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 ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue increased significantly by approximately 81.1% from approximately RMB110.7 million for the six months ended 31 December 2015 to approximately RMB200.6 million for the six months ended 31 December 2016.

- Gross profit margin was a decrease of approximately 2.5% from approximately 26.3% for the six months ended 31 December 2015 to approximately 23.8% for the six months ended 31 December 2016.

- Profit for the period significantly increased by approximately 154.8% from approximately RMB5.6 million for the six months ended 31 December 2015 to approximately RMB14.3 million for the six months ended 31 December 2016. The net profit margin rose approximately 2.0% from approximately 5.1% for the six months ended 31 December 2015 to approximately 7.1% for the six months ended 31 December 2016.

- Profit attributable to the owners of the parent significantly increased by approximately RMB8.7 million from approximately RMB5.6 million for the six months ended 31 December 2015 to approximately RMB14.3 million for the six months ended 31 December 2016.

- Basic earnings per share for the six months ended 31 December 2016 and 2015 were RMB0.04 and RMB0.02, respectively.

- The Board resolved not to declare any interim dividend for the six months ended 31 December 2016.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of the 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 2016, together with the unaudited comparative figures for the corresponding period in 2015.

Since the Group mainly operates its business in PRC, the Directors consider that it is more appropriate to use Renminbi ("RMB") as the presentation currency of the Group and that the presentation of financial statements in RMB can provide more relevant information for management to control and monitor the performance and financial position of the Group. Accordingly, the Company has changed its presentation currency for the preparation of its consolidated financial statements from HK$ to RMB starting from the financial year ending 30 June 2017. The comparative figures in these consolidated financial statements have been restated from HK$ to RMB accordingly.

For the purpose of presenting the consolidated financial statements of the Group in RMB, the assets and liabilities for the consolidated statement of financial position are translated into RMB at the closing rate at the end of the reporting period. Income and expenses for the consolidated statement of profit and consolidated statement of comprehensive income are translated at the average exchange rates for the relevant financial period, unless exchange rates fluctuated significantly during the period, in which case, the exchange rates prevailing on the dates of transactions are used. The share capital, the share premium and reserves are translated at the exchange rates on the dates of the relevant transactions.

The relevant exchange rates used to re-present the comparative figures at 30 June 2015 and 30 June 2016 and for the year ended 30 June 2016 are as follows:

Year ended 30 June 2015 RMB1 = HK$
Average rate 1.26
Closing rate 1.27

Year ended 30 June 2016 RMB1 = HK$
Average rate 1.20
Closing rate 1.17

The change in presentation currency mainly impacted the carrying amount of foreign currency translation reserves from HK$13,905,000 and loss of HK$5,871,000 to RMB6,463,000 and RMB11,774,000 as at 30 June 2015 and 2016, respectively.

Interim condensed consolidated statement of profit and other comprehensive income

	Notes	For the six months ended 31 December 2016 (Unaudited) RMB	2015 (Restated) RMB
REVENUE	5	**200,560,216**	110,742,277
Cost of sales		**(152,758,355)**	(81,599,382)
Gross profit		**47,801,861**	29,142,895
Other income	5	**1,988,928**	209,219
Selling and distribution expenses		**(4,952,093)**	(4,840,122)
Administrative expenses		**(21,558,266)**	(12,651,564)
Research and development expenses		**(6,213,409)**	(5,413,504)
OPERATING PROFIT		**17,067,021**	6,446,924
Finance income	7	**190,641**	368,126
Finance costs		**(55,719)**	(42,996)
Finance income - net		**134,922**	325,130
PROFIT BEFORE INCOME TAX	6	**17,201,943**	6,772,054
Income tax expense	8	**(2,902,956)**	(1,159,888)
PROFIT FOR THE PERIOD		**14,298,987**	5,612,166
Attributable to:			
- Owners of the parent		**14,277,890**	5,641,334
- Non-controlling interests		**21,097**	(29,168)
		14,298,987	5,612,166
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent period			
Exchange differences on translation of foreign operations		**861,534**	4,267,896
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**861,534**	4,267,896
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**15,160,521**	9,880,062
Attributable to:			
- Owners of the parent		**15,139,424**	9,909,230
- Non-controlling interests		**21,097**	(29,168)
		15,160,521	9,880,062
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
- Basic earnings per share		**0.04**	0.02
- Diluted earnings per share		**0.04**	0.02
Dividends	10	**-**	-

Interim condensed consolidated statement of financial position

	Notes	**31 December 2016**	30 June 2016
		(Unaudited)	(Restated)
		RMB	RMB
NON-CURRENT ASSETS			
Prepaid land lease payments		**3,406,275**	3,458,747
Property, plant and equipment	11	**42,005,058**	44,160,954
Investment properties		**6,455,908**	6,611,279
Goodwill		**596,369**	596,369
Deferred tax assets		**3,334,559**	2,600,720
Derivative financial nstruments		**430,000**	430,000
Trade and other receivables	12(i)	**60,882,300**	21,737,001
Prepayment – non-current portion	12(ii)	**228,553**	235,083
Total non-current assets		**117,339,022**	79,830,153
CURRENT ASSETS			
Inventories		**128,093,032**	81,312,866
Trade and other receivables	12(i)	**252,318,914**	241,886,964
Prepayments	12(ii)	**35,130,685**	24,596,257
Pledged deposits		**26,721,235**	23,554,990
Cash and cash equivalents		**41,905,137**	63,359,071
Total current assets		**484,169,003**	434,710,148
CURRENT LIABILITIES			
Trade and other payables	13	**309,364,725**	228,258,077
Interest-bearing loans		**6,500,000**	5,000,000
Current income tax liabilities		**4,164,184**	4,090,811
Total current liabilities		**320,028,909**	237,448,888
NET CURRENT ASSETS		**164,140,094**	197,261,260
TOTAL ASSETS LESS CURRENT LIABILITIES		**281,479,116**	277,091,413
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,067,003**	1,148,227
Total non-current liabilities		**1,067,003**	1,148,277
Net assets		**280,412,113**	275,943,186
EQUITY			
Equity attributable to owners of the parent			
Share capital		**5,075,783**	2,397,524
Share premium		**93,615,618**	106,985,471
Other reserves		**63,487,676**	61,029,226
Retained earnings		**116,730,799**	104,049,825
		278,909,876	274,462,046
Non-controlling interests		**1,502,237**	1,481,140
Total equity		**280,412,113**	275,943,186

1 Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 31 December 2016 were approved and authorised for issue by the Board on 24 February 2017.

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, the provision of after-sales service and wastewater treatment business in the People's Republic of China (the "PRC").

In the opinion of the directors, the ultimate controlling shareholder is Mr. Zhu Gen Rong.

2 Basis of preparation and changes to the group's accounting policies

2.1 Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 31 December 2016 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 (the "Listing Rules"). It was approved and authorised for issue by the Board on 24 February 2017.

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 2016.

These interim condensed consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These interim condensed consolidated financial statements have not been audited.

2.2 Change of presentation currency

The Group's functional currency is RMB. The presentation currency of the consolidated financial statements in the prior financial year was HK$.

Since the Group mainly operates its business in PRC, the Directors consider that it is more appropriate to use RMB as the presentation currency of the Group and that the presentation of financial statements in RMB can provide more relevant information for management to control and monitor the performance and financial position of the Group. Accordingly, the Company has changed its presentation currency for the preparation of its consolidated financial statements from HK$ to RMB starting from the financial year ending 30 June 2017. The comparative figures in these consolidated financial statements have been restated from HK$ to RMB accordingly.

For the purpose of presenting the consolidated financial statements of the Group in RMB, the assets and liabilities for the consolidated statement of financial position are translated into RMB at the closing rate at the end of the reporting period. Income and expenses for the consolidated statement of profit or loss and other comprehensive income are translated at the average exchange rates for the relevant financial period, unless exchange rates fluctuated significantly during the period, in which case, the exchange rates prevailing on the dates of transactions are used. The share capital, the share premium and reserves are translated at the exchange rates on the dates of the relevant transactions.

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Closing rate 1.17

The change in presentation currency mainly impacted the carrying amount of foreign currency translation reserves from HK$13,905,000 and loss of HK$5,871,000 to RMB6,463,000 and RMB11,774,000 as at 30 June 2015 and 2016, respectively.

2.3 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 statements:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions* [2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* [2]
HKFRS 9	*Financial Instruments* [2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
HKFRS 15	*Revenue from Contracts with Customers* [2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers* [2]
HKFRS 16	*Lease* [3]
Amendments to HKAS 7	*Disclosure Initiatives* [1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses* [1]

[1] Effective for annual periods beginning on or after 1 January 2017.
[2] Effective for annual periods beginning on or after 1 January 2018.
[3] Effective for annual periods beginning on or after 1 January 2019.
[4] No mandatory effective date yet determined but available for adoption.

The directors are in the process of assessing the possible impact on the future adoption of the new and revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Company's interim condensed consolidated financial statements.

3 Summary of significant accounting policies

The accounting policies adopted in, and basis of, 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 2016.

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) after-sales and other services; and
(d) wastewater treatment 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 common administrative expenses, other losses, other income and gains, financing (including finance costs and interest income) and income taxes are excluded from such measurement.

Segment assets include all assets of the Group except for investment properties, deferred tax assets, goodwill, derivative financial instruments, pledged deposits, certain prepayments, other receivables, cash and cash equivalents, property plant and equipment and prepaid land lease payments, as these assets are managed on a group basis.

Segment liabilities include all liabilities of the Group except for certain other payables, deferred tax liabilities, and tax payables as these liabilities are managed on a group basis.

The segment results for the six months ended 31 December 2016:

	Industrial automation systems and related projects Unaudited RMB	Sludge treatment products Unaudited RMB	After-sales and other services Unaudited RMB	Wastewater treatment business Unaudited RMB	Total Unaudited RMB
Segment revenue:					
Sales to external customers	**151,890,376**	**16,011,105**	**20,108,840**	**12,549,895**	**200,560,216**
Segment cost of sales	**116,605,250**	**13,039,285**	**14,955,551**	**8,158,269**	**152,758,355**
Segment gross profit	**35,285,126**	**2,971,820**	**5,153,289**	**4,391,626**	**47,801,861**
Segment results	**24,661,470**	**(2,614,261)**	**2,945,249**	**1,711,298**	**26,703,756**
Common administrative expenses					**(11,625,663)**
Other income					**1,988,928**
Finance income - net					**134,922**
Profit before income tax					**17,201,943**
Income tax expense					**(2,902,956)**
Profit for the period					**14,298,987**

Other segment information for the six months ended 31 December 2016:

	Industrial automation systems and related projects Unaudited RMB	Sludge treatment products Unaudited RMB	After-sales and other services Unaudited RMB	Wastewater treatment business Unaudited RMB	Unallocated Unaudited RMB	Total Unaudited RMB
Capital expenditure	**21,368**	**30,769**	**-**	**-**	**67,329**	**119,466**
Depreciation of property plant and equipment	**393,572**	**569,522**	**-**	**460,452**	**851,930**	**2,275,476**
Amortization of prepaid land lease payments	**14,893**	**19,759**	**-**	**-**	**17,820**	**52,472**

The segment assets and liabilities as at 31 December 2016 are as follows:

	Industrial automation systems and related projects Unaudited RMB	Sludge treatment products Unaudited RMB	After-sales and other services Unaudited RMB	Wastewater treatment business Unaudited RMB	Unallocated Unaudited RMB	Total Unaudited RMB
Assets	**381,479,072**	**71,005,079**	**1,177,456**	**38,171,966**	**109,674,452**	**601,508,025**
Liabilities	**263,008,550**	**24,551,601**	**250,850**	**6,578,210**	**26,706,701**	**321,095,912**

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

	Industrial automation systems and related projects Restated RMB	Sludge treatment products Restated RMB	After-sales and other services Restated RMB	Wastewater treatment business Restated RMB	Total Restated RMB
Segment revenue:					
Sales to external customers	68,841,112	17,451,069	24,450,096	-	110,742,277
Segment cost of sales	50,493,789	13,648,675	17,441,460	15,458	81,599,382
Segment gross profit	18,347,323	3,802,394	7,008,636	(15,458)	29,142,895
Segment results	9,718,953	701,429	6,106,965	(15,458)	16,511,889
Common administrative expenses					(10,274,184)
Other income					209,219
Finance income - net					325,130
Profit before income tax					6,772,054
Income tax expense					(1,159,888)
Profit for the period					5,612,166

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

	Industrial automation systems and related projects Restated RMB	Sludge treatment products Restated RMB	After-sales and other services Restated RMB	Wastewater treatment business Restated RMB	Unallocated Restated RMB	Total Restated RMB
Capital expenditure	-	-	-	-	87,575	87,575
Depreciation of property plant and equipment	372,059	560,264	-	-	940,645	1,872,968
Amortization of prepaid land lease payments	14,893	19,759	-	-	17,820	52,472

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

	Industrial automation systems and related projects Restated RMB	Sludge treatment products Restated RMB	After-sales and other services Restated RMB	Wastewater treatment business Restated RMB	Unallocated Restated RMB	Total Restated RMB
Assets	119,503,989	60,088,316	17,080,862	27,534,898	167,735,455	391,943,520
Liabilities	62,243,533	29,043,163	3,377,851	6,198,898	37,060,817	137,924,262

5 Revenue and other income

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts for the six months ended 31 December.

	For the six months ended 31 December	
	2016	2015
	(Unaudited)	(Restated)
	RMB	RMB
Revenue		
Industrial automation systems and related projects	**151,890,376**	68,841,112
Sludge treatment products	**16,011,105**	17,451,069
After-sales and other services	**20,108,840**	24,450,096
Wastewater treatment business	**12,549,895**	-
	200,560,216	110,742,277
Other income		
Government grant	**500,526**	72,000
Other leasing income	**83,278**	94,357
Bidding service fee	**1,260,695**	-
Others	**144,429**	42,862
	1,988,928	209,219

6 Profit before income tax

The Group's profit before income tax is arrived at after charging:

	For the six months ended 31 December	
	2016	2015
	(Unaudited)	(Restated)
	RMB	RMB
Cost of inventories sold	**137,802,804**	64,157,864
Cost of after-sales and other services	**14,955,551**	17,441,518
Depreciation of property, plant and equipment	**2,275,476**	1,872,968
Depreciation of investment property	**155,371**	155,371
Amortisation of prepaid land lease payments	**52,472**	52,472
Provision for impairment of trade receivables	**4,737,881**	439,751
Provision for write-down of inventories	**500,154**	886,314
Professional service fee	**887,019**	923,230

7 Finance income

An analysis of finance income is as follows:

	For the six months ended 31 December	
	2016	2015
	(Unaudited)	(Restated)
	RMB	RMB
Interest income	**181,481**	368,126
Exchange gain	**9,160**	-
	190,641	368,126

8 Income tax expense

	For the six months ended 31 December	
	2016	2015
	(Unaudited)	(Restated)
	RMB	RMB
Current income tax		
-PRC enterprise income tax	**3,725,985**	1,766,171
Deferred income tax	**(823,029)**	(606,283)
Income tax expense	**2,902,956**	1,159,888

9 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 359,083,043 (2015: 299,195,924) in issue during the period, as adjusted to reflect the rights issue during the period.

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

	For the six months ended 31 December	
	2016	2015
	(Unaudited)	(Restated)
	RMB	RMB
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**14,277,890**	5,641,334
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**359,083,043**	299,195,924
Basic earnings per share	**0.04**	0.02

10 Dividends

The dividends of 4.0HK cents per share declared and approved in the six months ended 31 December 2016 represents the final dividend for the year ended 30 June 2016 (six months ended 31 December 2015: 2.3HK cents per share), an amount of RMB10,691,594 was paid during the six months ended 31 December 2016 (six months ended 31 December 2015: RMB5,793,307).

On 24 February 2017, the Board resolved not to declare any interim dividend for the six months ended 31 December 2016 (Six months ended 31 December 2015: nil).

11 Property, plant and equipment

During the six months ended 31 December 2016, the Group acquired machinery and office equipments with a cost of RMB119,466 (the six months ended 31 December 2015: RMB95,596).

There are no assets disposal during the six months ended 31 December 2016.

12 Trade and other receivables and prepayment

(i)Trade and other receivables

	As at 31 December 2016 (Unaudited) RMB	As at 30 June 2016 (Restated) RMB
Warranty receivables (a)	**23,415,673**	24,997,516
Amounts due from customers for contract work	**68,421,064**	61,354,280
Other trade receivables (b)	**198,249,757**	142,413,390
	290,086,494	228,765,186
Less: provision for impairment of trade receivables	**(11,597,844)**	(6,888,899)
Trade receivables-net	**278,488,650**	221,876,287
Bill receivable	**25,169,142**	25,889,246
Trade and bill receivables	**303,657,792**	247,765,533
Other receivables due from a related party	**17,429**	17,429
Other receivables - performance guarantee	**4,157,039**	6,870,790
Others	**5,368,954**	8,970,213
Total trade and other receivables	**313,201,214**	263,623,965
Less: non-current portion	**(60,882,300)**	(21,737,001)
	252,318,914	241,886,964

(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 (including non-current portion) is as follows:

	As at 31 December 2016 (Unaudited) RMB	As at 30 June 2016 (Restated) RMB
Warranty receivables		
Up to 3 months	**4,706,011**	7,890,606
3 months to 6 months	**1,218,159**	1,588,399
6 months to 1 years	**5,094,830**	2,545,015
1 to 2 years	**2,960,483**	5,586,917
Over 2 years	**9,436,190**	7,386,579
	23,415,673	24,997,516

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

	As at 31 December 2016 (Unaudited) RMB	As at 30 June 2016 (Restated) RMB
Other trade receivables		
Up to 3 months	**94,170,669**	57,191,402
3 months to 6 months	**26,389,744**	49,391,620
6 months to 1 years	**40,397,695**	9,892,187
1 to 2 years	**28,967,340**	22,181,648
Over 2 years	**8,324,309**	3,756,533
	198,249,757	142,413,390

(ii) Prepayments

	As at 31 December 2016 (Unaudited) RMB	As at 30 June 2016 (Restated) RMB
Prepayments for raw materials	**34,491,424**	24,077,373
Others	**867,814**	753,967
Total prepayments	**35,359,238**	24,831,340
Less: non-current portion	**(228,553)**	(235,083)
	35,130,685	24,596,257

13 Trade and other payables

	As at 31 December 2016 (Unaudited) RMB	As at 30 June 2016 (Restated) RMB
Trade payables	**139,988,663**	88,332,989
Bills payable	**64,435,540**	56,378,103
	204,424,203	144,711,092
Other taxes payables	**6,126,439**	1,512,804
Employee benefit payables	**5,092,933**	4,586,790
Advances from customers	**84,990,306**	59,932,685
Provision for warranty expenses	**1,106,147**	688,853
Payables for property, plant and equipment	**118,177**	109,887
Others	**7,506,520**	16,815,966
	104,940,522	83,646,985
	309,364,725	228,358,077

The aged analysis of the trade payables is as follows:

	As at 31 December 2016	As at 30 June 2016
	(Unaudited)	(Restated)
	RMB	RMB
Up to 3 months	**112,221,421**	53,575,818
3 months to 6 months	**9,182,211**	20,386,102
6 months to 1 years	**6,709,816**	8,623,417
1 to 2 years	**7,461,326**	4,638,670
Over 2 years	**4,413,889**	1,108,982
	139,988,663	88,332,989

BUSINESS REVIEW AND OUTLOOK

The year 2016 has turned out to be a fruitful year for China's paper manufacturers amid signs of recovery shown by the country's paper-making sector. Major players in the paper industry generally reported a double-digit bottom line growth, with some even recording more than double increase in their profits, which was primarily driven by higher paper price, RMB's depreciation and tighter paper supply.

According to the report published in October 2016 by the Ministry of Industry and Information Technology of China on its progress in 2015 on replacing obsolete facilities and tackling overcapacity, there were over 70 paper production facilities closing more than 200 production lines in 2015, with a total of 1.67 million tonnes capacity eliminated, another illustration of how the Chinese government has escalated its nationwide efforts in raising the industry's awareness of green production by ordering paper manufacturers which fail to comply with relevant environmental regulations to limit or even suspend production. Despite the continuous shutdowns of worn out facilities, the overall capacity of the paper industry has shown no sign of rapid decline. The 2016 annual production of machine-made papers and cardboards in China grew 3.1% year-on-year to approximately 123.2 million tonnes, as reported by the National Bureau of Statistics. This suggested that industry peers continued to put new capacity into operation to fill up the gap left by the retired capacity and to meet market demands for undersupplied products, such as household paper and packaging paper. On top of that, following the official implementation on 1 July 2016 of the Norm of Energy Consumption per Unit Product of Pulp and Paper targeted at major production units of manufacturers of pulp, machine-made papers and cardboards, many companies are required to renovate their existing production lines and add new equipment in compliance with the freshly promulgated national standards that impose restrictions on energy consumption per unit of product by setting out the technical requirements, scope of data collection and method for computation as well as regulating energy saving initiatives.

The Group has made remarkable achievements along with the broader paper industry in a productive year. For the six months ended 31 December 2016, the Group's turnover and profit were approximately RMB200.6 million and approximately RMB14.3 million, respectively, representing an increase of approximately 81.1% and approximately 154.8% as compared with the same period in 2015. The increase was mainly attributable to the Group's successful transformation from the provision of industrial automation systems to the provision of integrated solutions for the paper industry.

For the six months ended 31 December 2016, the contracts signed by the Group totaled approximately RMB245.1 million, representing an increase of approximately 14.6%. Among them, the contract value of integrated solutions for the paper industry accounting for the total contract value during the period is about RMB160.1 million, and increase approximately 9.7% compared to the same period in 2015. Currently, the demand on integrated solutions for the paper industry is strong, mainly due to many large and medium-sized papermaking enterprises are lack of technologies and engineers. In this regard, the Group has more than 15 years' experience in the paper industry, with more than 100 engineers and project management personnel whose assist customers to build different papermaking production lines and provide solutions.

During the period, the Group set up overseas business division and explore the overseas markets actively. In the past six months, staffs of overseas business division have visited the Middle East and Southeast Asian countries as well as visited the paper-making enterprises in such areas. At present, the Group has explored a number of potential customers, and negotiate the business opportunities. In addition, in December 2016, Zhejiang Huazhang Technology Co., Ltd., a subsidiary of the Group, as a host of the Indian Papermaking Enterprise China Delegation organized by the Indian Pulp and Paper Technology Association (IPPTA) and the National Federation of Industry and Commerce Paper Industry Association (CPICC), invited 34 Indian paper and papermaking equipment companies to visit the Group's plant in Tongxiang and presented the latest papermaking technologies and sludge treatment solutions.

In November 2016, the China Paper and Pulp Industry Chamber of Commerce (CPICC) hosted the 9th China Paper Industry Development Conference cum 10th CPICC Anniversary Meeting (第九屆中國紙業發展大會暨紙業商會十周年大會), at which the Group was awarded two prizes, namely the Leadership Award (領軍力量獎) and the Motivation Award (自主力量獎) under the "China Cailun Award", demonstrating the recognition given by peers across the industry to the Group's technology, products and services.

Looking forward to the first half of 2017, the positive trend of the paper industry in 2016 will sustain, and the investment of paper-making enterprises in fixed assets will increase. However, the difficulties faced by the industry, including the demand for paper products of better quality by the market, the need for enterprises to control and lower costs more effectively and comply with more stringent environmental requirements, should not be overlooked. The Group will focus on the problems faced by paper-making enterprises and make timely response to take the lead in the market. The actions are as follows:

"Intelligent Manufacturing"
The Thirteenth Five-year Plan of China has clear indications for implementing the "Made in China 2025" scheme to advance the progress of industrialisation and modernisation of the manufacturing industry in China. The core concept of "Made in China 2025" is smart manufacturing, or boosting production efficiency and product quality through information technology and digital and smart production facilities. The Group expects that the development of the production process of the paper industry will align itself with national policies, and paper corporations will proactively promote the paper industry's own "Made in China 2025". The industrial automation system produced by the Group is equipped with functions for real time collection and monitoring of production information, which is conducive to the Group in playing an important role in the process of pushing forward the paper industry's "Made in China 2025". The Group will increase its investment in research and development and enhance its digital and smart products and services to meet the needs of the papermaking industry to improve its product quality while effectively controlling costs and increasing efficiency through collaboration with universities or technology corporations.

"Clean manufacturing"
The Chinese government has imposed more stringent environmental protection requirements on the paper industry in recent years, resulting in the massive shutdown of industry players. The government has also demanded implementation of energy conservation and emission reduction measures nationwide in full swing by releasing further environmental protection requirements in 2017. Such moves will increase the capital expenditure of paper manufacturers in areas related to environmental protection, which may present new opportunities for the Group in sludge and wastewater treatment. In January 2017, the Group signed an agreement with a Taiwanese environmental protection company in respect of treatment of paper sludge and solid waste in the paper industry. The Group will become the only strategic partner of the company in the paper industry for selling equipment and solutions for treatment of paper sludge and waste to paper manufacturers. As a result, in addition to wastewater treatment, the Group will also render support to paper manufacturers in the treatment of sludge and solid waste produced in the paper-making process.

Every tonne of paper products made by a recycled paper manufacturer will generate recycled paper sludge composed of complex ingredients. According to statistical figures, a recycled paper plant with an annual capacity of 1 million tonnes usually generates around 120,000 tonnes of recycled paper sludge annually. It is estimated that about 15 million tonnes of sludge are generated nationwide every year from making recycled paper. The simple approaches for sludge treatment in the past involved illegal dumping, land filling and open burning, which could easily result in secondary pollution. Currently, sludge treatment in the paper industry has become the Chinese government's key area for imposing control. The refuse derived fuel technology will provide the paper industry with a new solution for sludge treatment, and the concept of converting waste into combustible fuel is highly suitable for paper manufacturers equipped with power plants and boilers. Such technology has been widely applied in many countries such as Japan and Israel. The Group will step up promotion of the technology in 2017.

"One Belt, One Road"
The countries and regions falling under the "One Belt, One Road" initiative have strong demand for China's paper technology and equipment, and they present huge potential for the global paper industry, despite having greater market potential compared with that of China. However, the development of paper industry in these areas is relatively lag behind, such areas are lack of high-quality equipment suppliers or service providers. Therefore, the Group believes that its over 15 years' experience in provision of equipment in the paper industry together with leading automation systems technologies, can provide inexpensive and high qualities equipment and services to the papermaking enterprises in the region.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased significantly by approximately 81.1% from approximately RMB110.7 million for the six months ended 31 December 2015 to approximately RMB200.6 million for the six months ended 31 December 2016. Gross profit margin decreased from approximately 26.3% for the six months ended 31 December 2015 to approximately 23.8% for the six months ended 31 December 2016.

(i) Industrial automation systems and related projects ("Industrial automation business")

Revenue from sales of industrial automation business increased by approximately 120.6% from approximately RMB68.8 million for the six months ended 31 December 2015 to approximately RMB151.9 million for the six months ended 31 December 2016. Such increase was primarily attributable to increase in revenue contributed from provision of integrated solutions services in relation to industrial automation systems. The revenue from provision of integrated solutions services increased from nil for the six months ended 31 December 2015 to RMB108.5 million for the 31 December 2016. The gross profit margin of industrial automation business decreased from approximately 26.7% for the six months ended 31 December 2015 to approximately 23.2% for the six months ended 31 December 2016.

(ii) Sludge treatment products

Revenue from sales of sludge treatment products decreased by approximately 8.3% from approximately RMB17.5 million for the six months ended 31 December 2015 to approximately RMB16.0 million for the six months ended 31 December 2016, primarily attributing to more keen competition in the market. The gross profit margin for our sludge treatment products decreased from approximately 21.8% for the six months ended 31 December 2015 to approximately 18.6% for the six months ended 31 December 2016.

(iii) After-sale and other services

Revenue from provision of after-sales and other services decreased by approximately 17.8% from approximately RMB24.5 million for the six months ended 31 December 2015 to approximately RMB20.1 million for the six months ended 31 December 2016. Such decrease was primarily attributable to provision of design and installation service decreased from approximately RMB13.0 million for the six months ended 31 December 2015 to approximately RMB3.8 million for the six months ended 31 December 2016. The gross profit margin for provision of after-sales and other services decreased from approximately 28.7% for the six months ended 31 December 2015 to approximately 25.6% for the six months ended 31 December 2016. Decrease in gross profit margin for provision of after-sales and other services was due to a lower profit margin in provision of design and installation service in 2016.

Selling and distribution costs

The selling and distribution costs slightly increased by approximately 2.3% from approximately RMB4.8 million for the six months ended 31 December 2015 to approximately RMB5.0 million for the six months ended 31 December 2016, accounting for approximately 4.4% and approximately 2.5% of the Group's revenue for the six months ended 31 December 2015 and 2016 respectively. The selling and distribution costs remained stable, the Group control the selling and distribution costs effectively, even the revenue increased significantly.

Administrative expenses

The administrative expenses significantly increased by approximately 70.4% from approximately RMB12.7 million for the six months ended 31 December 2015 to approximately RMB21.6 million for the six months ended 31 December 2016, accounting for approximately 11.4% and approximately 10.8% of the Group's revenue for the six months ended 31 December 2015 and 2016 respectively. The increase in administrative expenses is mainly attributable to i) increase in administrative expenses from a subsidiary which was acquired in December 2015, the subsidiary contributed an administrative expenses of RMB2.6 million for the six months ended 31 December 2016 and ii) increase in provision for impairment of trade receivables of approximately RMB4.3 million.

Research and development expenses

The research and development expenses increased by approximately 14.8% from approximately RMB5.4 million for the six months ended 31 December 2015 to approximately RMB6.2 million for the six months ended 31 December 2016, accounting for approximately 4.9% and approximately 3.1% of the Group's revenue for the six months ended 31 December 2015 and 2016 respectively. 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 significantly increased by approximately 150.3% from approximately RMB1.2 million for the six months ended 31 December 2015 to approximately RMB2.9 million for the six months ended 31 December 2016. The increase was mainly attributable to increase in the assessable profits as well as increase in the revenue.

The effective tax rates of the Group for the six months ended 31 December 2015 and 2016 were 17.1% and 16.9% respectively. The effective tax rates remained stable.

Profit for the period and net profit margin

Profit for the period significantly increased by approximately 154.8% from approximately RMB5.6 million for the six months ended 31 December 2015 to approximately RMB14.3 million for the six months ended 31 December 2016. The net profit margin rose approximately 2.0% from approximately 5.1% for the six months ended 31 December 2015 to approximately 7.1% for the six months ended 31 December 2016. Such improvement is primarily attributable to the Group can control costs effectively.

Profit for the period attributable to owners of the parent

Profit for the period attributable to owners of the parent amounted to approximately RMB14.3 million, representing an increase of approximately RMB8.7 million or approximately 153.1% as compared with approximately RMB5.6 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. As at 31 December 2016, the Group have net cash and cash equivalent balance amounting to approximately RMB41.9 million (30 June 2016: approximately RMB63.4 million) and borrowings amounting to approximately RMB6.5 million (30 June 2016: RMB5.0 million). Cash and cash equivalents decreased due to the Group used the internal resources for provision of integrated solutions.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals during the six months ended 31 December 2016.

Borrowings and charges of assets

As at 31 December 2016, the Group's borrowings were approximately RMB6.5 million (30 June 2016: RMB 5.0 million) which will be repayable within 1 year. Such loans were all denominated in RMB, and bear an interest of 7.2% per annum (30 June 2016: 7.2% per annum).

As at 31 December 2016, the banking facilities granted by the bank was secured by prepaid land lease payments, property, plant and equipment and investment properties of the Group amounting to approximately RMB3.4 million and RMB27.3 million and RMB6.5 million respectively (30 June 2016: approximately RMB3.5 million and RMB28.1 million and RMB6.6 million respectively).

Trade and bills receivables

Trade and bills receivables increased by approximately RMB55.9 million from approximately RMB247.8 million as at 30 June 2016 to approximately RMB303.7 million as at 31 December 2016. The increase was mainly attributable to increase in provision of integrated solutions service, such revenue was approximately RMB108.5 million for the six months ended 31 December 2016. The repayment period for the provision of integrated solutions service is around 2-3 years. The customers settles the receivable by instalments through the finance lease company. The Group believes that this model will enable the Group to improve market competitiveness, to provide more flexible services to customers. In addition, the Group will strengthen customer credit risk management to guard against bad debt provision increased.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISK

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

The RMB 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 2016, the Group had 254 employees (30 June 2016: 287 employees), including the executive Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2016 were approximately RMB17.3 million, as comparable to approximately RMB14.4 million for the six months ended 31 December 2015. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the period, the Group continued its commitment to employees' training and development programme.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any securities of the Company during the six months ended 31 December 2016.

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.

The Board is pleased to report compliance with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 31 December 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2016 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 2016 (Six months ended 31 December 2015: Nil).

AUDIT COMMITTEE

The audit committee was established on 6 May 2013. 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 2016.

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

Hong Kong, 24 February 2017

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.