



華章科技控股有限公司
Huazhang Technology Holding Limited
(Incorporated in Cayman Islands with limited liability)
Stock code : 1673



2016
INTERIM REPORT



CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Zhu Gen Rong (*Chairman*)
Mr. Wang Ai Yan (*Chief Executive Officer*)
Mr. Jin Hao
Mr. Zhong Xin Gang

Independent Non-executive directors

Ms. Chen Jin Mei
Mr. Dai Tian Zhu
Mr. Kong Chi Mo

AUDIT COMMITTEE

Mr. Kong Chi Mo (*Chairman*)
Ms. Chen Jin Mei
Mr. Dai Tian Zhu

REMUNERATION COMMITTEE

Ms. Chen Jin Mei (*Chairlady*)
Mr. Kong Chi Mo
Mr. Dai Tian Zhu

NOMINATION COMMITTEE

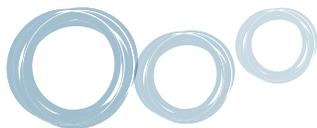
Mr. Dai Tian Zhu (*Chairman*)
Mr. Zhu Gen Rong
Mr. Kong Chi Mo
Ms. Chen Jin Mei

COMPANY SECRETARY

Mr. Chan So Kuen

COMPLIANCE OFFICER

Mr. Jin Hao



CORPORATE INFORMATION *(Continued)*

AUTHORISED REPRESENTATIVES

Mr. Zhu Gen Rong

Mr. Chan So Kuen

LEGAL ADVISOR

As to Hong Kong Law

Stevenson, Wong & Co.

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

AUDITORS

Ernst & Young

INVESTOR AND MEDIA RELATIONS CONSULTANT

Stimulus Investor Relations Limited

REGISTERED ADDRESS

Cricket Square Hutchins Drive PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

1360 Zhenhua Road

No.2 Industrial Area

Tongxiang Economic & Technical Development Zone

Tongxiang, Zhejiang Province

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 805A, 8/F

Tower 1, South Seas Centre

75 Mody Road, Tsim Sha Tsui

Kowloon

Hong Kong



CORPORATE INFORMATION *(Continued)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square Hutchins Drive PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

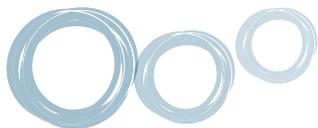
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1673

WEBSITE

www.hzeg.com



FINANCIAL HIGHLIGHTS

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



MANAGEMENT DISCUSSION AND ANALYSIS

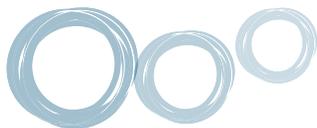
The board (the “Board”) of directors (the “Directors”) of Huazhang Technology Holding Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2015, together with the unaudited comparative figures for the corresponding period in 2014.

BUSINESS REVIEW AND OUTLOOK

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

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

In terms of business development, the Group completed a placement to issue 33,000,000 shares on 21 July 2015. The net proceeds was approximately HK\$116,593,000 which would be used in expanding the sewage treatment business, repayment of a third party’s loan and general working capital. On 21 December 2015, the Group completed the acquisition of 70% interests in Wuhan Wukong Control System Engineering Co., Ltd. (“Wukong”). The purchase consideration was RMB7,420,000 (equivalent to approximately HK\$8,882,000). Wukong is principally engaged in the business of design and construction of wastewater treatment facilities in the PRC as well as other construction and fixture installation projects and the ancillary services. As at 31 December 2015, the outstanding contract amounts of the Wukong was HK\$40,598,000.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

FINANCIAL REVIEW

Revenue and gross profit margin

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

(i) *Industrial automation business*

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

(ii) *Sludge treatment products*

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



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

(iii) After-sale and other services

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

Selling and distribution expenses

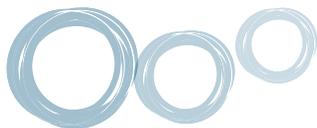
The selling and distribution expenses slightly increased by approximately HK\$398,000 from approximately HK\$5,509,000 for the six months ended 31 December 2014 to approximately HK\$5,907,000 for the six months ended 31 December 2015, accounting for approximately 2.9% and approximately 4.4% of the Group's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

Administrative expenses

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

Research and development expenses

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



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Income tax expense

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

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

Profit for the period and net profit margin

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

Profit for the period attributable to owners of the parent

Profit for the period attributable to owners of the parent decreased by approximately 69.0% from approximately HK\$22,202,000 for the six months ended 31 December 2014 to approximately HK\$6,886,000 for the six months ended 31 December 2015.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the period under review. The Group was principally financed by internal resources and net proceeds from the placing. As at 31 December 2015, the Group have net cash and cash equivalent balance amounting to approximately HK\$102,310,000 (30 June 2015: approximately HK\$24,941,000) and borrowings amounting to approximately HK\$11,111,000 (30 June 2015: HK\$22,000,000). Cash and cash equivalents increased significantly due to the Group completed a placement in July 2015 and raised a net proceeds of approximately HK\$116,593,000.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Trade and bill receivables

Trade and bill receivables increased by approximately HK\$45,006,000 from approximately HK\$91,010,000 as at 30 June 2015 to approximately HK\$144,016,000 as at 31 December 2015. Such increase was mainly attributing to significant increase of bill receivables amounting to approximately HK\$18,788,000, which were related to endorsed bills, and an increase of HK\$17,905,000 from acquisition of Wukong.

Borrowing and charges of assets

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

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

Contingent liabilities

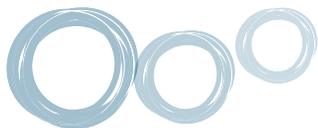
As at 31 December 2015, the Group had no material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

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

On 22 December 2015, the Group acquired 70% of the equity interest of Wukong at a total consideration of RMB7,420,000 (equivalent to approximately HK\$8,882,000).

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



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FOREIGN CURRENCY RISK

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

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK\$, US\$ and RMB.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2015, the Group had 276 employees (30 June 2015: 241 employees), including the executive Directors. Total staff costs (including Directors' emoluments) for the six months ended 31 December 2015 were approximately HK\$17,620,000, as comparable to approximately HK\$20,269,000 for the six months ended 31 December 2014. The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the period, the Group continued its commitment to employees' training and development programme.

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 December 2015, 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 of Hong Kong Limited (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 the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") required to be notified to the Company and the Stock Exchange, are as follows:



DISCLOSURE OF INTERESTS *(Continued)*

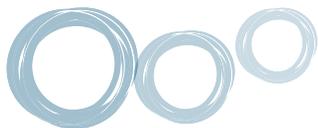
Long positions in the shares

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)	67.85%
	Florescent Holdings Limited	Interest of a controlled corporation	7,790 shares (Note 2)	77.90%
	Lian Shun Limited	Beneficial interest	5,705,500 shares (Note 3)	61.31%
Mr. Wang Ai Yan (Note 4)	The Company	Interest of a controlled corporation	204,000,000 shares (Note 4)	67.85%
	Florescent Holdings Limited	Interest of a controlled corporation	7,790 shares (Note 2)	77.90%
	Lian Shun Limited	Beneficial interest	1,930,000 shares (Note 3)	20.74%

Notes:

- 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 61.31% by Mr. Zhu Gen Rong. Mr. Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited.
- Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited and as to 22.10% by Qunyun Limited.
- Lian Shun Limited is owned as to 61.31% by Mr. Zhu Gen Rong, as to 20.74% by Mr. Wang Ai Yan, and as to 17.95% by Mr. Liu Chuan Jiang.
- 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 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 deemed to be interested in the Shares held by Florescent Holdings Limited

Save as disclosed above, as at 31 December 2015, 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 the Model Code to be notified to the Company and the Stock Exchange.



DISCLOSURE OF INTERESTS *(Continued)*

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

As at 31 December 2015, so far as the Directors are aware, the interests and short positions owned by the following persons or institutions (other than the Directors and chief executive of the Company) in the shares and underlying shares 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	67.85%
Lian Shun Limited	Interest of a controlled corporation	204,000,000 (Note 1)	67.85%
Mr. Zhu Gen Rong	Interest of a controlled corporation	204,000,000 (Note 2)	67.85%
Mr. Wang Ai Yan	Interest of a controlled corporation	204,000,000 (Note 3)	67.85%
Mr. Liu Chuan Jiang	Interest of a controlled corporation	204,000,000 (Note 4)	67.85%
Ms. Zhu Ling Yun	Person acting in concert	204,000,000 (Note 5)	67.85%

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 61.31% 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.



DISCLOSURE OF INTERESTS *(Continued)*

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. With reference to the announcement as dated 8 November 2015 (the "Announcement") in relation the Share Transfer (i.e. disposal of 7.52% interests in Lian Shun, one of the controlling shareholders of the Company, by Ms. Zhu to Mr. Zhu) and the deed of termination of the acting-in-concert arrangement among Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu (the "Termination Deed"), as the Company has not yet obtained confirmation from the Executive that it can be accepted that they are no longer acting in concert pursuant to note 3 to the definition of 'acting in concert' of the Takeovers Code, therefore, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu will continue to be deemed to be interested in the Shares held by each of the other parties under SFO.

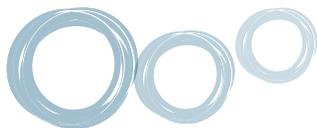
Save as disclosed above, as at 31 December 2015, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

During the six months ended 31 December 2015 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.



OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

Month of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
September 2015	500,000	3.30	3.26	1,648,518
October 2015	3,850,000	3.43	3.27	12,928,082
December 2015	38,000	2.49	2.39	92,274
	4,388,000			14,668,874
January 2016	288,000	2.44	2.30	641,942
	4,676,000			15,360,336

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

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

PLACING OF SHARES IN JULY 2015

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



OTHER INFORMATION *(Continued)*

On 21 July 2015, 33,000,000 ordinary shares (with an aggregate nominal value of HK\$330,000) of the Company were placed by Florescent to certain independent third parties at a subscription price of HK\$3.60 per share. On the same date, the Company issued 33,000,000 new ordinary shares (with an aggregate nominal value of HK\$330,000) to Florescent at an issue price of HK\$3.60 per share. The Company raised approximately HK\$118,800,000 (net of directly attributable expenses of approximately HK\$116,593,000), which will be used to fund the Group's business expansion in wastewater treatment business, repayment of third party loan and general working capital.

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

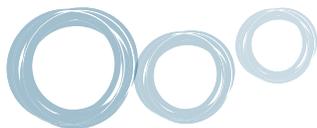
- (i) a discount of approximately 18.00% to the closing price of HK\$4.39 per share as quoted on the Stock Exchange on 16 July 2015, being the date of the placing and subscription Agreement; and
- (ii) a discount of approximately 15.41% to the average closing price of approximately HK\$4.26 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 15 July 2015, being the date prior to the date of the placing and subscription Agreement.

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

Taking into account the Company's estimated expenses for the placing and the subscription, the net subscription price is approximately HK\$3.53 per subscription share.

The placing and the subscription would achieve the following benefits for the Company:

- (i) it would increase the amount of shares held by public investors which may in turn enhance the trading liquidity of the shares;
- (ii) it would introduce new investors to the Company and hence further optimise and diversify the shareholder base of the Company;
- (iii) it would capture the current share price to raise new proceeds for the Group's business expansion in the wastewater treatment business and general working capital purposes; and
- (iv) it is expected that the Company's gearing level would be lowered as a result of the placing and the subscription and thereby preserving the healthiness of the financial status of the Company.



OTHER INFORMATION *(Continued)*

The placing shares have been placed to not less than six placees, being institutional, professional and/or individual investors who and whose ultimate beneficial owners are independent third parties.

None of the placees and their respective associates become a substantial shareholder as a result of the placing.

As at 31 December 2015, the Group have utilized an amount of approximately HK\$7,996,000 for acquisition of 70% interests in Wukong, an amount of approximately HK\$22,000,000 for repayment of a loan from third party amounting and an amount of approximately HK\$10,000,000 for general working. As at 31 December 2015, the unused balance of approximately HK\$76,897,000 were currently placed into deposits and/or money market instruments, which will be used as general working capital purpose.

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 PRACTICES

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

Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 31 December 2015.



OTHER INFORMATION *(Continued)*

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

INTERIM DIVIDEND

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

AUDIT COMMITTEE

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

The Audit Committee of the Company has discussed with the management and external auditors the accounting principles and policies adopted by the Group, and has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 31 December 2015.

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

Hong Kong, 26 February 2016



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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TO THE BOARD OF DIRECTORS OF HUAZHANG TECHNOLOGY HOLDING LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 20 to 50, which comprise the condensed consolidated statement of financial position of Huazhang Technology Holding Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 31 December 2015 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim financial statements Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*



CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong
26 February 2016



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 31 December	
		2015	2014
		(Unaudited)	(Unaudited)
		HK\$	HK\$
Notes			
	REVENUE	135,142,202	192,672,954
	Cost of sales	(99,578,565)	(135,683,736)
	Gross profit	35,563,637	56,989,218
	Other income	255,317	856,556
	Selling and distribution expenses	(5,906,549)	(5,509,391)
	Administrative expenses	(15,436,342)	(13,442,015)
	Research and development expenses	(6,606,265)	(9,047,671)
	OPERATING PROFIT	7,869,798	29,846,697
	Finance income	449,236	1,178,284
	Finance costs	(52,471)	(417,833)
	Finance income – net	396,765	760,451
	PROFIT BEFORE INCOME TAX	8,266,563	30,607,148
	Income tax expense	(1,415,447)	(8,405,175)
	PROFIT FOR THE PERIOD	6,851,116	22,201,973
	Attributable to:		
	– Owners of the parent	6,885,985	22,201,973
	– Non-controlling interests	(34,869)	–
		6,851,116	22,201,973



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

		For the six months ended 31 December	
Notes	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$	
	OTHER COMPREHENSIVE (LOSS)/INCOME		
	Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent period:		
	Exchange differences on translation of foreign operations	(13,824,641)	1,392,913
	OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(13,824,641)	1,392,913
	TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(6,973,525)	23,594,886
	Attributable to:		
	– Owners of the parent	(6,938,656)	23,594,886
	– Non-controlling interests	(34,869)	–
		(6,973,525)	23,594,886
	EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
	– Basic earnings per share	0.02	0.08
	– Diluted earnings per share	0.02	0.08
	Dividends	–	6,800,000



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2015 (Unaudited) HK\$	30 June 2015 (Audited) HK\$
	Notes		
NON-CURRENT ASSETS			
Prepaid land lease payments		4,190,998	4,519,007
Property, plant and equipment	12	52,067,652	50,599,851
Investment properties		8,076,688	8,777,607
Goodwill	5	1,227,300	–
Available-for-sale investments	15	9,548,818	10,144,560
Deferred tax assets		4,241,315	3,737,117
Trade and other receivables	13(i)	2,239,406	11,255,611
Prepayment – non-current portion	13(ii)	288,390	435,874
Total non-current assets		81,880,567	89,469,627
CURRENT ASSETS			
Inventories	14	76,408,409	70,968,562
Trade and other receivables	13(i)	177,141,723	116,075,455
Prepayments	13(ii)	10,140,670	13,525,805
Pledged deposits	16	8,834,312	1,567,382
Cash and cash equivalents	16	113,421,225	46,940,520
Total current assets		385,946,339	249,077,724
CURRENT LIABILITIES			
Trade and other payables	17	149,093,376	101,864,038
Interest-bearing bank and other borrowings	18	11,111,093	22,000,000
Current income tax liabilities		2,768,344	2,397,959
Total current liabilities		162,972,813	126,261,997
NET CURRENT ASSETS		222,973,526	122,815,727
TOTAL ASSETS LESS CURRENT LIABILITIES		304,854,093	212,285,354



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	Notes	31 December 2015 (Unaudited) HK\$	30 June 2015 (Audited) HK\$
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,676,781	389,594
Total non-current liabilities		1,676,781	389,594
NET ASSETS			
EQUITY			
Equity attributable to owners of the parent			
Share capital	19	3,006,500	2,720,000
Treasury shares		(92,274)	–
Share premium	19	136,349,130	41,534,254
Other reserves	20	57,676,503	70,589,582
Retained earnings		102,991,478	97,051,924
		299,931,337	211,895,760
Non-controlling interests		3,245,975	–
TOTAL EQUITY		303,177,312	211,895,760



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December

	Attributable to owners of the parent							
	Share capital	Treasury shares	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 July 2015 (Unaudited)	2,720,000	-	41,534,254	70,589,582	97,051,924	211,895,760	-	211,895,760
Comprehensive income								
Profit for the period	-	-	-	-	6,885,985	6,885,985	(34,869)	6,851,116
Translation differences	-	-	-	(13,824,641)	-	(13,824,641)	-	(13,824,641)
Total comprehensive income	-	-	-	(13,824,641)	6,885,985	(6,938,656)	(34,869)	(6,973,525)
Issue of shares	330,000	-	116,262,927	-	-	116,592,927	-	116,592,927
Shares repurchased	(43,500)	(92,274)	(14,533,099)	-	-	(14,668,873)	-	(14,668,873)
Dividends declared	-	-	(6,914,952)	-	-	(6,914,952)	-	(6,914,952)
Acquisition of a subsidiary	-	-	-	-	(34,869)	(34,869)	3,280,844	3,245,975
Profit appropriation to statutory reserves	-	-	-	911,562	(911,562)	-	-	-
At 31 December 2015 (Unaudited)	3,006,500	(92,274)	136,349,130	57,676,503	102,991,478	299,931,337	3,245,975	303,177,312

	Attributable to owners of the parent				
	Share capital	Share premium	Other reserves	Retained earnings	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 July 2014 (Unaudited)	2,720,000	61,934,254	64,604,279	67,282,385	196,540,918
Comprehensive income					
Profit for the period	-	-	-	22,201,973	22,201,973
Translation differences	-	-	1,392,913	-	1,392,913
Total comprehensive income	-	-	1,392,913	22,201,973	23,594,886
Dividends declared	-	(13,600,000)	-	-	(13,600,000)
Profit appropriation to statutory reserves	-	-	4,660,172	(4,660,172)	-
At 31 December 2014 (Unaudited)	2,720,000	48,334,254	70,657,364	84,824,186	206,535,804



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2015

	For the six months ended 31 December	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax:	8,266,563	30,607,148
Adjustments for:		
Finance income	(449,236)	(1,116,612)
Finance costs	47,737	417,833
Depreciation of property, plant and equipment	2,475,245	1,841,444
Amortisation of prepaid land lease payments	64,032	103,050
Impairment of trade receivable	536,642	–
Impairment of inventories	1,081,596	695,639
	12,022,579	32,548,502
Increase in inventories	(27,721)	(1,080,755)
(Increase)/decrease in trade and other receivables	(40,716,080)	24,844,312
Decrease/(increase) in non-current trade and other receivables	9,016,205	(708,528)
Decrease/(increase) in prepayments	5,752,404	(11,445,247)
Increase in trade and other payables	34,571,371	13,044,342
(Increase) in pledged deposits	(7,266,930)	(7,604,211)
Cash generated from operations	13,351,828	49,598,415
Income taxes paid	(1,833,729)	(8,084,480)
Net cash flows from operating activities	11,518,099	41,513,935
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(123,940)	(12,673,360)
Acquisition of a subsidiary	(7,800,823)	–
Interest received	254,281	1,183,427
Cash paid for purchase of available-for-sale financial assets	–	(63,379,389)
Net cash flows used in investing activities	(7,670,482)	(74,869,322)



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the six months ended 31 December 2015

	For the six months ended 31 December	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from placing, net	116,592,927	–
Shares repurchased	(14,668,873)	–
Repayment of loans from third parties	(22,000,000)	–
Interest paid	(1,048,044)	–
Dividends paid to shareholders	(6,914,952)	(13,600,000)
Net cash flows from/(used) in financing activities	71,961,058	(13,600,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	75,808,675	(46,955,387)
Cash and cash equivalents at beginning of period	46,940,520	91,859,246
Effect of foreign exchange rate changes, net	(9,327,970)	64,388
CASH AND CASH EQUIVALENTS AT END OF PERIOD	113,421,225	44,968,247



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION 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 2015 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It was approved and authorised for issue by the Board on 26 February 2016.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 30 June 2015.

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

These interim condensed consolidated financial statements have not been audited.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)*

2.2 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:

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

Management is in the process of making an assessment of the impact of above new and revised standards on the financial statements of the Group at the initial application. Other than HKFRS 15, the adoption of above is not expected to have a material effect on the Group's operating results or financial position.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Goodwill

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

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

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

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;
- (b) sludge treatment;
- (c) provision of after-sale and other services, and
- (d) wastewater business



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

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

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

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

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

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

	Industrial automation Systems and related projects	Sludge treatment products	After-sales and other services	Total
	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)
Segment revenue:				
Sales to external customers	163,741,676	15,929,907	13,001,371	192,672,954
Segment cost of sales	(116,554,833)	(11,093,707)	(8,035,196)	(135,683,736)
Segment gross profit	47,186,843	4,836,200	4,966,175	56,989,218
Segment results	33,515,462	902,447	4,792,658	39,210,567
Common administrative expenses				(10,220,426)
Other income				856,556
Finance income-net				760,451
Profit before tax				30,607,148
Income tax expense				(8,405,175)
Profit for the period				22,201,973



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

Other segment information for the six months ended 31 December 2014:

	Industrial automation Systems and related projects HK\$ (Unaudited)	Sludge treatment products HK\$ (Unaudited)	After-sales and other services HK\$ (Unaudited)	Unallocated HK\$ (Unaudited)	Total HK\$ (Unaudited)
Capital expenditure	10,126,431	110,198	–	454,922	10,691,551
Depreciation of property, plant and equipment	222,919	295,766	–	1,322,759	1,841,444
Amortization of land use rights	29,248	38,806	–	34,996	103,050

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

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

5. BUSINESS COMBINATION

On 21 December 2015 (the “Completion Date”), the Group completed the acquisition of 70% of the equity interest (the “Acquisition”) in Wuhan Wukong Control System Engineering Co., Ltd. (“Wukong”), an unlisted company in China. Wukong principally engaged in the business of design and construction of wastewater treatment facilities in the PRC as well as other construction and fixture installation projects and the ancillary services. The Acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Wukong for the period from the Completion Date to 31 December 2015.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. BUSINESS COMBINATION *(Continued)*

The fair values of the identifiable assets and liabilities of Wukong as at the date of acquisition were:

	HK\$
Inventory	6,493,722
Property, plant and equipment, net	6,537,387
Prepayment	2,219,785
Trade and other receivables	18,229,727
Cash and cash equivalent	194,962
Interest-bearing bank and other borrowings	(11,145,816)
Accounts and other payable	(9,308,007)
Current income tax liabilities	(995,036)
Deferred tax liability	(1,291,209)
Total identifiable net assets at fair value	10,935,515
Fair value of 70% of the equity interest in Wukong	7,654,861
Goodwill arising on acquisition	1,227,300
Total consideration	8,882,161
Analysis of cash flows on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	194,962
Cash consideration paid (among HK\$885,653 unpaid)	(7,995,785)
	(7,800,823)

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. BUSINESS COMBINATION *(Continued)*

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

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

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

6. 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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Revenue		
Industrial automation systems and related projects	84,008,923	163,741,676
Sludge treatment products	21,296,076	15,929,907
After-sales and other services	29,837,203	13,001,371
	135,142,202	192,672,954
Other income		
Government grant	87,864	595,913
Other leasing income	115,147	260,643
Others	52,306	–
	255,317	856,556



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

7. PROFIT BEFORE INCOME TAX

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

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

8. FINANCE INCOME

An analysis of finance income is as follows:

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

9. INCOME TAX EXPENSE

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

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 299,195,924 (2014: 272,000,000) in issue during the period, 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	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	6,885,985	22,201,973
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	299,195,924	272,000,000
Basic earnings per share	0.02	0.08



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11. DIVIDENDS

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

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

12. PROPERTY, PLANT AND EQUIPMENT

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

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

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

(i) Trade and other receivables

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
Warranty receivables (Notes a)	24,534,651	23,433,385
Amounts due from customers for contract work	275,330	8,405,791
Other trade receivables (Notes b)	104,035,103	62,642,301
	128,845,084	94,481,477
Less: provision for impairment of trade receivables	(6,609,826)	(6,464,571)
Trade receivables-net	122,235,258	88,016,906
Bill receivable (Notes c)	21,780,553	2,993,275
Trade and bill receivables	144,015,811	91,010,181
Other receivables due from a related party (Note 22)	21,803	63,403
Other receivables – performance guarantee	28,192,832	26,472,451
Others	7,150,683	9,785,031
Total trade and other receivables	179,381,129	127,331,066
Less: trade receivables-non-current portion	(2,239,406)	(11,255,611)
	177,141,723	116,075,455



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

Notes:

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

The aging analysis of the warranty receivables as at the end of the reporting period is as follows:

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

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

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

Notes:

- (c) Bill receivable

Transfer of financial assets that are not derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the “Endorsed Bills”) with a carrying amount of HK\$16,833,581 to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). The Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

The Group keeps monitoring the default risk of endorsed bills and as of 31 December 2015, all endorsed bills became mature except for the amount retained on the book totaling HK\$16,833,581 and those bills that are derecognized as discussed below, which have a maturity from one to six months.

Transfer of financial assets that are derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount of HK\$ 20,658,182. The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). The Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. The fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the six months ended 31 December 2015, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

(ii) Prepayments

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

14. INVENTORIES

During the six months ended 31 December 2015, the Group wrote down HK\$1,081,596 (six months ended 31 December 2014: HK\$695,639) of raw material inventories whose aging is longer than 1 year. This expense is included in other expense in the statement of profit or loss.

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
Raw materials	26,520,599	20,123,658
Work in progress	22,842,653	36,487,473
Finished goods	27,045,157	14,357,431
	76,408,409	70,968,562



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15. AVAILABLE-FOR-SALE INVESTMENTS

The Group's unlisted equity interests represent an investment in 9% of equity interest in a management consulting company operating in the PRC.

As the above investment does not have any quoted market price in an active market, the range of reasonable fair value estimate is so significant and the probabilities of the various estimates cannot be reasonably assessed, the Directors are of the opinion that their fair values cannot be reliably measured. Therefore, these investments are stated at cost less impairment, if any.

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
Cash at bank and on hand	122,255,537	48,507,902
Less: pledged deposits	(8,834,312)	(1,567,382)
Cash and cash equivalents	113,421,225	46,940,520

The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable and letter of credit.

17. TRADE AND OTHER PAYABLES

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

17. TRADE AND OTHER PAYABLES *(Continued)*

The aging analysis of the trade payables (including amounts due to related parties of trading on nature) is as follows:

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

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
Bank borrowings	2,984,006	–
Loan from non-controlling shareholders (note 22 (ii))	8,127,087	–
Loan from an independent third party	–	22,000,000
	11,111,093	22,000,000

As at 31 December 2015, the Group's borrowings were approximately HK\$11,111,093 (30 June 2015: HK\$22,000,000) which will be repayable within 1 year. Such borrowing is all denominated in RMB, and bear interest ranged from 6.21% to 12.0% per annum (30 June 2015: 3.6% per annum).

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

As at 31 December 2015, the Group has the following unutilised banking facilities:

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
Authorised banking facilities - expiring within two years	76,987,348	63,403,500
Less: used banking facilities	(34,788,255)	(11,429,622)
	42,199,093	51,973,878

19. SHARE CAPITAL AND PREMIUM

(a) Authorized Shares

	Number of authorized shares (thousands)
From 1 July 2015 to 31 December 2015	8,000,000

(b) Issued shares

	Number of Issued shares HK\$ (Unaudited)	Ordinary shares HK\$ (Unaudited)	Share premium HK\$ (Unaudited)	Total HK\$ (Unaudited)
At 1 July 2015	272,000,000	2,720,000	41,534,254	44,254,254
Issue	33,000,000	330,000	116,262,927	116,592,927
Repurchase	(4,350,000)	(43,500)	(14,533,099)	(14,576,599)
Dividends (i)	-	-	(6,914,952)	(6,914,952)
At 31 December 2015	300,650,000	3,006,500	136,349,130	139,355,630
At 1 July 2014	272,000,000	2,720,000	61,934,254	64,654,254
Dividends (i)	-	-	(13,600,000)	(13,600,000)
At 31 December 2014	272,000,000	2,720,000	48,334,254	51,054,254



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

19. SHARE CAPITAL AND PREMIUM *(Continued)*

(b) Issued shares *(Continued)*

- (i) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.

20. OTHER RESERVES

	Reorganisation reserves	Merger reserves	Statutory reserves	Translation reserves	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 July 2015	3,000,000	40,424,773	13,259,599	13,905,210	70,589,582
Translation differences	-	-	-	(13,824,641)	(13,824,641)
Appropriation to statutory	-	-	911,562	-	911,562
At 31 December 2015	3,000,000	40,424,773	14,171,161	80,569	57,676,503
At 1 July 2014	3,000,000	40,424,773	8,575,001	12,604,505	64,604,279
Translation differences	-	-	-	1,392,913	1,392,913
Appropriation to statutory	-	-	4,660,172	-	4,660,172
At 31 December 2014	3,000,000	40,424,773	13,235,173	13,997,418	70,657,364



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

21. COMMITMENTS

(a) Operating lease commitments - group company as lessee

The Group leases two offices and motor vehicles under non-cancellable operating lease agreement. The lease terms are within 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The minimum lease payments under operating lease as at 31 December 2015 and 30 June 2015 are summarized as follows:

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
No later than 1 year	1,220,922	1,539,637
Later than 1 year and no later than 5 years	2,374,151	2,776,674
	3,595,073	4,316,311

(b) Operating leases rental receivables - group company as lessor

The future minimum lease receivables under non-cancellable operating lease as at 31 December 2015 and 30 June 2015 are summarized as follows:

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
No later than 1 year	621,170	411,979
Later than 1 year and no later than 5 years	959,427	865,155
	1,580,597	1,277,134



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

22. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the period ended 31 December 2015 and 2014, and balances arising from related party transactions as at 31 December 2015 and 30 June 2015.

(a) Name and relationship with related parties

Company name	Relationships
Mr. Zhu Gen Rong ("Mr. Zhu") (i)	One of the Controlling Shareholders, chairman of the Company
Mr. Wang Ai Yan ("Mr. Wang") (i)	One of the Controlling Shareholders
Mr. Liu Chuan Jiang ("Mr. Liu") (i)	One of the Controlling Shareholders
Mr. Zhu Genyi	Brother of Mr. Zhu
Non-controlling shareholders	30% shareholders of Wukong

- (i) Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu Ling Yun are bound to act in concert by contracts and collectively are regarded as the 'Controlling Shareholders' of the Group.

(b) Transactions with related parties

	For the six months ended	
	31 December	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Key management compensation		
– Salaries	2,187,446	1,795,085
– Bonus	–	95,871
– Other benefits	31,424	154,348



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

22. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

- (i) Due from related parties (note 13):

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
Mr. Zhu Genyi – Included in other receivables	21,803	63,403

The receivables from related parties as at 31 December 2015 arise mainly from ordinary course of businesses.

The receivables are unsecured, bear no interest and are repayable on demand. There are no provisions made against receivables from related parties.

- (ii) Due to related parties:

	As at 31 December 2015 (Unaudited) HK\$	As at 30 June 2015 (Audited) HK\$
Borrowing from non-controlling shareholders (note 18)	8,127,087	–

The loan is from non-controlling shareholders of Wukong, one of the subsidiaries under the Group, with an interest rate of 2% per month.

23. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of reporting period, no material subsequent event requiring disclosure occurred.

24. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 26 February 2016.