



華章科技控股有限公司
Huazhang Technology Holding Limited
(Incorporated in Cayman Islands with limited liability)
Stock code : 8276

2013

First Quarterly Report



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“THE STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchange and Clearing and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Huazhang Technology Holding Limited (the “Company”) collectively and individually accept full responsibility, include particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“the GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

- Turnover of the Group for the three months ended 30 September 2013 was approximately HK\$61,890,000, representing an increase of approximately 16.5% as compared with that of the corresponding period in 2012.
- Net profit attributable to owners of the Company was approximately HK\$4,829,000, representing an increase of 91.4%, as compared with that of the corresponding period in 2012.
- The Board does not recommend the payment of interim dividend for the three months ended 30 September 2013.

UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2013

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Three months ended 30 September	
		2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Revenue	3	61,890,189	53,142,996
Cost of sales		(44,126,402)	(39,156,459)
Gross profit		17,763,787	13,986,537
Distribution costs		(3,005,250)	(2,519,214)
Administrative expenses		(8,060,021)	(6,859,066)
Research and development expenses		(1,318,449)	(1,468,339)
Other income	4	78,519	—
Profit from operation	5	5,458,586	3,139,918
Finance income		187,835	107,365
Finance costs		(43,978)	(247,903)
Finance income/(costs) — net		143,857	(140,538)
Profit before income tax		5,602,443	2,999,380
Income tax expenses	6	(773,793)	(476,030)
Profit for the period, all attributable to the owners of the Company		4,828,650	2,523,350
Other comprehensive income for the period Currency translation differences		1,157,999	(247,109)
Other comprehensive income for the period, net of tax		1,157,999	(247,109)
Total comprehensive income for the period, all attributable to the owners of the Company		5,986,649	2,276,241
Earnings per share for profit attributable to the owners of the Company			
— Basic earnings per share	8	0.02	0.01
— Diluted earnings per share	8	0.02	0.01

UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2013 (Continued)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2013

	Attributable to the owners of the Company				
	Par value of ordinary shares	Share premium	Other reserves	Retained earnings	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 July 2013	2,720,000	70,910,254	60,488,810	42,088,858	176,207,922
Comprehensive income					
Profit for the period	–	–	–	4,828,650	4,828,650
Translation differences	–	–	1,157,999	–	1,157,999
Total comprehensive income	–	–	1,157,999	4,828,650	5,986,649
Balance at 30 September 2013	2,720,000	70,910,254	61,646,809	46,917,508	182,194,571

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2012

	Attributable to the owners of the Company				
	Par value of ordinary shares	Share premium	Other reserves	Retained earnings	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 July 2012	0.01	–	51,468,818	26,866,952	78,335,770
Comprehensive income					
Profit for the period	–	–	–	2,523,350	2,523,350
Translation differences	–	–	(247,109)	–	(247,109)
Total comprehensive income	–	–	(247,109)	2,523,350	2,276,241
Balance at 30 September 2012	0.01	–	51,221,709	29,390,302	80,612,011

NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Huazhang Technology Holding Limited (the “Company”) was incorporated on 26 June 2012 in the Cayman Islands as an exempt company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s ordinary shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “SEHK”) on 16 May 2013 (the “Listing”) by way of placing (the “Placing”).

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

The unaudited consolidated results are presented in Hong Kong dollars (“HK\$”), unless otherwise stated.

2. BASIS OF PREPARATION

The unaudited consolidated results of the Group have been prepared in accordance with the Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. They have also been prepared under the historical convention.

The unaudited consolidated results should be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2013.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those applied in the preparation of the Group’s annual financial statements for the year ended 30 June 2013.

The Group has not early adopted any new standards or interpretations that have been issued but are not yet effective.

The first quarterly consolidated results have not been audited by the Company’s auditor.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3. REVENUE

	Three months ended 30 September	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Revenue from sales of industrial automation systems	45,763,703	17,192,685
Revenue from sales of sludge treatment products	11,375,604	27,750,091
Revenue from provision of after-sales service	4,750,882	8,200,220
	61,890,189	53,142,996

4. OTHER INCOME

	Three months ended 30 September	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Subsidised income	78,519	—

NOTES TO THE FINANCIAL INFORMATION (Continued)

5. PROFIT FROM OPERATION

Profit from operation is arrived at after charging:

	Three months ended 30 September	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
(a) Staff costs		
Salaries, wages and other benefits	3,940,571	3,644,314
Social security costs	1,365,196	1,385,503
	5,305,767	5,029,817
(b) Other items		
Cost of inventories	43,639,022	38,991,368
Depreciation and amortisation	767,134	753,953
Operating lease charges in respect of office premises	75,864	—

6. INCOME TAX

	Three months ended 30 September	
	2013 HK\$ (Unaudited)	2012 HK\$ (Unaudited)
Current income tax		
– PRC enterprise income tax	773,793	476,030
– Deferred income tax	—	—
Income tax expense	773,793	476,030

NOTES TO THE FINANCIAL INFORMATION (Continued)

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% for the period ended 30 September 2013 and 2012.

(iii) PRC enterprise income tax ("EIT")

EIT is provided on the assessable income of entity within the Group incorporated in the PRC.

Pursuant to the PRC Enterprise Income Tax Law (the "New EIT Law"), the EIT is unified at 25% for all types of entities, effective from 1 January 2008.

The PRC subsidiary of the Group (the "Subsidiary") is qualified as a foreign investment manufacturing enterprise. Its applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, the Subsidiary obtained qualification as High and New Technology enterprise in Calendar Year 2008 and 2011 respectively, with validation period of three years each. The applicable EIT rate of the subsidiary will be 15% from 2008 till 2013. For the three months ended 30 September 2013 and 2012, the applicable income tax rate of the Subsidiary is 15%.

7. DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the three months ended 30 September 2013 (30 September 2012: Nil).

NOTES TO THE FINANCIAL INFORMATION (Continued)

8. EARNINGS PER SHARE

Basic earnings per share for the three months period ended 30 September 2013 and 2012 is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue. In determining the weighted average number of ordinary shares in issue during the three months period ended 30 September 2013 and 2012, the 203,999,999 shares issued and allotted through capitalisation of the share premium account of the Company upon Listing on 16 May 2013 have been regarded as if these shares were in issue since 1 July 2012.

	Three months ended	
	30 September 2013 HK\$	2012 HK\$
Profit attributable to the owners of the Company	4,828,650	2,523,350
Weighted average number of ordinary shares in issue	272,000,000	204,000,000
Basic earnings per share		
— Basic earnings per share	0.02	0.01
— Diluted earnings per share	0.02	0.01

As there were no dilutive options and other dilutive potential shares in issue during the three months ended 30 September 2013 and 2012, diluted earning per share is the same as basic earnings per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in research and development, manufacture and sale of industrial automation systems and sludge treatment products. The industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers. Moreover, the Group is also engaged in the provision of after-sales services to our existing customers.

For the three months ended 30 September 2013, revenue of the Group amounted to approximately HK\$61,890,000, representing an increase of approximately 16.5% as compared with that of the corresponding period in 2012. Net profit attributable to the owners of the Company for the three months ended 30 September 2013 was approximately HK\$4,829,000, representing an increase of approximately 91.4% as compared with that of the corresponding period in 2012.

FINANCIAL REVIEW

Revenue

Revenue of the Group mainly came from three business segments: (i) industrial automation system; (ii) sludge treatment products; and (iii) after-sales services.

Revenue of the Group increased by approximately 16.5% from approximately HK\$53,143,000 for the three months ended 30 September 2012 to approximately HK\$61,890,000 for the three months ended 30 September 2013. The increase was mainly attributable to the increase in sales of industrial automation system, from approximately HK\$17,193,000 to HK\$45,764,000 and representing an increase of approximately 166.2% as compared with the corresponding period in 2012. However, the increase was partially offset by the decrease in revenue from sludge treatment products and after-sales services, both experienced a decrease in revenue of approximately 59.0% and 42.1% respectively as compared with the same period in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

Cost of sales and gross profit

Cost of sales of the Group increased by approximately 12.7% from approximately HK\$39,156,000 for the three months ended 30 September 2012 to approximately HK\$44,126,000 for the three months ended 30 September 2013. The increase was generally in line with the growth of the revenue during the three months period ended 30 September 2013..

Gross profit was approximately HK\$17,764,000 for the three months ended 30 September 2013, representing an increase of approximately 27.0% as compared with that of the corresponding period in 2012. Gross profit margin increased to 28.7% for the three months ended 30 September 2013 from 26.3% for the three months ended 30 September 2012. The improvement of gross profit margin for the three months ended 30 September 2013 was mainly due to the advancement of the sludge treatment products manufacturing technique, as a result achieving a better cost control to produce the products.

Distribution costs and administrative expenses

Distribution costs and administrative expenses of the Group increased by approximately 18.0% from approximately HK\$9,378,000 for the three months ended 30 September 2012 to approximately HK\$11,065,000 for the three months ended 30 September 2013. The increase was mainly due to the fact that the Group has incurred more staff costs and other staff related expenses as our staff number has increased from 195 for the three months ended 30 September 2012 to 221 for the three months ended 30 September 2013.

Profit attributable to the owners of the Company

Profit attributable to the owners of the Company increased by approximately 91.4% from approximately HK\$2,523,000 for the three months ended 30 September 2012 to approximately HK\$4,829,000 for the three months ended 30 September 2013. The changes was mainly due to increase in profit margin contributed by sludge treatment products as well as the Group managed better control over its distribution costs, administrative costs as well as research and development expenses which in aggregate only increased by approximately 14.2% during the three months ended 30 September 2013 as compared with the corresponding period in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

USE OF PROCEEDS GENERATED FROM THE COMPANY'S INITIAL PUBLIC OFFERING

During the three months ended 30 September 2013, the Group have spent approximately HK\$2,256,000, of the proceeds generated from the Company's initial public offering, on continuous product development and innovation.

The Group has obtained most of the government approvals which are necessary to build the new production plant and is in the stage to finalise the tendering process. It is expected that the tender will finalise by the end of 2013 and the construction should be commenced by then.

The unused net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong and the PRC.

The Directors will constantly evaluate the business targets of the Group and adjust their plans according to the ever-changing market conditions, so as to ensure the growth of the Group's business.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 30 September 2013 (30 September 2012: Nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2013, the Group had 221 employees (30 September 2012: 195), including the executive Directors. Total staff costs (including Directors' emoluments) for the three months ended 30 September 2013 were approximately HK\$5,306,000, as comparable to approximately HK\$5,030,000 for the three months ended 30 September 2012.

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 employee's training and development programme.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not hold any material investments, significant acquisitions or disposals of subsidiaries and joint ventures for the three months period ended 30 September 2013.

Save as disclosed in the Company's annual report, the Group did not have other plans for material investments and capital assets.

CHARGES OF ASSETS

As at 30 September 2013, the Group did not have any charges on its assets (30 September 2012: Nil).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2013 (30 September 2012: Nil).

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 September 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 9 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules required to be notified to the Company and the Stock Exchange, are as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

Long positions in the Shares

Name of Director	Company/name of associated company	Nature of interest	Number of securities	Approximate percentage of shareholding
Mr Zhu Gen Rong	The Company	Interest of a controlled corporation	204,000,000 Shares (Note 1)	75.00%
	Florescent Holdings Limited	Interest of a controlled corporation	779 shares of US\$1.00 each (Note 2)	77.90%
	Lian Shun Limited	Beneficial interest	5,005,500 shares of US\$0.001 each (Note 3)	53.79%

Notes:

1. The Shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 53.79% by Mr Zhu Gen Rong. Mr Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited.
2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited and as to 22.10% by Qunyun Limited.
3. Lian Shun Limited is owned as to 53.79% by Mr Zhu, as to 20.74% by Mr Wang Ai Yan, as to 17.95% by Mr Liu Chuan Jiang and as to 7.52% by Ms Zhu Ling Yun.

Save as disclosed above, as at 30 September 2013, none of the Directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 September 2013, so far as the Directors are aware, the interests and short positions owned by the following persons (other than the Directors and chief executive of the Company) in the shares, underlying shares and debentures of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name of Director	Capacity/ Nature of interest	Number of Shares directly or indirectly held	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owner	204,000,000	75%
Lian Shun Limited	Interest of a controlled corporation	204,000,000 (Note 1)	75%
Mr Zhu Gen Rong	Interest of a controlled corporation	204,000,000 (Note 2)	75%
Mr Wang Ai Yan	Interest of a controlled corporation	204,000,000 (Note 3)	75%
Mr Liu Chuan Jiang	Interest of a controlled corporation	204,000,000 (Note 4)	75%
Ms Zhu Ling Yun	Interest of a controlled corporation	204,000,000 (Note 5)	75%

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

Notes:

1. The Shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited. Under the SFO, Lian Shun Limited is deemed to be interested in the Shares held by Florescent Holdings Limited.
2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 53.79% by Mr Zhu Gen Rong. Under the SFO, Mr Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited.
3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 20.74% by Mr Wang Ai Yan. Mr Wang is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings Limited.
4. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 17.95% by Mr Liu Chuan Jiang. Mr Liu is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings Limited.
5. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 7.52% by Ms Zhu ling Yun. Ms Zhu is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings Limited.

Save as disclosed above, as at 30 September 2013, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any securities of the Company during the three months ended 30 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 6 May 2013 and effective on the Listing Date.

1. Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to eligible persons as incentives or rewards for their contributions to the Group.

2. Participants

The Board may, at its discretion, invite any full-time or part-time employees including any executive, non-executive Directors, advisors, consultants of the Group to take up options.

3. Total number of shares available for issue under the Share Option Scheme

The maximum number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Listing Date (i.e. a total of 27,200,000 shares).

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options granted to a participant under the Share Option Scheme (including both exercise and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

5. Period within which the shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option subject to the achievement of performance target and/or any other conditions to be notified by the Board to each participant, which the board may in its absolute discretion determine.

6. Time of acceptance and the amount payable on acceptance of the option

The option will be offered for acceptance for a period of 28 days from the date on which the option is granted. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

7. Basis of determining the subscription price

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a day on which trading of the Company's shares takes place on the Stock Exchange (the "Trading Date"); (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

8. Life of the Share Option Scheme

The Share Option Scheme became valid and effective for a period of ten years commencing on the Listing Date subject to the early termination by passing an ordinary resolution in general meeting. After such period no further options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

As at 30 September 2013, no option under the Share Option Scheme has been granted by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

In order to protect the Group's interest in its business activities, on 6 May 2013, each of Florescent Holdings Limited, Lian Shun Limited, Mr Zhu Gen Rong, Mr Wang Ai Yan Mr Liu Chuan Jiang and Ms Zhu Ling Yun, the controlling shareholders of the Company, has given a non-competition undertaking in favour of the Company, pursuant to which each of them undertakes and covenants with the Company that, for as long as it/he and/or its/his associates, directly or indirectly, whether individually or taken together, remain to be the controlling shareholders, it/he will not and will procure its/his associates not to directly or indirectly carry on, participate, engage or otherwise be interested in any business which is or may be in competition with the business of any members of the Group from time to time.

To further delineate the respective business of Zhejiang Huazhang Automation Equipment Company Limited ("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 ("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 assistance 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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as the information set out in the section headed "Compliance of Non-competition Undertakings", during the three months ended 30 September 2013 and up to the date of this report, none of the Directors or any of their respective associates, had engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As at 30 September 2013, as notified by the Company's compliance adviser, Guotai Junan Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 8 May 2013, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

CORPORATE GOVERNANCE CODE

The Board considers that the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 15 of the GEM Listings Rules during the three months ended 30 September 2013 except the following deviation (Code Provision A.2.1):

Mr Zhu Gen Rong is the Chairman of the Board. The Company has no such title as the chief executive and the daily operation and management of the Company is monitored by the executive directors as well as the senior management. The Board is of the view that although there is no chief executive, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting the operations of the Company.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding the directors' securities transactions in securities of the Company. Specific enquiry has been made of all the Directors and the Directors have confirmed that they had complied with such code of conduct from the date of listing of the Company's shares on the Stock Exchange up to 30 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

AUDIT COMMITTEE

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

The audit committee has reviewed the unaudited consolidated results of the Group for the three months ended 30 September 2013.

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

Hong Kong, 11 November 2013