributable to the owners of the Company		**34,454,137**	28,495,589
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**1,300,705**	813,407
Other comprehensive income for the year, net of tax		**1,300,705**	813,407
Total comprehensive income for the year and attributable to equity holders of the Company		**35,754,842**	29,308,996
Earnings per share for profit attributable to the owners of the Company			
- Basic earnings per share	7	**0.13**	0.10
- Diluted earnings per share	7	**0.13**	0.10
Dividends	8	**13,815,000**	13,600,000

CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2015 HK$	As at 30 June 2014 HK$
ASSETS			
Non-current assets			
Land use rights		**4,519,007**	8,819,541
Property, plant and equipment		**50,599,851**	48,962,955
Investment properties		**8,777,607**	-
Deferred income tax assets		**3,737,117**	3,086,886
Available-for-sale financial assets		**10,144,560**	-
Trade and other receivables	9	**11,255,611**	1,251,763
Prepayments		**435,874**	509,453
		89,469,627	62,630,598
Current assets			
Inventories		**70,968,562**	108,652,096
Trade and other receivables	9	**116,075,455**	101,368,450
Prepayments		**13,525,805**	14,946,416
Restricted cash		**1,567,382**	957,225
Cash and cash equivalents		**46,940,520**	91,859,246
		249,077,724	317,783,433
Total assets		**338,547,351**	380,414,031
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**2,720,000**	2,720,000
Share premium		**41,534,254**	61,934,254
Other reserves		**70,589,582**	64,604,279
Retained earnings		**97,051,924**	67,282,385
Total equity		**211,895,760**	196,540,918
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**389,594**	1,360,000
Current liabilities			
Trade and other payables	10	**101,864,038**	155,912,619
Current income tax liabilities		**2,397,959**	4,600,494
Borrowings	11	**22,000,000**	22,000,000
		126,261,997	182,513,113
Total liabilities		**126,651,591**	183,873,113
Total equity and liabilities		**338,547,351**	380,414,031
Net current assets		**122,815,727**	135,270,320
Total assets less current liabilities		**212,285,354**	197,900,918

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 ultimate controlling parties of the Group are Mr. Zhu Gen Rong ("Mr. Zhu"), Mr. Wang Ai Yan ("Mr. Wang"), Mr. Liu Chuan Jiang ("Mr. Liu"), and Ms. Zhu Ling Yun ("Ms. Zhu").

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

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 of the Company on 17 September 2015.

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, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

3 Accounting policies

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

Amendments to HKAS 32	Financial instruments: Presentation - Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, 12 and HKAS 27	Consolidation for investment entities
Amendments to HKAS 36	Impairment of assets on recoverable amount disclosures
Amendment to HKAS 39	Financial Instruments: Recognition and Measurement – Novation of derivatives
HK (IFRIC) 21	Levies
Amendments to HKFRS 8	Operating segments
HKAS 16	Property, plant and equipment
HKAS 38	Intangible assets
HKAS 24	Related Party Disclosures
HKFRS13	Fair value measurement
HKAS 40	Investment property
HKFRS 3 and amendments to HKFRS 9	Business combinations and Financial instrument
HKAS 37	Provisions, contingent liabilities and contingent assets

The adoption of the above new standards and amendment starting from 1 July 2014 did not give rise to any significant impact on the Group's results of operations and financial position for year ended 30 June 2015. 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 2014 which had a material impact on the Group's consolidated financial information.

New and amended standards which have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 July 2014 and have not been early adopted by the Group

		Effective for accounting period beginning on or after
Amendments to HKAS 16 and HKAS 38	Depreciation and amortisation	1 January 2016
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts and customers	1 January 2017
Amendment to HKAS 27	Equity method in separate financial statements	1 January 2016
Amendments 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 34	Interim financial reporting	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendment to HKFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKFRS 10 and HKAS 28	sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities	1 January 2016
Amendments to HKAS 1	Disclosure initiative	1 January 2016

The Group is yet to assess the full impact of the amendments and standards and intends to adopt the amendments no later than the respective effective dates of the amendments.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

4 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 services.

Revenues from two customers of the industrial automation systems segment amounted to HK$65,686,976 and HK$47,505,374, each representing over 10% of the Group's total revenue for the year ended 30 June 2015. 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.

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 consolidated financial statements. The common administrative expenses, other losses, other income, financing (including finance costs and interest income) and income taxes are managed on a group basis and are not allocated to operating segments.

Segment assets consist primarily of land use rights, property, plant and equipment, inventories, trade and other receivables and prepayment. They exclude deferred income tax assets and prepaid tax, restricted cash, the cash and cash equivalents, investment properties and available-for-sale financial assets.

Segment liabilities comprise operating liabilities which exclude borrowings and tax liabilities.

The segment results for the year ended 30 June 2015:

	Industrial automation systems and related projects	Sludge treatment products	After-sales and other services	Total
	HK$	HK$	HK$	HK$
Segment revenue from external customers	281,954,394	63,947,627	35,453,398	381,355,419
Segment cost of sales	(218,113,246)	(46,358,309)	(22,609,874)	(287,081,429)
Segment gross profit	63,841,148	17,589,318	12,843,524	94,273,990
Segment results	41,818,505	11,021,761	12,395,861	65,236,127
Common administrative expenses				(29,785,354)
Other losses - net				(947,989)
Other income				3,907,416
Finance income - net				806,680
Profit before income tax				39,216,880
Income tax expense				(4,762,743)
Profit for the year				34,454,137

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

	Industrial automation systems and related projects	Sludge treatment products	After-sales and other services	Unallocated	Total
	HK$	HK$	HK$	HK$	HK$
Capital expenditure	8,204,862	1,554,967	-	542,546	10,302,375
Depreciation of property, plant and equipment	1,825,517	739,250	-	1,682,350	4,247,117
Amortization of land use rights	135,350	58,216	-	52,500	246,066
Depreciation of investment properties	-	-	-	98,133	98,133

The segment results for the year ended 30 June 2014:

	Industrial automation systems and related projects	Sludge treatment products	After-sales and other services	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 costs - 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 systems and related projects	Sludge treatment products	After-sales and other services	Unallocated	Total
	HK$	HK$	HK$	HK$	HK$
Capital expenditure	7,487,085	6,669,111	-	-	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

5 Finance income – net

	Year ended 30 June	
	2015	2014
	HK$	HK$
Finance costs		
- Interest expenses on borrowings	**(875,640)**	(124,667)
- Net foreign exchange loss	**-**	(35,761)
	(875,640)	(160,428)
Finance income		
- Interest income on bank deposits and debenture securities	**1,609,356**	1,380,747
- Net foreign exchange gain	**72,964**	-
	1,682,320	1,380,747
Net finance income	**806,680**	1,220,319

6 Income tax expense

	Year ended 30 June	
	2015	2014
	HK$	HK$
Current income tax		
- PRC enterprise income tax	**5,154,896**	9,731,976
- Hong Kong profits tax	**-**	23,753
Deferred income tax	**(392,153)**	(888,482)
Income tax expense	**4,762,743**	8,867,247

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the year ended 30 June 2015, as the Group has no taxable profit earned or derived in Hong Kong for the year. For the year ended 30 June 2014, Hong Kong profits tax has been provided at the rate of 16.5%.

(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 of the companies established in the PRC is unified at 25%, effective from 1 January 2008.

Zhejiang Huazhang Technology Limited's ("Zhejiang Huazhang") applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, Zhejiang Huazhang has obtained the qualification of High and New Technology Enterprise in calendar year of 2008, 2011 and 2014 respectively, with validation period of three years each. The applicable EIT rate of Zhejiang Huazhang's 15% from 2008 till 2016, hence the applicable income tax rate of Zhejiang Huazhang is 15% for the year ended 30 June 2015 (2014: 15%). Zhejiang Huazhang's 2011 tax benefit period ended by 31 December 2013 and the application for the next three years tax benefit period from calendar year 2014 was approved by the PRC tax bureau in May 2015. As such, the EIT of Zhejiang Huazhang for the calendar year 2014 was provided and paid at 25%. The overpaid tax has been returned to Zhejiang Huazhang before June 2015. The EIT and deferred income tax have been re-measured accordingly.

(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	
	2015	2014
	HK$	HK$
Profit before income tax	**39,216,880**	37,362,836
Tax calculated at tax rates applicable to profits in the respective jurisdiction	**10,195,825**	9,642,219
Tax effects of:		
Effect of preferential tax rate	**(7,798,866)**	(1,563,382)
Expenses not deductible for tax purposes	**132,166**	242,374
Tax losses for which no deferred income tax asset was recognised	**760,174**	585,284
Re-measurement of deferred income tax	**1,238,134**	(1,054,990)
Effect of withholding tax on the expected distributable profits of the subsidiary in mainland China	**235,310**	1,015,742
Tax charges	**4,762,743**	8,867,247

7 Earnings per share

Basic earnings per share for the years ended 30 June 2015 and 2014 is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue.

	Year ended 30 June	
	2015	2014
	HK$	HK$
Profit attributable to the owners of the Company	**34,454,137**	28,495,589
Weighted average number of ordinary shares in issue	**272,000,000**	272,000,000
Basic earnings per share	**0.13**	0.10

As there were no dilutive options and other dilutive potential shares in issue during the years ended 30 June 2015 and 2014, diluted earnings per share is the same as basic earnings per share.

8 Dividends

	Year ended 30 June	
	2015	2014
	HK$	HK$
Interim dividend paid of 2.5 HK cents (2014: Nil) per ordinary share	**6,800,000**	
Proposed final dividend of 2.3 HK cents (2014: 5.0 HK cents) per ordinary share	**7,015,000**	13,600,000
	13,815,000	13,600,000

The dividends paid in year ended 30 June 2015 and 2014 were HK$20,400,000 and HK$8,976,000 respectively. A dividend in respect of the year ended 30 June 2015 of 2.3 HK cents per share, amounting to a total dividend of HK$7,015,000, is to be proposed at the board meeting on 17 September 2015. These financial information do not reflect this dividend payable.

9 Trade and other receivables

	As at 30 June	
	2015	2014
	HK$	HK$
Warranty receivables (i)	**23,433,385**	24,319,196
Amounts due from customers for contract work	**8,405,791**	-
Other trade receivables	**62,642,301**	37,291,531
	94,481,477	61,610,727
Less: provision for impairment of trade receivables	**(6,464,571)**	(6,722,075)
Trade receivables – net	**88,016,906**	54,888,652
Bills receivable	**2,993,275**	44,019,889
Trade and bills receivables	**91,010,181**	98,908,541
Other receivables due from related parties	**63,403**	142,777
Other receivables - performance guarantee	**26,472,451**	-
Others	**9,785,031**	3,568,895
	36,320,885	3,711,672
Total trade and other receivables	**127,331,066**	102,620,213
Less: trade and other receivables- non-current portion	**(11,255,611)**	(1,251,763)
	116,075,455	101,368,450

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

As at 30 June 2015 and 2014, the ageing analysis of the warranty receivables and other trade receivables is as follows:

	As at 30 June	
	2015	2014
	HK$	HK$
Warranty receivables		
Up to 3 months	**3,780,256**	3,478,647
3 months to 6 months	**1,425,813**	1,536,694
6 months to 1 year	**4,475,914**	6,114,641
1 year to 2 years	**7,189,013**	9,085,052
Over 2 years	**6,562,389**	4,104,162
	23,433,385	24,319,196

	As at 30 June	
	2015	2014
	HK$	HK$
Other trade receivables		
Up to 3 months	**19,278,531**	11,071,235
3 months to 6 months	**26,959,292**	8,462,070
6 months to 1 year	**8,318,339**	7,892,886
1 year to 2 years	**5,915,126**	8,037,689
Over 2 years	**2,171,013**	1,827,651
	62,642,301	37,291,531

As at 30 June 2015 and 2014, trade receivables of HK$78,334,923 and HK$43,758,670 respectively, were past due but not impaired.

As at 30 June 2015, trade receivables of HK$6,464,571 (2014: HK$6,722,075) were impaired and fully provided for. The individually impaired receivables mainly relate to customers, those are in unexpectedly difficult economic situations.

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

	Year ended 30 June	
	2015	2014
	HK$	HK$
At 1 July	**6,722,075**	3,617,438
Provision for impairment of receivables	**1,873,258**	3,086,758
Receivables written off during the year as uncollectible	**(2,173,930)**	-
Foreign exchange difference	**43,168**	17,879
At 30 June	**6,464,571**	6,722,075

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 approximate 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.

10 Trade and other payables

	As at 30 June	
	2015	2014
	HK$	HK$
Trade payables - due to third parties	**35,556,594**	29,133,087
Construction payables (i)	**3,601,917**	-
Trade payables - due to a related party	**-**	13,860,684
Bills payable	**4,230,145**	2,139,058
	43,388,656	45,132,829
Other taxes payable	**1,567,450**	2,475,826
Employee benefit payables	**3,170,175**	2,191,731
Advances from customers (ii)	**47,056,346**	94,341,429
Provision for warranty expenses	**2,060,749**	1,565,766
Payables for property, plant and equipment	**169,658**	8,311,239
Others	**4,451,004**	1,893,799
	58,475,382	110,779,790
	101,864,038	155,912,619

(i) Construction payables comprise construction costs and other project-related expenses payable which are based on project progress measured by project management team of the Group. Therefore, no ageing analysis is presented.

(ii) 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 2015 and 2014, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) is as follows:

	As at 30 June	
	2015	2014
	HK$	HK$
Up to 3 months	**24,994,445**	41,603,159
3 to 6 months	**1,357,662**	508,821
6 months to 1 year	**7,194,635**	308,277
1 to 2 years	**1,539,382**	106,513
Over 2 years	**470,470**	467,001
	35,556,594	42,993,771

11 Borrowings

	As at 30 June	
	2015	**2014**
	HK$	**HK$**
Loan from an independent third party	**22,000,000**	22,000,000

As at 30 June 2015, the Group’s loan of HK$22,000,000 from an independent third party borne an interest at the rate of 3.6% (2014: 6%) per annum and will be repayable in August 2015. The above loan had been repaid in advance of the due date by the Group in July 2015.

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

The fair value of current borrowings approximates their carrying amount.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

During the past few years, the PRC paper industry has encountered unprecedented difficulties. The industry had recorded double-digit growth for over 10 consecutive years and ranked the first in the world in terms of output for 6 successive years. A group of large-scale enterprises had achieved rapid growth with the world's top equipment, technology and product quality. However, issues such as relatively scattered enterprises in the industry and irregular market order still existed. Following a "cliff-style" decline with zero growth rate in 2013, both the product prices and efficiencies for the whole industry fell off. Many enterprises could hardly survive due to loss-making operations. Certain small-scale enterprises with obsolete production closed down or ceased production, while medium-scale ones fell in a dilemma. On 2 April 2015, the State Council approved a more stringent "Ten Rules for Water Pollution Control and Management" policy for water pollution prevention, which posed a more demanding requirement for enterprises in terms of environmental protection. Numerous small and medium enterprises with small production scale, outmoded technology and incapability on pollution control were forced to close down. Accordingly, the structure of the PRC paper industry has started to change. In particular, the industrial concentration has been enhanced. The leading role of large enterprises in the industry has been more significant, and the market competition has been progressively standardised. Certain large enterprises have enhanced their internal management, technological innovation and equipment upgrade, including equipment modification or addition of new equipment, thus further cutting down the cost and improving the efficiency.

Furthermore, the Internet development and the improved living standards have spurred the transformation of online shopping and logistic pattern, followed by a change and a boost in the demand for packaging paper and household paper. In light of the market demand, paper manufacturers would modify their production equipment or invest in more production equipment to meet the changing mode. For this reason, the demand for machinery and equipment would achieve growth in a certain degree.

In 2015, the "One Belt, One Road" strategy proposed by the PRC Government will bring another opportunity for development of the paper industry. As a country with the largest paper production capacity in the world, the PRC has obtained sufficient paper technology and human resources and exported various types of finished paper during the past ten years. In view of overcapacity, keen market competition and soaring environmental protection expenses nowadays, the PRC has to "go out" for new business opportunities. Countries under the "One Belt, One Road" strategy are mainly emerging markets lacking in paper manufacturing equipment and technical staff. Based on the nation strategy, paper manufacturers and equipment suppliers in the PRC are formulating proposals to seize new business opportunities abroad.

BUSINESS REVIEW

For the year ended 30 June 2015, the Group has entered into contracts (including industrial automation systems, sludge treatment product and after-sales service) with amount of approximately HK$342,977,000, as compared with last year, an decrease of approximately 14.3%. As at 30 June 2015, the outstanding contracts amount was approximately HK$264,910,000. Most of them was expected to be completed in the financial year ending 30 June 2016. For the year ended 30 June 2015, the Group's turnover was approximately HK$381,355,000, an increase of approximately 23.5% as compared to that of year ended 30 June 2014. With our Group strategic established the project division in 2014, effort to promotion of "design" "production" "service" business model. For the year ended 30 June 2015, "design" "production" "service" business model contribute a revenue was approximately HK$147,412,000 to the Group.

Under the difficult business environment faced by the Chinese paper industry, the Group tried to expand the oversea markets. For the year ended 30 June 2015, the Group entered contracts with overseas customers, through import and export companies, amounting to approximately HK$25,223,000.

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 new plant will increase the production capacities of the industrial automation and sludge treatment products by approximately 100% to 5,000 units and approximately 119.0% to 92 units.

For marketing promotion during the year ended 30 June 2015, the Group participated the 2014 China International Paper Technology Exhibition (「2014 中國國際造紙科技展覽會」), which held in Shanghai in September 2014, to promote the products and services of the Group to domestic and overseas customers. In November 2014, the Group was invited as a speaker in the "Star Meeting For Domestic Automation Equipment in Chinese Paper Industry" (「中國造紙自主裝備星光滙」) to promote the products and technologies of the Group to the domestic paper manufacturing companies.

During the year, Huazhang Technology still continues our efforts to invest more resources in the products research and development. Research and development expenses was amounting to approximately HK$16,052,000 for the year ended 30 June 2015. The Group increased 14 new patents and 5 new software copyrights during the year. As at 30 June 2015, the Group has registered 138 patents (including 39 invention patents, 89 utility model patents and 10 software copyrights).

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased by approximately 23.5% from approximately HK$308,906,000 for the year ended 30 June 2014 to approximately HK$381,355,000 for the year ended 30 June 2015. Gross profit margin decreased from approximately 27.9% for the year ended 30 June 2014 to approximately 24.7% for the year ended 30 June 2015.

Industrial Automation Business

Revenue from sales of Industrial Automation Business increased by approximately 38.2% from approximately HK$203,949,000 for the year ended 30 June 2014 to approximately HK$281,954,000 for the year ended 30 June 2015. The increase in revenue from sales of Industrial Automation Business 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$147,412,000 for the year ended 30 June 2015. Such services include sales of industrial automation systems and provision for installation and testing services. The gross profit margin of Industrial Automation Business decreased from approximately 26.8% for the year ended 30 June 2014 to approximately 22.6% for the year ended 30 June 2015. Decrease in gross profit margin is attributing to sales of industrial automation systems in a project with a lower gross profits margin, the Group accepted such project for marketing purpose.

Sludge treatment products

Revenue from sales of sludge treatment products decreased by approximately 2.65% from approximately HK$65,686,000 for the year ended 30 June 2014 to approximately HK$63,948,000 for the year ended 30 June 2015, primarily attributing to decrease in project value and scale. For the year ended 30 June 2015, the Group completed 190 contracts as compared with 127 contracts completed in the last year. The gross profit margin of our sludge treatment products for the years ended 30 June 2014 and 2015 were relatively stable at approximately 28.3% and approximately 27.5%, respectively.

After-sales and other services

Revenue from provision of after-sales and other services decreased by approximately 9.7% from approximately HK$39,272,000 for the year ended 30 June 2014 to approximately HK$35,453,000 for the year ended 30 June 2015. Such decrease was primarily attributable to the customers reduced to keep the spare parts and components in advances. The gross profit margin for provision of aftersales and other services increased from approximately 33.3% for the year ended 30 June 2014 to approximately 36.2% for the year ended 30 June 2015. Such increase is attributing to improvement of gross profit margin of provision for modification work services.

Other income

For the years ended 30 June 2014 and 2015, other income amounted to approximately HK$3,018,000 and approximately HK$3,907,000, respectively. Other income was increased for the year ended 30 June 2015 as compared with the same period in last year, primarily due to increase in subsidy of approximately HK$302,000 received from Tongxiang municipal government of Zhejiang Province amounting to approximately HK$3,091,000 for the year and sales of scraped materials amounting to approximately HK$358,000.

Distribution costs

The distribution costs slightly decreased by approximately HK$222,000 from approximately HK$12,200,000 for the year ended 30 June 2014 to approximately HK$11,978,000 for the year ended 30 June 2015, accounting for approximately 3.1% of the Group's revenue for the year ended 30 June 2015, as compared with approximately 3.9% last year. The decrease in absolute amounts is mainly attributing to decrease in warranty expenses of approximately HK$957,000, which was offset by increase in salaries and employee benefits of approximately HK$748,000.

Administrative expenses

The administrative expenses increased by approximately HK$80,000 from approximately HK$30,713,000 for the year ended 30 June 2014 to approximately HK$30,793,000 for the year ended 30 June 2015, accounting for approximately 8.1% of the Group's revenue for the year ended 30 June 2015, as compared with approximately 9.9% last year. The administrative expenses remained stable for the year ended 30 June 2015 as the Group was strictly cost control.

Research and development expenses

The research and development expenses increased by approximately HK$5,915,000 from approximately HK$10,137,000 for the year ended 30 June 2014 to approximately HK$16,052,000 for the year ended 30 June 2015, accounting for approximately 4.2% of the Group's revenue for the year ended 30 June 2015, as compared with approximately 3.3% 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 - net

The net finance income decreased by approximately HK$413,000 from approximately HK$1,220,000 for the year ended 30 June 2014 to approximately HK$807,000 for the year ended 30 June 2015. Such decrease was mainly attributing to increase in finance costs of approximately HK$715,000. The Company have repaid the independent third party loan in July 2015.

Income tax expense

For the years ended 30 June 2014 and 2015, income tax expense were approximately HK$8,867,000 and approximately HK$4,763,000 respectively. The decrease was mainly attributable to the change in tax rate adopted by an operating subsidiary of the Group. The subsidiary's 2011 tax benefit period ended by 31 December 2013 and the application for the next three years tax benefit period from calendar year 2014 was approved by the PRC tax bureau in May 2015. As such, the EIT of the subsidiary for the calendar year 2014 was provided and paid at 25%. As such, the EIT of the subsidiary for the calendar year 2014 was provided and paid at 25%. The overpaid tax has been returned to the subsidiary before June 2015.

The effective tax rates of the Group for the years ended 30 June 2014 and 2015 were 23.7% and 12.2% respectively. The decrease was mainly attributing to the reason was mentioned as above.

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

Profit attributable to the owners of the Company increased by approximately 20.9% from approximately HK$28,496,000 for the year ended 30 June 2014 to approximately HK$34,454,000 for the year ended 30 June 2015. At the same time, the net profit margin slightly decreased by approximately 0.2% from approximately 9.2% for the year ended 30 June 2014 to approximately 9.0% for the year ended 30 June 2015. Such decrease was primarily attributing to the decrease in overall gross profit margin which was affected by a project with a lower profit margin.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources and borrowing. As at 30 June 2015, the Group have net cash and cash equivalent balance amounting to approximately HK$24,941,000 (30 June 2014: approximately HK$69,859,000) as the Group had a borrowing amounting to HK$22,000,000 (30 June 2014: HK$22,000,000). Decrease in net cash and cash equivalent balance was primarily attributing to payment for construction of new production plant and dividend payments. The Group has not used any financial instruments for hedging purose.

As at 30 June 2015, the unused banking facilities of the Group was HK$51,974,000 (30 June 2014: HK$60,513,000).

Borrowing and charges of assets

As at 30 June 2015, the Group's interest-bearing loan was HK$22,000,000 (30 June 2014: HK$22,000,000) which have been repaid in July 2015. Such borrowing is all denominated in HK$, and bear an interest at rate of 3.6% per annum (30 June 2014: 6.0% per annum).

As at 30 June 2015, the banking facilities granted by the bank was secured by land use rights and properties of the Group amounting to approximately HK$2,579,000, and approximately HK$15,975,000 respectively (30 June 2014: approximately HK$2,632,000 and approximately HK$17,155,000 respectively).

Gearing ratio

The gearing ratio as at 30 June 2014 and 2015 were 10.1% and 9.4% respectively. The decrease was mainly attributable to enhancement of the operating results. Based on the gearing ratio as at 30 June 2015, 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%.

Available-for-sale financial assets

As at 30 June 2015, the available-for-sale financial assets was approximately HK$10,145,000 (30 June 2014: nil).

On 27 March 2015, the Group acquired 9.0% shares in Shangtong Investment Management and Consulting (Pizhou) Company Limited* (尚同投资管理咨询（邳州）有限公司 or "Shangtong Investment"), which was established in China, with a cash consideration of RMB8.0 million (equivalent to HK$10,145,000), which was funded by internal resources of the Group. The principal activities of the Shangtong Investment and its subsidiaries were involved in the manufacture, sale, research and development of power transformers and amorphous alloys.

Capital Expenditure

For the year ended 30 June 2015, the Group's capital expenditure amounted to approximately HK$10,302,000 (30 June 2014: approximately HK$14,156,000), which was mainly attributing to construction of new production plant. The new production plant was commenced the production in December 2014.

Commitments

As at 30 June 2015, the Group had no capital commitments (30 June 2014: approximately HK$5,140,000).

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 2015, the Group had no material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

Saved as disclosed below, the Group had no significant investments held or material acquisitions and disposals during the year ended 30 June 2015.

On 30 December 2014, the Group subscribed for the financial product issued by the Bank of Beijing in the principal amount of RMB50.0 million (equivalent to approximately HK$63.4 million). The financial products have been fully redeemed on 15 January 2015 with a gain of approximately RMB41,000 (equivalent to approximately HK$52,000) which was used as general working capital of the Group.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2015, the Group had 241 employees (30 June 2014: 228 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2015 were approximately HK$42,025,000, as comparable to approximately HK$40,132,000 for the year ended 30 June 2014.

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

For the PRC, the year 2015 is a year of reform. The PRC Government has reformulated its development strategies for the future, such as the "New Normal" for the PRC economy, "Made in China 2025", "One Belt, One Road" and "Ten Rules for Water Pollution Control and Management". For the paper industry, these policies indicate a faster elimination of obsolete capacity in the industry. Meanwhile, the existing production equipment and sewage treatment equipment require upgrades and modifications to meet the demand of the future development and the requirements of the policies. With the experience of over 10 years in equipment and service provision in the paper industry, the Group believed the experience in industrial automation systems as well as sludge treatment product design and actual operation can enable the Group's existing and potential customers to fulfill the demand of the future development.

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 2015.

Placing of shares in July 2015

On 16 July 2015, Florescent Holdings Limited ("Florescent"), the controlling shareholder of the Company, entered into a placing and subscription agreement with a placing agent and the Company, pursuant to which (i) placing a maximum of 33,000,000 ordinary shares (the "Placing Shares") of the Company at a placing price of HK$3.60 per share; and (ii) Florescent agree to subscribe a maximum of 33,000,000 new ordinary shares at HK$3.60 per share.

On 21 July 2015, 33,000,000 ordinary shares (with an aggregate nominal value of HK$330,000) of the Company were placed by Florescent to certain independent third parties at a subscription price of HK$3.60 per share. On the same date, the Company issued 33,000,000 new ordinary shares (with an aggregate nominal value of HK$330,000) to Florescent at an issue price of HK$3.60 per share. The Company raised approximately HK$118,800,000 (net of directly attributable expenses of approximately HK$116,412,000), which will be used to fund the Group's business expansion in wastewater treatment business, repayment of third party loan and general working capital.

The placing and subscription price of HK$3.60 per share represents:

(i) a discount of approximately 18.00% to the closing price of HK$4.39 per share as quoted on the Stock Exchange on 16 July 2015, being the date of the placing and subscription Agreement; and

(ii) a discount of approximately 15.41% to the average closing price of approximately HK$4.26 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 15 July 2015, being the date prior to the date of the placing and subscription Agreement.

The subscription price of HK$3.60 per share is the same as the placing price.

Taking into account the Company's estimated expenses for the placing and the subscription, the net subscription price is approximately HK$3.53 per subscription share.
The placing and the subscription would achieve the following benefits for the Company:

(i) it would increase the amount of shares held by public investors which may in turn enhance the trading liquidity of the shares;

(ii) it would introduce new investors to the Company and hence further optimise and diversify the shareholder base of the Company;

(iii) it would capture the current share price to raise new proceeds for the Group's business expansion in the wastewater treatment business and general working capital purposes; and

(iv) it is expected that the Company's gearing level would be lowered as a result of the placing and the subscription and thereby preserving the healthiness of the financial status of the Company.

The placing shares have been placed to not less than six placees, being institutional, professional and/or individual investors who and whose ultimate beneficial owners are independent third parties. None of the placees and their respective associates become a substantial shareholder as a result of the placing.

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 ("Old Deed") 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 (the "Restricted Business") from time to time.

A new deed of non-competition undertaking (the "New Deed") was executed by the Controlling Shareholders on 19 December 2014. Terms of the New Deed succeed those set out in the Old Deed and make references to Main Board Listing Rules after the transfer of listing of the shares of the Company from GEM to the Main Board in January 2015.

Each of the Controlling Shareholders has also covenanted to notify the Company shall he/she/it or his/ her/its associates be offered or become aware of any business opportunity regarding the Restricted Business and shall provide the Company all necessary information. An independent board committee (the " Independent Board Committee") of the Company comprising all independent non-executive directors shall decide whether to accept such opportunity by simple majority, taking into account the Company's prevailing business, the financial resources required for the relevant opportunity and the commercial viability of such opportunity. The New Deed has taken effect from 5 January 2015.

In this regard, each of the Controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the New Deed for the year ended 30 June 2015. The independent non-executive directors of the Company who forms the Independent Board Committee have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the New Deed and have confirmed that, as far as they can ascertain, there is no breach of any of the undertakings in the New Deed given by the Controlling Shareholders.

As of the date of this announcement, the Company is not aware of any other matters regarding the compliance of the undertakings in the New Deed that are required to be brought to the attention of the shareholders of the Company.

The Company will continue to disclose in its further annual reports the status of compliance to the New Deed as reviewed by the Independent Board Committee.

To further delineate the respective business of Zhejiang Huazhang Automation Equipment Company Limited (浙江華章自動化設備有限公司) ("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(華章電氣自動化控股有限公司)("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. The Group ceased the connected relationship with Huazhang Automation (Zhejiang) in July 2014.

Corporate governance practices

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value.

The Board has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules before 5 January 2015. From 5 January 2015, the Board has adopted the CG Code as set out in Appendix 14 to the Listing Rules. Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the code provisions of the CG Code for the year ended 30 June 2015, except the deviation under the Code Provision A.2.1 before 1 October 2014 stated in the interim report for the period ended 31 December 2014 and in the section headed "Chairman and Chief Executive Officer" in the annual report for the year ended 30 June 2015.

Model code for 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 before 5 January 2015.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules since 5 January 2015. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the period from 5 January 2015 to 30 June 2015 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

Audit committee

The audit committee was established on 6 May 2013. The primary duties of the audit committee are mainly to review the financial systems of the Group; to review the accounting policy, financial position and financial reporting procedures of the Group; to communicate with external auditor; to assess the performance of internal financial and audit personnel; and to assess the internal controls of the Group. The audit committee consists of three independent non-executive Directors namely, Mr. Kong Chi Mo, Ms. Chen Jin Mei and Mr. Dai Tian Zhu. The audit committee is chaired by Mr Kong Chi Mo.

The Audit Committee of the Company has discussed with the management and external auditor 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 2015.

Final dividend

An interim dividend of 2.5 HK cents per share (2014: Nil) was paid on 6 March 2015. The board of directors now recommend to pay the final dividend for 2015 at 2.3 HK cents per share (2014: 5.0 HK cents per share) payable to shareholders of the Company whose names are on the register of members on 18 November 2015. It is expected that the final dividend will be paid on 24 November 2015. The proposed distribution of final dividends is subject to the approval of the Annual General Meeting ("AGM").

Closure of register of members

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

(i) from 6 November 2015 (Friday) to 10 November 2015 (Tuesday), 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 2015 (Thursday); and

(ii) from 16 November 2015 (Monday) to 18 November 2015 (Wednesday), 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 2015 (Friday).

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 Tuesday, 10 November 2015. 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 2015 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

China, 17 September 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.

* For identification purposes only