



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

(Incorporated in Cayman Islands with limited liability)
Stock code : 8276

2014

THIRD QUARTERLY REPORT



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “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 Limited 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.

FINANCIAL HIGHLIGHTS

- Turnover of the Group for the nine months ended 31 March 2014 was approximately HK\$192,157,000, representing an increase of approximately 21.5% as compared with that of the corresponding period in 2013.
- Net profit attributable to owners of the Company for the nine months ended 31 March 2014 was approximately HK\$14,540,000, representing an increase of approximately 183.7%, as compared with that of the corresponding period in 2013.
- The Board does not recommend the payment of third quarterly dividend for the nine months ended 31 March 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

The board of Directors (the “Board”) of the Company is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months and nine months ended 31 March 2014, together with the unaudited comparative figures for the corresponding periods in 2013.

BUSINESS REVIEW AND OUTLOOK

In the first quarter of 2014, China’s economy still existed downside risks. However, the revenue growth of the Group in each quarter maintained an average of approximately 23.2% for the nine months ended 31 March 2014. Revenue and net profit for the nine months ended 31 March 2014 were approximately HK\$192,157,000 and approximately HK\$14,540,000 respectively, as compared with the same period in last year, which increased by approximately 21.5% and approximately 183.7% respectively.

Under a difficult operating environment faced by the Chinese paper industry, the Group is actively expanding its market share in non-paper industries. For the nine months ended 31 March 2014, the revenue from non-paper industries accounted for approximately 38.2% of the Group’s revenue, as compared with approximately 28.4% over the same period in last year, an increase of approximately 9.8%. To further increase the market share in the non-paper industries, the Group has established a non-paper industries unit to responsible for developing such markets, the Group expects revenue from non-paper industries will be further enhanced.

In March 2014, the Chinese government further revealed the environmental and energy saving are the future direction of national policy. Therefore, the Group expected the environmental regulations relating to paper industry will be tightened and the outdated production facilities will be phased out faster, which will create many opportunities to us. While the Group is focusing on the revenue growth, we will continue to focus on enhancing management and strictly control costs in order to maintain competitive and increase profitability.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue of the Group increased by approximately 21.5% from approximately HK\$158,141,000 for the nine months ended 31 March 2013 to approximately HK\$192,157,000 for the nine months ended 31 March 2014. Gross profit margin decreased from approximately 28.5% for the nine months ended 31 March 2013 to approximately 27.6% for the nine months ended 31 March 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

(i) Industrial automation system

Revenue from sales of industrial automation systems increased by approximately 23.7% from approximately HK\$99,471,000 for the nine months ended 31 March 2013 to approximately HK\$123,033,000 for the nine months ended 31 March 2014. Such increase was primarily attributable to the number of completed contracts amounting to HK\$5,000,000 or above increased from 2 contracts amounting to approximately HK\$13,824,000 for the nine months ended 31 March 2013 to 5 contracts amounting to approximately HK\$41,528,000 for the nine months ended 31 March 2014. The gross profit margin of industrial automation systems decreased from approximately 28.1% for the nine months ended 31 March 2013 to approximately 26.6% for the nine months ended 31 March 2014.

(ii) Sludge treatment products

Revenue from sales of sludge treatment products increased by approximately 13.7% from approximately HK\$43,852,000 for the nine months ended 31 March 2013 to approximately HK\$49,861,000 for the nine months ended 31 March 2014. Such increase was primarily attributable to the increase in number of contracts completed. The Group completed 87 contracts for the nine months ended 31 March 2014 as compared with there were only 54 contracts completed for the nine months ended 31 March 2013. The gross profit margin for our sludge treatment products increased from approximately 25.1% for the nine months ended 31 March 2013 to approximately 28.7% for the nine months ended 31 March 2014.

(iii) After-sales services

Revenue from provision of after-sales services increased by approximately 30.0% from approximately HK\$14,817,000 for the nine months ended 31 March 2013 to approximately HK\$19,264,000 for the nine months ended 31 March 2014. Such increase was primarily attributable to the increase in demand on after-sales services from our customers, including system improvement projects. The gross profit margin for provision of after-sales services decreased from approximately 40.6% for the nine months ended 31 March 2013 to approximately 31.3% for the nine months ended 31 March 2014. Such decrease is attributing to increase in supply of spare parts and components only with a lower gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

Distribution costs and administrative expenses

Distribution costs and administrative expenses of the Group slightly decreased from approximately HK\$30,003,000 for the nine months ended 31 March 2013 to approximately HK\$29,099,000 for the nine months ended 31 March 2014. Such decrease is as a result of decrease in professional fee in relation to the Listing and warranty expense, which was offset by increase in employee benefit expenses and provision for impairment of trade receivables.

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

Profit attributable to the owners of the Company increased by approximately 183.7% from approximately HK\$5,124,000 for the nine months ended 31 March 2013 to approximately HK\$14,540,000 for the nine months ended 31 March 2014. In the same period, the net profit margin increased by approximately 4.4% from approximately 3.2% for the nine months ended 31 March 2013 to approximately 7.6% for the nine months ended 31 March 2014. Such change is primarily attributing to the Group exercised better control over its distribution costs and research and development expenses. For the nine months ended 31 March 2014, the total of these costs and expenses attributable to revenue for the period as compared with the same period in 2013, a decreased by approximately 3.5%.

DISCLOSURE OF INTERESTS

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

As at 31 March 2014, 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:

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 (Note 2)	77.90%
	Lian Shun Limited	Beneficial interest	5,005,500 shares (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 Gen Rong, 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.

DISCLOSURE OF INTERESTS (Continued)

Save as disclosed above, as at 31 March 2014, 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.

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

As at 31 March 2014, 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 Substantial Shareholders	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%

DISCLOSURE OF INTERESTS (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 31 March 2014, 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.

DISCLOSURE OF INTERESTS

(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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as the information set out in the section headed "Compliance of Non-competition Undertakings", during the nine months ended 31 March 2014 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 31 March 2014, 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.

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 nine months ended 31 March 2014.

SHARE OPTION SCHEME

During the period under review, no option has been granted and there has been no movement of any options granted (if any) under the share option scheme adopted by the Company on 6 May 2013.

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.

OTHER INFORMATION

(Continued)

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 nine months ended 31 March 2014 except the following deviation (Code Provision A.2.1):

Mr Zhu Gen Rong is the Chairman of the Board. The Company has no such title as the chief executive 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 they 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 31 March 2014.

THIRD QUARTERLY DIVIDEND

The Board does not recommend the payment of any third quarterly dividend for the nine months ended 31 March 2014. (Nine months ended 31 March 2013: Nil)

OTHER INFORMATION *(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 of the Company has reviewed and discussed the Group's unaudited condensed consolidated results for the nine months ended 31 March 2014.

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

Hong Kong, 9 May 2014

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 31 MARCH 2014

	Note	Three months ended 31 March		Nine months ended 31 March	
		2014 HK\$ Unaudited	2013 HK\$ Unaudited	2014 HK\$ Unaudited	2013 HK\$ Unaudited
Revenue	3	52,502,391	38,490,434	192,157,113	158,140,592
Cost of sales		(38,192,758)	(27,983,184)	(139,054,935)	(113,119,650)
Gross profit		14,309,633	10,507,250	53,102,178	45,020,942
Distribution costs		(2,420,074)	(3,051,041)	(8,412,177)	(9,935,333)
Administrative expenses		(5,262,156)	(6,327,723)	(20,686,844)	(20,067,694)
Research and development expenses		(2,252,039)	(2,563,164)	(7,107,538)	(8,344,076)
Other income	4	46,121	226,293	519,403	599,462
Other gain/(losses) - net		-	29,046	(31,256)	29,046
Operating profit/(loss)	5	4,421,485	(1,179,339)	17,383,766	7,302,347
Finance income		661,462	23,015	1,179,307	137,572
Finance costs		(46,650)	(190,562)	(109,517)	(784,935)
Finance income/(costs) - net		614,812	(167,547)	1,069,790	(647,363)
Profit/(loss) before income tax		5,036,297	(1,346,886)	18,453,556	6,654,984
Income tax (expenses)/ credit	6	(1,614,598)	222,682	(3,913,908)	(1,530,646)
Profit/(loss) for the period, all attributable to the owners of the Company		3,421,699	(1,124,204)	14,539,648	5,124,338

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 31 MARCH 2014

	Attributable to the owners of the Company				Total equity HK\$
	Par value of ordinary shares HK\$	Share Premium HK\$	Other Reserves HK\$	Retained earnings HK\$	
Unaudited					
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	–	–	–	14,539,648	14,539,648
Translation differences	–	–	811,162	–	811,162
Total comprehensive income	–	–	811,162	14,539,648	15,350,810
Transactions with owners					
Dividends declared (note 8)	–	(8,976,000)	–	–	(8,976,000)
Profit appropriation to statutory reserves	–	–	3,333,855	(3,333,855)	–
Total transactions with owners	–	(8,976,000)	3,333,855	(3,333,855)	(8,976,000)
Balance at 31 March 2014	2,720,000	61,934,254	64,633,827	53,294,651	182,582,732

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE NINE MONTHS ENDED 31 MARCH 2014

	Attributable to the owners of the Company				
	Par value of ordinary shares HK\$	Share Premium HK\$	Other Reserves HK\$	Retained earnings HK\$	Total equity HK\$
Unaudited					
Balance at 1 July 2012	0.01	—	51,468,818	26,866,952	78,335,770
Comprehensive income					
Profit for the period	—	—	—	5,124,338	5,124,338
Translation differences	—	—	767,816	—	767,816
Total comprehensive income	—	—	767,816	5,124,338	5,892,154
Transactions with owners					
Capitalisation of loan from the former parent company	—	—	5,200,000	—	5,200,000
Profit appropriation to statutory reserves	—	—	2,455,148	(2,455,148)	—
Total transactions with owners	—	—	7,655,148	(2,455,148)	5,200,000
Balance at 31 March 2013	0.01	—	59,891,782	29,536,142	89,427,924

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

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

The Company's ordinary shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2013 (the "Listing") by way of placing.

This condensed consolidated results are presented in Hong Kong Dollars ("HK\$"), unless otherwise stated. These condensed consolidated results has been approved for issue by the Board of Directors on 9 May 2014.

These condensed consolidated results have not been audited.

2. BASIS OF PREPARATION

These condensed consolidated results for the nine months ended 31 March 2014 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated results should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 30 June 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3. REVENUE

	Three months ended 31 March		Nine months ended 31 March	
	2014 Unaudited HK\$	2013 Unaudited HK\$	2014 Unaudited HK\$	2013 Unaudited HK\$
Sales of industrial automation systems	32,179,326	30,089,451	123,032,685	99,470,898
Sales of sludge treatment products	13,488,975	2,012,372	49,860,723	43,852,302
Provision of after-sales service	6,834,090	6,388,611	19,263,705	14,817,392
	52,502,391	38,490,434	192,157,113	158,140,592

4. OTHER INCOME

	Three months ended 31 March		Nine months ended 31 March	
	2014 Unaudited HK\$	2013 Unaudited HK\$	2014 Unaudited HK\$	2013 Unaudited HK\$
Government grants	45,392	61,716	288,509	107,716
Operating lease income	–	40,835	230,165	122,012
Others	729	123,742	729	369,734
	46,121	226,293	519,403	599,462

NOTES TO THE FINANCIAL INFORMATION (Continued)

5. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is arrived at after charging/(crediting):

	Three months ended 31 March		Nine months ended 31 March	
	2014 Unaudited HK\$	2013 Unaudited HK\$	2014 Unaudited HK\$	2013 Unaudited HK\$
Amortisation of land use rights	59,822	61,750	185,938	184,509
Depreciation of property, plant and equipment	750,360	685,595	2,489,452	2,350,225
Provision/(reversal of) for impairment of trade receivables	—	(163,546)	951,012	(856,936)
(Reversal of)/ provision for inventories	(1,453,083)	748,571	672,083	4,079
Auditors' remuneration	883,037	125,385	1,652,924	125,385
Professional service fees	248,871	2,253,047	1,274,520	6,937,953

6. INCOME TAX EXPENSE/(CREDIT)

	Three months ended 31 March		Nine months ended 31 March	
	2014 Unaudited HK\$	2013 Unaudited HK\$	2014 Unaudited HK\$	2013 Unaudited HK\$
Current income tax				
— Hong Kong profits tax	—	—	23,753	—
— PRC enterprise income tax/(credit)	1,426,539	(236,969)	4,162,969	1,350,932
Deferred income tax	188,059	14,287	(272,814)	179,714
Income tax expense/(credit)	1,614,598	(222,682)	3,913,908	1,530,646

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

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

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

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

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

The subsidiary established in the PRC, Zhejiang Huazhang Technology Limited (the "Huazhang Technology"), is qualified as a foreign investment manufacturing enterprise. Huazhang Technology's applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, the Huazhang Technology obtained qualification as High and New Technology enterprise in 2011 for a period of three years effective from 2011. The applicable EIT rate of the Huazhang Technology would be 15% from 2011 till 2013. Since the preferential tax treatment resulting from such a title is expired in December 2013, the Huazhang Technology intends to reapply to the relevant PRC authorities in June 2014 (which falls within the applicable application deadline) for the classification of the Huazhang Technology as a High and New Technology Enterprise and upon completion of such re-application, the Huazhang Technology will proceed to register with the tax authorities in-charge for the entitlement to the preferential tax rate of 15% for the period from January 2014 to December 2016. Due to this reason, the applicable tax rate of the Subsidiary is 15% and 25% for the six months ended 31 December 2013 and the three months ended 31 March 2014 respectively.

NOTES TO THE FINANCIAL INFORMATION (Continued)

7. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share for the nine months ended 31 March 2014 and 2013 is calculated by dividing the profit/(loss) 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 nine months ended 31 March 2013, 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 2011.

	Three months ended 31 March		Nine months ended 31 March	
	2014 Unaudited HK\$	2013 Unaudited HK\$	2014 Unaudited HK\$	2013 Unaudited HK\$
Profit/(loss) attributable to the owners of the Company	3,421,699	(1,124,204)	14,539,648	5,124,338
Weighted average number of ordinary shares in issue	272,000,000	204,000,000	272,000,000	204,000,000
Basic earnings/(loss) per share (HK cents)	1.26	(0.55)	5.35	2.51

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

8. DIVIDENDS

The dividends of HK\$8,976,000 declared in the nine months ended 31 March 2014 represents the final dividend for the year ended 30 June 2013 which was approved and paid during the nine months ended 31 March 2014. (Nine months ended 31 March 2013: HK\$ Nil).

The Board does not recommend the payment of any third quarterly dividend for the nine months ended 31 March 2014. (Nine months ended 31 March 2013: HK\$ Nil).