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 2015

FINANCIAL HIGHLIGHTS

- Turnover of the Group for the six months ended 31 December 2015 was approximately HK$135,142,000, representing a decrease of approximately 29.9% as compared with that of the corresponding period in 2014.
- Pprofit for the period for the six months ended 31 December 2015 was approximately HK$6,851,000, representing a decrease of approximately 69.1%, as compared with that of the corresponding period in 2014.
- The Board resolved not to declare any interim dividend for the six months ended 31 December 2015 (Six months ended 31 December 2014: 2.5HK cents per share).

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Huazhang Technology Holding Limited (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 2015, together with the unaudited comparative figures for the corresponding period in 2014.

Condensed consolidated statement of profit or loss and other comprehensive income

	Notes	For the six months ended 31 December 2015 (Unaudited) HK$	2014 (Unaudited) HK$
REVENUE	6	**135,142,202**	192,672,954
Cost of sales		**(99,578,565)**	(135,683,736)
Gross profit		**35,563,637**	56,989,218
Other income	6	**255,317**	856,556
Selling and distribution expenses		**(5,906,549)**	(5,509,391)
Administrative expenses		**(15,436,342)**	(13,442,015)
Research and development expenses		**(6,606,265)**	(9,047,671)
OPERATING PROFIT		**7,869,798**	29,846,697
Finance income	8	**449,236**	1,178,284
Finance costs		**(52,471)**	(417,833)
Finance income - net		**396,765**	760,451
PROFIT BEFORE INCOME TAX	7	**8,266,563**	30,607,148
Income tax expense	9	**(1,415,447)**	(8,405,175)
PROFIT FOR THE PERIOD		**6,851,116**	22,201,973
Attributable to:			
- Owners of the parent		**6,885,985**	22,201,973
- Non-controlling interests		**(34,869)**	-
		6,851,116	22,201,973
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent period			
Exchange differences on translation of foreign operations		**(13,824,641)**	1,392,913
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		**(13,824,641)**	1,392,913
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(6,973,525)**	23,594,886
Attributable to:			
- Owners of the parent		**(6,938,656)**	23,594,886
- Non-controlling interests		**(34,869)**	-
		(6,973,525)	23,594,886
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
- Basic earnings per share		**0.02**	0.08
- Diluted earnings per share		**0.02**	0.08
Dividends	11	**-**	6,800,000

Condensed consolidated statement of financial position

	Notes	31 December 2015 (Unaudited) HK$	30 June 2015 (Audited) HK$
NON-CURRENT ASSETS			
Prepaid land lease payments		**4,190,998**	4,519,007
Property, plant and equipment	12	**52,067,652**	50,599,851
Investment properties		**8,076,688**	8,777,607
Goodwill	5	**1,227,300**	-
Available-for-sale investments		**9,548,818**	10,144,560
Deferred tax assets		**4,241,315**	3,737,117
Trade and other receivables	13(i)	**2,239,406**	11,255,611
Prepayment – non-current portion	13(ii)	**288,390**	435,874
Total non-current assets		**81,880,567**	89,469,627
CURRENT ASSETS			
Inventories		**76,408,409**	70,968,562
Trade and other receivables	13(i)	**177,141,723**	116,075,455
Prepayments	13(ii)	**10,140,670**	13,525,805
Pledged deposits		**8,834,312**	1,567,382
Cash and cash equivalents		**113,421,225**	46,940,520
Total current assets		**385,946,339**	249,077,724
CURRENT LIABILITIES			
Trade and other payables	14	**149,093,376**	101,864,038
Interest-bearing bank and other borrowings		**11,111,093**	22,000,000
Current income tax liabilities		**2,768,344**	2,397,959
Total current liabilities		**162,972,813**	126,261,997
NET CURRENT ASSETS		**222,973,526**	122,815,727
TOTAL ASSETS LESS CURRENT LIABILITIES		**304,854,093**	212,285,354
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,676,781**	389,594
Net assets		**303,177,312**	211,895,760
EQUITY			
Equity attributable to owners of the parent			
Share capital		**3,006,500**	2,720,000
Treasury shares		**(92,274)**	-
Share premium		**136,349,130**	41,534,254
Other reserves		**57,676,503**	70,589,582
Retained earnings		**102,991,478**	97,051,924
		299,931,337	211,895,760
Non-controlling interests		**3,245,975**	-
Total equity		**303,177,312**	211,895,760

1 Corporate information

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

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

2 Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 31 December 2015 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 and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It was approved and authorised for issue by the Board on 26 February 2016.

The unaudited interim condensed consolidated financial statements do not include all the 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 2015.

These interim condensed consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated.

These interim condensed consolidated financial statements have not been audited.

3 Accounting policies

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 30 June 2015, except the following policy which was newly adopted by the Group during the six months ended 31 December 2015.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

New and revised Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), that have been issued but are not yet effective, in the interim financial statement:

		Effective for accounting period beginning on or after
Amendments to HKAS 1	*Disclosure Initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to HKAS 16 and HKAS 41	*Agriculture : Bearer Plants*	1 January 2016
Amendment to HKAS 27 (2011)	*Equity Methods in Separate Financial Statements*	1 January 2016
Amendments to HKFRS 10 and HKAS 28	*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*	No mandatory effective date yet determined
Amendments to HKFRS 10 HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*	1 January 2016
Amendment to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
Annual Improvements Project	*Annual Improvements to HKFRSs 2012-2014 Cycle*	1 January 2016
HKFRS 9	*Financial Instruments*	1 January 2018
HKFRS 15	*Revenue from Contracts with Customers*	1 January 2018

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. Other than HKFRS 15, the adoption of above is not expected to have a material effect on the Group's operating results or financial position.

4 Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) industrial automation systems and related projects;
(b) sludge treatment;
(c) provision of after-sale and other services; and
(d) wastewater business

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before income tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs and corporate expenses are excluded from such measurement.

Segment assets exclude part of other receivables, investment properties, deferred tax assets, non-current prepayment, goodwill, available-for-sale investments, pledged deposits and cash and cash equivalents, as these assets are managed on a group basis.

Segment liabilities exclude part of other payables, deferred tax liabilities, interest-bearing bank and other borrowings, and current income tax liabilities as these liabilities are managed on a group basis.

The segment results for the six months ended 31 December 2015:

	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Wastewater business HK$	Total HK$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue:					
Sales to external customers	84,008,923	21,296,076	29,837,203	-	135,142,202
Segment cost of sales	(61,619,327)	(16,655,954)	(21,284,420)	(18,864)	(99,578,565)
Segment gross profit	22,389,596	4,640,122	8,552,783	(18,864)	35,563,637
Segment results	11,861,061	856,027	7,452,972	(18,864)	20,151,196
Common administrative expenses					(12,536,715)
Other income					255,317
Finance income-net					396,765
Profit before income tax					8,266,563
Income tax expense					(1,415,447)
Profit for the period					6,851,116

Other segment information for the six months ended 31 December 2015:

	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Wastewater business HK$	Unallocated HK$	Total HK$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Capital expenditure	-	-	-	-	106,871	106,871
Depreciation of property plant and equipment	454,035	683,707	-	-	1,204,650	2,342,392
Amortization of land use rights	18,174	24,113	-	-	21,745	64,032

The segment assets and liabilities as at 31 December 2015 are as follows:

	Industrial automation systems and related projects HK$ (unaudited)	Sludge treatment products HK$ (unaudited)	After-sales and other services HK$ (unaudited)	Wastewater business HK$ (unaudited)	Unallocated HK$ (unaudited)	Total HK$ (unaudited)
Assets	142,640,913	71,721,892	20,387,853	32,865,874	200,210,374	467,826,906
Liabilities	74,304,349	34,670,803	4,032,371	7,400,047	44,242,024	164,649,594

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

	Industrial automation systems and related projects HK$ (unaudited)	Sludge treatment products HK$ (unaudited)	After-sales and other services HK$ (unaudited)	Total HK$ (unaudited)
Segment revenue:				
Sales to 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				(10,220,426)
Other income				856,556
Finance income-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 information for the six months ended 31 December 2014:

	Industrial automation systems and related projects HK$ (unaudited)	Sludge treatment products HK$ (unaudited)	After-sales and other services HK$ (unaudited)	Unallocated HK$ (unaudited)	Total HK$ (unaudited)
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 prepaid land lease payments	29,248	38,806	-	34,996	103,050

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

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

5 Business combination

On 22 December 2015 (the “Completion Date”), the Group completed the acquisition of 70% of the equity interest (the “Acquisition”) in Wuhan Wukong Control System Engineering Co., Ltd. ("Wukong"), an unlisted company in China. Wukong principally engaged in the business of design and construction of wastewater treatment facilities in the PRC as well as other construction and fixture installation projects and the ancillary services. The Acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Wukong for the period from the Completion Date to 31 December 2015.

The fair values of the identifiable assets and liabilities of Wukong as at the Completion Date were:

	HK$
Inventories	6,493,722
Property, plant and equipment	6,537,387
Prepayments	2,219,785
Trade and other receivables	18,229,727
Cash and cash equivalents	194,962
Interest-bearing bank and other borrowings	(11,145,816)
Trade and other payables	(9,308,007)
Current income tax liabilities	(995,036)
Deferred tax liability	(1,291,209)
Total identifiable net assets at fair value	10,935,515
Fair value of 70% equity interest in Wukong	7,654,861
Goodwill	1,227,300
Total consideration	8,882,161
Analysis of cash flows on acquisition:	
Net cash and cash equivalents acquired	194,962
Cash consideration (excluding HK$886,817 unpaid)	(7,995,785)
Net outflows of cash and cash equivalents	(7,800,823)

From the Completion Date to 31 December 2015, Wukong did not contribute any revenue and incurred a net loss of HK$116,230. Since the Group completed the Acquisition shortly before the end of reporting period and the date of this announcement, more time is required to gather the information and hence it is not practical to provide revenue and profit of the combined entity for the six months ended 31 December 2015 as though the Acquisition had been occurred at the beginning of the period.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Wukong with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of HK$265,464 have been expensed and are included in administrative expenses in profit or loss.

In accordance with HKFRS 3 (Revised) Business Combinations, the amounts recorded for the Acquisition are provisional and are subject to adjustments during the measurement period of not exceeding one year from the acquisition date if new information is obtained about facts and circumstances that existed as of the Completion Date and, if known, would have affected the measurement of the amounts recognised as of that date. The business combination involves a call option in which the group has a right to acquire the shares from Wukong's non-controlling shareholders at a future date. The call option embedded in the total purchase consideration is an derivative financial instrument and is to be initially recognised as a financial asset at its fair value, with any subsequent changes in its fair value recognised in profit or loss. As of 31 December 2015, the fair value measurement of the call option as at the Completion Date is still in progress, and it was not separately recognized as a financial asset in the Group's condensed consolidated statement of financial position. Upon the finalization of fair value of call option at the Completion Date, the goodwill recognised at the Completion Date may be different from the amount presented above.

6 Revenue and other income

	For the six months ended 31 December	
	2015	2014
	HK$	HK$
	(unaudited)	(unaudited)
Revenue		
Industrial automation systems and related projects	**84,008,923**	163,741,676
Sludge treatment products	**21,296,076**	15,929,907
After-sales and other services	**29,837,203**	13,001,371
	135,142,202	192,672,954
Other income		
Government grant	**87,864**	595,913
Other leasing income	**115,147**	260,643
Others	**52,306**	-
	255,317	856,556

7 Profit before income tax

The Group's profit before income tax is arrived at after charging for the six months ended 31 December:

	For the six months ended 31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$	HK$
Cost of inventories sold	**78,275,281**	127,648,540
Cost of after-sales and other services	**21,284,420**	8,035,196
Depreciation of property, plant and equipment	**2,342,392**	1,841,444
Depreciation of investment property	**132,853**	-
Amortisation of land use right	**64,032**	103,050
Provision for impairment of trade receivables	**536,642**	-
Provision for write-down of inventories	**1,081,596**	695,639
Professional service fee	**1,126,646**	2,701,833

8 Finance income

	For the six months ended 31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$	HK$
Interest income	**449,236**	1,116,612
Exchange gain	**-**	61,672
	449,236	1,178,284

9 Income tax expense

	For the six months ended 31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$	HK$
Current income tax		
-PRC enterprise income tax	**2,155,313**	8,950,353
Deferred income tax	**(739,866)**	(545,178)
Income tax expense	**1,415,447**	8,405,175

10 Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 299,195,924 (2014: 272,000,000) in issue during the period.

The calculations of basic and diluted earnings per share are based on:

	Six months ended31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$	HK$
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**6,885,985**	22,201,973
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**299,195,924**	272,000,000
Basic earnings per share	**0.02**	0.08

11 Dividends

The dividends of 2.3 HK cents per share declared and approved in the six months ended 31 December 2015 represents the final dividend for the year ended 30 June 2015 (Six months ended 31 December 2014: 5.0 HK cents per share), an amount of HK$6,914,950 was paid during the six months ended 31 December 2015 (Six months ended 31 December 2014: HK$13,600,000).

On 26 February 2016, the Board resolved not to declare any interim dividend for the six months ended 31 December 2015 (Six months ended 31 December 2014: 2.5HK cents per share).

12 Property, plant and equipments

During the six months ended 31 December 2015, the Group acquired assets with a cost of HK$106,871 (the six months ended 31 December 2014: HK$10,691,551), excluding property, plant and equipments acquired through a business combination (see Note 5).

There are no assets disposal of during the six months ended 31 December 2015.

13 Trade and other receivables and prepayment

(i) Trade and other receivables

	As at 31 December 2015 (Unaudited) HK$	As at 30 June 2015 (Audited) HK$
Warranty receivables (note a)	**24,534,651**	23,433,385
Amounts due from customers for contract work	**275,330**	8,405,791
Other trade receivables (note b)	**104,035,103**	62,642,301
	128,845,084	94,481,477
Less: provision for impairment of trade receivables	**(6,609,826)**	(6,464,571)
Trade receivables-net	**122,235,258**	88,016,906
Bill receivable	**21,780,553**	2,993,275
Trade and bill receivables	**144,015,811**	91,010,181
Other receivables due from a related party	**21,803**	63,403
Other receivables - performance guarantee	**28,192,832**	26,472,451
Others	**7,150,683**	9,785,031
Total trade and other receivables	**179,381,129**	127,331,066
Less: trade receivables-non-current portion	**(2,239,406)**	(11,255,611)
	177,141,723	116,075,455

Notes:

(a) 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).

An aged analysis of the warranty receivables as at the end of the reporting period is as follows:

	As at 31 December 2015 (Unaudited) HK$	As at 30 June 2015 (Audited) HK$
Warranty receivables		
Up to 3 months	**6,718,422**	3,780,256
3 months to 6 months	**1,036,801**	1,425,813
6 months to 1 years	**2,500,027**	4,475,914
1 to 2 years	**6,144,974**	7,189,013
Over 2 years	**8,134,427**	6,562,389
	24,534,651	23,433,385

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

	As at 31 December 2015 (Unaudited) HK$	As at 30 June 2015 (Audited) HK$
Other trade receivables		
Up to 3 months	**55,662,857**	19,278,531
3 months to 6 months	**6,241,554**	26,959,292
6 months to 1 years	**23,884,354**	8,318,339
1 to 2 years	**11,307,010**	5,915,126
Over 2 years	**6,939,328**	2,171,013
	104,035,103	62,642,301

(ii) Prepayments

	As at 31 December 2015 (Unaudited) HK$	As at 30 June 2015 (Audited) HK$
Prepayments for raw materials	**8,188,811**	13,449,138
Others	**2,235,249**	512,541
Total prepayments	**10,429,060**	13,961,679
Less: prepayments-non-current portion	**(288,390)**	(435,874)
	10,140,670	13,525,805

14 Trade and other payables

	As at 31 December 2015 (Unaudited) HK$	As at 30 June 2015 (Audited) HK$
Trade payables	**53,856,703**	35,556,594
Construction payables	**-**	3,601,917
Bills payables	**33,625,898**	4,230,145
	87,482,601	43,388,656
Other taxes payables	**1,710,374**	1,567,450
Employee benefit payables	**3,730,083**	3,170,175
Advances from customers	**49,536,983**	47,056,346
Provision for warranty expenses	**1,496,866**	2,060,749
Payables for property, plant and equipment	**152,590**	169,658
Others	**4,983,879**	4,451,004
	149,093,376	101,864,038

The ageing analysis of the trade payables is as follows:

	As at 31 December 2015 (Unaudited) HK$	As at 30 June 2015 (Audited) HK$
Up to 3 months	**41,111,930**	24,994,445
3 months to 6 months	**2,952,239**	1,357,662
6 months to 1 years	**2,735,113**	7,194,635
1 to 2 years	**5,426,345**	1,539,382
Over 2 years	**1,631,076**	470,470
	53,856,703	35,556,594

BUSINESS REVIEW AND OUTLOOK

China's gross domestic product (GDP) in the fourth quarter of 2015 grew 6.8% as compared with the corresponding period last year. The GDP for the year grew at a of 6.9%, which is the first year with a recorded annual growth of less than 7% since 1990. With an expected hard landing of the coutnry's economy, the People's Bank of China have cut the interest rates five times to address the market changes and to ease the threat of economic downturn. The slowdown of China's domestic economy have impacted on the paper industry. To add to the matter, the industry was facing increasing environmental costs, labor costs and logistics costs during 2015. The operation of paper companies are under pressure continuously and they have taken a prudence measure when it comes to capital expenditures.

For the six months ended 31 December 2015, the Group has entered into contracts (including industrial automation systems, sludge treatment products and after-sale services) in an aggregate amount of approximately HK$261,008,000, representing an increase of approximately 45.7%, as compared with the recorded during the same period in the last year. Turnover of the Group for the six months ended 31 December 2015 was approximately HK$135,142,000, representing a decrease of approximately 29.9% as compared with that of the corresponding period in 2014, mainly due to the downturn of the China's macroeconomic. Such downturn affected the project progress or resulted in delayed completion. In addition, revenue generated from one-stop services also decreased.

In terms of business development, the Group completed a placement to issue 33,000,000 shares on 21 July 2015. The net proceeds was approximately HK$116.4 million which would be used in expanding the sewage treatment business, repayment of a third party's loan and general working capital. On 21 December 2015, the Group completed the acquisition of 70% interests in Wukong. The purchase consideration was RMB7,420,000 (equivalent to approximately HK$ 8,882,161). Wukong is principally engaged in the business of design and construction of wastewater treatment facilities in the PRC as well as other construction and fixture installation projects and the ancillary services. As at 31 December 2015, the outstanding contract amounts of the Wukong was HK$40,598,000.

The Group will continue to maintain effective cost control and actively seek new project opportunities. In response to the "One Belt, One Road" strategy implemented by the Chinese government, the Group will channel internal resources to explore overseas markets. The Group believes that if the Chinese economy stabilizes in the foreseeable future, domestic customers will accelerate their investment in projects, and the Group expects its financial results to turn around.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue of the Group decreased by approximately 29.9% from approximately HK$192,673,000 for the six months ended 31 December 2014 to approximately HK$135,142,000 for the six months ended 31 December 2015. Gross profit margin decreased from approximately 29.6% for the six months ended 31 December 2014 to approximately 26.3% for the six months ended 31 December 2015.

(i) Industrial automation business

Revenue from sales of industrial automation business decreased by approximately 48.7% from approximately HK$163,742,000 for the six months ended 31 December 2014 to approximately HK$84,009,000 for the six months ended 31 December 2015. Such decrease was primarily attributable to decrease in revenue contributed from provision of one-stop services in relation to industrial automation systems. The revenue from provision of one-stop services decreased from approximately HK$99,973,000 for the six months ended 31 December 2014 to nil for the 31 December 2015 due to those projects were completed for the year ended 30 June 2015. The gross profit margin of industrial automation business decreased from approximately 28.8% for the six months ended 31 December 2014 to approximately 26.6% for the six months ended 31 December 2015.

(ii) Sludge treatment products

Revenue from sales of sludge treatment products increased by approximately 33.7% from approximately HK$15,930,000 for the six months ended 31 December 2014 to approximately HK$21,296,000 for the six months ended 31 December 2015. Such increase was primarily attributable to number of the completed contracts with amounts over HK$1,000,000 increased from 3 projects for the six months ended 31 December 2014 to 6 projects for the six months ended 31 December 2015. The gross profit margin for our sludge treatment products decreased from approximately 30.4% for the six months ended 31 December 2014 to approximately 21.8% for the six months ended 31 December 2015. Decrease in gross profit margin of sludge treatment products was due to a project with a lower profit margin was accepted by the Group for new industry development.

(iii) After-sale and other services

Revenue from provision of after-sales and other services increased by approximately 129.5% from approximately HK$13,001,000 for the six months ended 31 December 2014 to approximately HK$29,897,000 for the six months ended 31 December 2015. Such increase was primarily attributable to provision of design and installation service for a project over HK$15,823,000 for the six months ended 31 December 2015. The gross profit margin for provision of after-sales and other services decreased from approximately 38.2% for the six months ended 31 December 2014 to approximately 28.7% for the six months ended 31 December 2015. Decrease in gross profit margin for provision of after-sales and other services was due to the gross profit margin of the project mentioned as above was at approximately 20.0%.

Selling and distribution costs

The selling and distribution costs slightly increased by approximately HK$398,000 from approximately HK$5,509,000 for the six months ended 31 December 2014 to approximately HK$5,907,000 for the six months ended 31 December 2015, accounting for approximately 2.9% and approximately 4.4% of the Group's revenue for the six months ended 31 December 2014 and 2015 respectively. The increase in selling and distribution costs is mainly attributable to increase in warranty expenses of approximately HK$203,000 and travelling expenses of approximately HK$172,000 which is mainly in relation to exhibition activities.

Administrative expenses

The administrative expenses increased by approximately HK$1,994,000 from approximately HK$13,442,000 for the six months ended 31 December 2014 to approximately HK$15,436,000 for the six months ended 31 December 2015, accounting for approximately 7.0% and approximately 11.4% of the Group's revenue for the six months ended 31 December 2014 and 2015 respectively. The increase in administrative expenses is mainly attributable to i) increase in employee benefit expenses of HK$1,221,000 in relation to increase in number of management personnel and ii) increase in provision for impairment of trade receivables of approximately HK$537,000.

Research and development expenses

The research and development expenses decreased by approximately HK$2,442,000 from approximately HK$9,048,000 for the six months ended 31 December 2014 to approximately HK$6,606,000 for the six months ended 31 December 2015, accounting for approximately 4.7% and approximately 4.9% of the Group's revenue for the six months ended 31 December 2014 and 2015 respectively. The decrease in research and development expenses was mainly attributable to the cost control. The Group is still continuously investing in research and development activities for new industrial automation systems and sludge treatment products.

Income tax expense

The income tax expense decreased by approximately HK$6,990,000 from approximately HK$8,405,000 for the six months ended 31 December 2014 to approximately HK$1,415,000 for the six months ended 31 December 2015. The decrease was mainly attributable to decrease in the assessable profits and the change in tax rate adopted by an operating subsidiary of the Group in the six months ended 31 December 2014. A subsidiary's 2011 tax benefit period ended by 31 December 2013, the Enterprise Income Tax of the subsidiary for the calendar year 2014 was provided and paid at 25%. The application for the next three years tax benefit period from calendar year 2014 was approved by the PRC tax bureau in May 2015, therefore, the applicable income tax rate of the subsidiary is 15% afterward.

The effective tax rates of the Group for the six months ended 31 December 2014 and 2015 were 27.5% and 17.1% respectively. The decrease was mainly attributing to change in tax rate imposed by the subsidiary.

Profit for the period and net profit margin

Profit for the period decreased by approximately 69.1% from approximately HK$22,202,000 for the six months ended 31 December 2014 to approximately HK$6,851,000 for the six months ended 31 December 2015. The net profit margin dropped by approximately 6.4% from approximately 11.5% for the six months ended 31 December 2014 to approximately 5.1% for the six months ended 31 December 2015. Such change is primarily attributable to the decrease in revenue and gross profit margin of the Group.

Profit for the period attributable to owners of the parent

Profit for the period attributable to owners of the parent amounted to approximately HK$22,202,000, representing an decrease of approximately HK$15,316,000 or approximately 69.0% as compared with approximately HK$6,886,000 million for the corresponding period of last year.

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 2015, the Group have net cash and cash equivalent balance amounting to approximately HK$102,310,000 (30 June 2015: approximately HK$24,941,000) and borrowings amounting to approximately HK$11,111,000 (30 June 2015: HK$22,000,000). Cash and cash equivalents increased significantly due to the Group completed a placement in July 2015 and raised a net proceeds of approximately HK$ 116.4 million.

Borrowings and charges of assets

As at 31 December 2015, the Group's borrowings were approximately HK$11,111,000 (30 June 2015: HK$22,000,000) which will be repayable within 1 year. Such borrowing is all denominated in RMB, and bear interest ranged from 6.21% to 12.0% per annum (30 June 2015: 3.6% per annum).

As at 31 December 2015, the banking facilities granted by the bank was secured by land use rights and properties of the Group amounting to approximately HK$2,395,000 and HK$32,481,000 respectively (30 June 2015: HK$2,579,000 and HK$15,975,000 respectively).

Contingent liabilities

As at 31 December 2015, the Group had no material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the six months ended 31 December 2015.

On 22 December 2015, the Group acquired 70% of the equity interest of Wukong at a total consideration of RMB7,420,000(equivalent to approximately HK$8,883,000).

Except as disclosed above the Group did not make any other material mergers or acquisitions for the six months ended 31 December 2015.

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 2015, the Group had 276 employees (30 June 2015: 241 employees), including the executive Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2015 were approximately HK$17,620,000, as comparable to approximately HK$20,269,000 for the six months ended 31 December 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.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 31 December 2015, 4,388,000 of its ordinary shares were repurchased on the Stock Exchange at an aggregate price of HK$14,668,874. The Company has repurchased another 288,000 ordinary shares on the Stock Exchange in January 2016 at an aggregate price of HK$691,462. Subsequent to these share repurchase exercises, the Company has acquired and cancelled and will cancel approximately 1.53% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations.

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would lead to an enhancement of the earnings per share.

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2015.

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 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.

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 Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 31 December 2015.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code for the six months ended 31 December 2015 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 31 December 2015 (Six months ended 31 December 2014: 2.5HK cents per share).

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 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 interim condensed consolidated financial statements for the six months ended 31 December 2015.

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

Hong Kong, 26 February 2016

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.