华章科技
HUAZHANG TECHNOLOGY

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
ANNUAL REPORT

Contents

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 Dai Tian Zhu
Mr Kong Chi Mo

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr Chan So Kuen

COMPLIANCE OFFICER

Mr Jin Hao

AUTHORISED REPRESENTATIVES

Mr Zhu Gen Rong
Mr Chan So Kuen

LEGAL ADVISER

As to Hong Kong Law

Stevenson, Wong & Co.

Corporate Information

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

AUDITORS

Ernst & Young

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
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Kowloon
Hong Kong

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 Summary

Year ended 30 June	2016 HK$	2015 HK$	2014 HK$	2013 HK$	2012 HK$
Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**393,779,048**	381,355,419	308,905,915	251,362,209	229,520,229
Gross profit	**97,144,908**	94,273,990	86,230,820	71,672,996	64,348,803
Gross profit margin	**24.7%**	24.7%	27.9%	28.5%	28.0%
Profit attributable to the owners of the Parent	**34,158,634**	34,454,137	28,495,589	17,682,187	19,083,369
Net profit margin	**8.3%**	9.0%	9.2%	7.0%	8.3%
As as 30 June					
Major Items of Consolidated Statement of Financial Position					
Non-current assets	**93,431,057**	89,469,627	62,630,598	49,671,908	50,513,239
Current assets	**508,629,231**	249,077,724	317,783,433	244,241,640	199,612,318
Non-current liabilities	**1,343,474**	389,594	1,360,000	807,350	—
Current liabilities	**277,825,226**	126,651,591	182,513,113	116,898,276	171,789,787
Capital and reserves attributable to the owners of the Parent	**34,158,634**	211,895,760	196,540,918	176,207,922	78,335,770
Gearing ratio (Note 2)	**1.6%**	9.4%	10.1%	0.0%	23.9%

Notes

(1) The results and summary of assets and liabilities for the year ended 30 June 2012 which was extracted from the Prospectus have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at time when the Company's shares were listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), had been in existence through those years.

(2) Gearing ratio is calculated based on the total debt at the end of the year divided by total debt plus total equity at the end of the respective year and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Huazhang Technology Holding Limited ("Huazhang Technology" or the "Company"), I am pleased to report the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2016.

China, the world's second largest economy, has its economy being subject to downside pressure after rapid economic growth over the past years. China's official GDP growth target projected for 2016 is set at between 6.5% and 7.0%, the lowest projection for the past decade. To allow the Chinese economy to make a soft landing and transform its structure, the Chinese government is pushing for a series of industrial reform initiatives that will allow the traditional industries to be upgraded or transformed so that various enterprises can continue to grow and find new opportunities during the innovation process. The Group is encountering a lot of obstacles under this environment as well. Its profit dropped significantly by approximately 69.1% in the first half of the year after it was hit by the sluggish papermaking industry. However, the Group managed to work out and provide a one-stop service for customers after working hard together with its staff on innovation. Despite the existing overcapacity problem in the papermaking industry, there are yet many new paper production line projects in the market. With its industry experience built up over the years, the Group has been able to deliver a comprehensive range of paper production line solutions to its customers by leveraging its own advantages in the industry. By doing this, it can both offer support to production line design as well as assist customers in gaining access to financing channels, thus enabling the Group to transform from merely an equipment supplier to an integrated equipment service provider. Benefited from this change, the Group's profit improved significantly in the second half of the year, with only a slight fall of 5.1% from the same period last year. After eliminating the effect of the loss from the minority shareholders of Wuhan Wukong following the acquisition of the company, profit attributable to the owners of the parent company of the Group was roughly the same as that of last year. I want to quote a Chinese proverb: "With mountain chains and rivers ahead, I thought there was no way through because the shady willow trees and brilliant flowers kept one more village out of sight.". The Group's senior management has over 20 years of experience in the papermaking industry and has gone through hard experiences as well. We are all geared up for the current business environment and will lead the Group to seek new opportunities.

In the past year, I visited many countries in the Middle East, South Asia and Southeast Asia. These countries altogether have a total population of over 1.3 billion, more than the population of China, but their papermaking technology level and production capacity are far behind those in China. While the economy in these countries is improving, the consumers yet have an increasing demand for the quality of paper. The Group has responded positively to China's "One Belt, One Road" initiative by embarking on exporting domestic production equipment to overseas markets in the next one to two years, with the possibility to work together with other suppliers on delivering a more comprehensive range of one-stop services.

During the year, the Group's share prices hit the lowest level of HK$2.28, which was lower than the price of HK$3.6 during the share placing in July 2015. Despite the Group's announcement of the profit warning for the first half of the year, yet the share prices continued to come under pressure, but the Board and I remained confident in the prospects of the Company. During the past year, the Company and I repurchased the 4,676,000 and 304,000 shares respectively for a total amount of HK$16,107,000.

Lastly, I would like to express my sincere gratitude to the Board, management and our staff for their outstanding contributions to the development of the Group in the past year, which allowed Huazhang Technology to keep moving toward a success road. I would also like to extend my heartfelt thanks to all the business partners, customers and shareholders for their ongoing support to the Group. With their assistance and efforts, the Group will move forward courageously for sure and deliver sustainable business growth for creating more values for all parties.

Zhu Gen Rong
Chairman
Hong Kong
14 September 2016

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr ZHU Gen Rong (朱根榮), aged 53, is the chairman of our board and an executive Director. He is also a member of the Nomination Committee and one of our Controlling Shareholders. Mr Zhu oversees the overall operation and is responsible for the overall strategic planning, development, and management of our Group. Mr Zhu has approximately 24 years of experience in the mechanical and engineering industry. Prior to founding our Group, Mr Zhu worked at Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業杭州機電設計研究院) from 1984 to 1993, a state-owned entity principally engaged in the business of, among others, researches in the technology for pulp, paper-making and the automation of electric instruments and he took up several positions including the deputy head of the product development department. He then worked as general manager at Hangzhou Microelectronics Company Limited (杭州華章微電子公司) from 1993 to 1996, a company principally engaged in the business of manufacturing of mixed integrated circuit and electrical ballast, projects of industrial automation system, and the purchasing of materials and equipment for industrial automation systems. He also founded Hangzhou Yiyi Consultation (then known a Hangzhou Huazhang Electric Engineering Company Limited) in December 1996, Hangzhou Rongtai Electric in December 1998 and Shanghai Yunjie Consultation (then known as Shanghai Huazhang Electric Control Engineering Company Limited) in May 1999, of which the businesses of all three companies were then transferred to Huazhang Automation (Zhejiang) in November 2006. Hangzhou Rongtai Electric has been deregistered. Mr Zhu founded Zhejiang Huazhang Technology Limited (浙江華章科技有限公司), the PRC operating subsidiary of our Company, in July 2001. Mr Zhu obtained a diploma in industrial electrical automation (工業電氣自動化) from Nanjing Electrical School (南京機電學校) in July 1984. He has been the vice president of the China Association of the Federation of Industry and Commerce (中華全國工商業聯合會紙業商會) since October 2009.

Mr WANG Ai Yan (王愛燕), aged 49, was appointed and became an executive Director on 1 October 2014. Mr Wang has also been the chief executive officer of the Group since 1 October 2014, who is responsible to oversee the Group's daily operation and accounting and financial matters with the assistance of the chief financial officer of the Group. Mr Wang obtained a bachelor's degree in Electrical automation and an EMBA degree from Zhejiang University (浙江大學) in 1992 and 2014, respectively. Mr Wang has over 20 years of experience in the mechanical and engineering industry. He worked as an assistant engineer at the Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業部杭州機電設計研究所) from 1987 to 1993. From 1993 to 1996, Mr Wang worked as the vice general manager at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司). He worked as the vice general manager at Hangzhou Yiyi Corporate Management Consultation Limited (杭州意義諮詢有限公司) (then known as Hangzhou Huazhang Electric Engineering Company Limited (杭州華章電氣工程有限公司) from December 1996 to August 2006. Mr Wang worked as a director and general manager at Zhejiang Huazhang Automation Equipment Company Limited from September 2006 to September 2014.

Biographical Details of Directors and Senior Management

Mr ZHONG Xin Gang (鍾新鋼), aged 47, is an executive Director. Mr Zhong oversees and is responsible for the strategic planning, execution and day-to-day management and administration of our Group's sludge treatment products department. Mr Zhong has approximately 25 years of experience in the filter and engineering industry. Mr Zhong joined our Group in July 2011 and is currently the general manager of environmental protection department at Huazhang Technology. Prior to joining our Group, Mr Zhong worked at Hangzhou Better Filter Press Company Limited (杭州貝特過濾機有限公司) which is principally engaged in the manufacture and sale of filter presses, in 2003 and held the position of director. He previously worked at Hangzhou Xingyuan Filter Technology Company Limited (杭州興源過濾科技有限公司) which is principally engaged in the manufacture and sale of filter presses, from August 1991 to April 2003 and was the chief of the technical department. Mr Zhong studied in Zhejiang University (浙江大學) specialized in chemical mechanic in July 1991. Mr Zhong has been a member of the executive council and the experts committee of the forth (from 2003 to 2006), fifth (from 2007 to 2011) and sixth (from 2012 to 2015) of China General Machinery Industry Association-Separation Machinery Sub-Association (the"Sub-Association") (中國通用機械工業協會分離機械分會); and committee member of the forth (from 2003 to 2006), fifth (2007 to 2011) and sixth (2012 to 2015) of National Standardization Technical committee of Separation Machinery (全國分離機械標準化技術委員會).

Mr JIN Hao (金皓), aged 45, is an executive Director. Mr Jin oversees and is responsible for the strategic planning, execution and day-to-day management and administration of our Group's industrial automation system department. Mr Jin has approximately 23 years of experience in the electric and engineering industry. Mr Jin joined our Group in 2001. Mr Jin worked at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司) from July 1993 to December 1995 as project person in charge. Mr Jin joined Hangzhou Yiyi Consultation (formerly known as Hangzhou Huazhang Electric Engineering Company Limited) in 1996 and worked as the general manager in the engineering department until 2001. He served as the engineering general manager at Huazhang Technology from 2001 to 2009 and served as the general manager of the industrial automation department of Huazhang Technology since 2009. Mr Jin obtained a bachelor's degree in electrical engineering from Zhejiang University (浙江大學) in June 1993.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr DAI Tian Zhu (戴天柱), aged 62, is an independent non-executive Director and the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee respectively. Mr Dai was appointed as an independent non-executive Director on 6 May 2013. Mr Dai obtained a graduate certificate in pulp of Paper Manufacturing Technology from the Zhejiang University of Technology (浙江工業大學) (formerly known as Zhejiang Institute of Technology (浙江工業學院)) in January 1982. He then obtained a master degree in economy planning and management from the Chinese Academy of Social Sciences Graduate School (中國社會科學院研究生院) in January 1989. Mr Dai obtained a doctorate degree in economics from the Chinese Academy of Social Sciences Graduate School (中國社會科學院研究生院) in July 1997. He was a member of the Eight Chinese People's Political Consultative Conference of Zhejiang Province (中國人民政治協商會議浙江省第八屆委員會), and a member of the Economic Commission of Zhejiang Province (浙江省第八屆省政協經濟委員會委員) in 1998. Mr Dai was the deputy director of Centre of Scientific Research of Zhejiang University of Finance and Economics (浙江財經學學院科研所) in 1998 , a professor of the department of finance and a member of the academic committee of the Shanghai University of International Business and Economics (previously known as Shanghai Institute of Foreign Trade (上海對外貿易學院)) from March 2006. Mr Dai served as an independent director in Tian He Securities Company Limited (天和證券經紀有限公司) from December 2003 to December 2006. He was the main editor of teaching material "Theory and practice of investment banking operations" (投資銀行運作理論與實務) for high school students.

Biographical Details of Directors and Senior Management

Ms CHEN Jin Mei (陳錦梅), aged 64, is an independent non-executive Director, and is the chairlady of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee respectively. Ms Chen was appointed as an independent non-executive Director on 6 May 2013. Ms Chen began to work in November 1969, and joined the Hangzhou Municipal Finance Bureau (杭州市財政局) in July 1980. Ms Chen was the deputy director general of Hangzhou Municipal Finance Bureau from July 1997 to June 2002 and the director general of Hang Zhou Municipal Finance Bureau and the director general of Hangzhou Local Tax Bureau from June 2002 to April 2011. She then retired from her duties at the Hangzhou Municipal Finance Bureau in August 2012. Ms Chen obtained a bachelor's degree in accounting from the Hangzhou Institute of Electronic Engineering (杭州電子工程學院) in July 1997. She (i) completed all the courses for a post graduate degree in management engineering from Zhejiang University (浙江大學) in June 1998; (ii) graduated with a post graduate degree in political economics from Zhejiang Provincial Party School (中共浙江省委黨校) in July 2000 and (iii) obtained master's degree in business administration from the Macau University of Science and Technology (澳門科技大學) in August 2005. She also obtained the qualification of a professor-level senior accountant (教授級高級會計師) in December 2010.

Mr KONG Chi Mo (江智武), FCCA, FCIS, FCS(PE) & MHKIoD. aged 41, has been an independent non-executive Director since 6 May 2013. He is the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee respectively. Mr Kong has over 18 years of experience in accounting, corporate governance and capital market. Mr Kong has been the executive director, chief financial officer and company secretary of China Vanadium Titano-Magnetite Mining Company Limited (Stock code: 00893) ("China VTM") from October 2013 to May 2015, from May 2008 to May 2015 and since September 2009, respectively. Also Mr Kong has been appointed as an independent non-executive director of CAA Resources Limited (Stock code: 02112) and Hengshi Mining Investments Limited (Stock code: 01370), all are listed on the Stock Exchange, since 2013. Prior to joining China VTM, Mr Kong joined KPMG in October 1999 and was a senior manager when he left in December 2007. Prior to joining KPMG, Mr Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited from June 1997 to March 1998 and as a tax associate in PricewaterhouseCoopers from March 1998 to October 1999. Mr Kong has been a fellow member of the Association of Chartered Certified Accountants since February 2008, a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since February 2012, and a member of the Hong Kong Institute of Directors ("HKIoD") since May 2010. Mr Kong received silver certificates of merit in continuing professional development both in 2012 and 2013 and gold certificates of merit in continuing professional development in 2014 respectively from the HKIoD. Mr Kong obtained a bachelor's degree in business administration from The Chinese University of Hong Kong on 11 December 1997.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr LIU Chuan Jiang (劉川江), aged 52, is the deputy general manager and quality assurance director of Zhejiang Huazhang Technology Limited ("Zhejiang"). Mr Liu has approximately 23 years of experience in the mechanical and engineering industry. He joined our Group in 2001 and is currently the deputy general manager and quality assurance director of Zheijiang Huazhang and was also previously the technical director of Zheijiang Huazhang. Mr Liu obtained a bachelor's degree in electrical engineering and computer science from the Southwest Jiaotong University (西南交通大學電氣工程及計算機科學學士) in August 1984 and a master's degree in electrical engineering from Shanghai Railway Institute (上海鐵道學院電氣工程系碩士學位) in October 1989. Mr Liu obtained his professional qualification as an engineer by the Department of Light Industry (中華人民共和國輕工業部) of the PRC in July 1991.

Mr TANG Zhi Chao (唐志超), aged 56, is the deputy general manager of Zheijiang Huazhang. Mr Tang has over 10 years of experience in the mechanical and engineering industry. Mr Tang joined our Group in 2003 and worked as the general manager of the sludge treatment products department of Zheijiang Huazhang. Mr Tang obtained a diploma in pulp and paper technology from Zhejiang Institute of Technology, Hangzhou Campus (浙江工業學院杭州分校) in January 1982.

Mr CHAN So Kuen (陳素權), aged 36, is company secretary, chief financial officer and authorized representative of the Company with effect from 28 February 2014. Mr Chan has been appointed as an independent nonexecutive director of Link Holdings Limited (Stock code: 08237) since 16 October 2014. Mr Chan has over 15 years of experience in financing, auditing and accounting. Mr Chan is a member of the Hong Kong Institute of Certified Public Accountants and obtained a bachelor's degree in accountancy from The Hong Kong Polytechnic University in 2001.

Management Discussion and Analysis

SUMMARY

The Group is principally engaged in research and development, manufacture and sale of industrial automation systems and sludge treatment products, and already existing in the paper industrial over 15 years. The Group industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers. Moreover, we are also engaged in the provision of after-sales and other services to our existing customers. As at 21 December 2015, the Group completed the acquisition of 70% interests in Wukong, the Group entry into the business of design and construction of wastewater treatment facilities and installation projects services.

At present, the Group's business is divided into four categories:

Industrial Automation Business

Industrial automation systems and related projects (the "Industrial Automation Business") compress the industrial automation systems, which are used in industrial production applications to improve production line efficiency by controlling the production process, and other related services. The Group's industrial automation system mainly:

- drive control system;
- distributed control system;
- machine control system; and
- motor control centre

In addition, the Group through worked with the finance leasing companies, providing customers with the "design" "production" "service" business model ("One-Stop Service") successfully. Except for assisting customers design industrial automation systems or sludge treatment products, also provide customers with value-added services for the entire production line designed or modified.

Sludge treatment products

The sludge treatment products developed are used for the separation of solid from liquid in the handling of industrial waste in order to reduce sludge disposal costs and to meet the PRC government's requirement for environmental protection. The Group's sludge treatment products comprise two categories, namely, filter press and steel-belt filter press.

After-sales and other services

After-sales and other services which the Group provides after-sales and other services to the existing customers of Industrial Automation Business and sludge treatment products.

Wastewater treatment business

Wastewater treatment business which the Group provides wastewater treatment facility design, fixture installation projects and the ancillary services. Those are mainly applied to wastewater treatment plant projects, water works projects, smart architecture projects, integrated computer management and control projects and automated-control projects of other industries.

Management Discussion and Analysis

INDUSTRY REVIEW

Over the past year, under the backdrop of a continuously sluggish macro demand, the paper industry in China remained unchanged in general, and was still undergoing a stage of transformation and adjustment. Investment in fixed assets in the paper industry still witnessed a low level of growth. As a basic industrial raw material and a kind of consumer good, there was inelastic demand for paper products from various sectors. Except for a small number of paper categories with serious overcapacity such as coated paper and newsprint paper, overcapacity for most paper categories was still under control, with some categories such as packaging paper even facing insufficient production capacity.

Under the impact of factors such as tightened environmental protection policies and heightened elimination of backward production capacity in China, the paper industry, dominated by a large number of small and relatively scattered enterprises in the past, has evolved into an increasingly concentrated industry with a growing and significant trend of mergers and consolidation between small and medium sized enterprises. The products of large paper enterprises with sufficient capital and advanced technology have an edge in the market in terms of quality, cost and price, resulting in such enterprises enjoying a leading position. In the first half of 2016, the paper industry showed signs of recovery, with large paper enterprises recording improved profitability. They are expected to invest more resources to expand production capacity and thus strengthen their position in the market. Meanwhile, small and medium enterprises are expected to upgrade their existing equipment or purchase advanced equipment to enhance their competitiveness on the back of their own regional advantages.

The paper industry is one of those industries in China with more serious pollution problems. In April 2015, the State Council approved a more stringent policy to prevent and combat water pollution, the Action Plan on Prevention and Treatment of Water Pollution (the "Ten Measures for Water"), setting higher standards for enterprises in environmental protection requirements and resulting in increasingly stringent requirements on pollutant emission indicators for paper enterprises. At present, many enterprises in the paper industry still fail to meet the requirements of the new environmental protection standards, and they are required to invest in environmentally friendly facilities and equipment to meet these environmental protection regulations. In general, larger paper enterprises invest about 10% of their total cost on environmental protection.

BUSINESS REVIEW

The revenue of the Group increased by approximately 3.3% to approximately HK$393,779,000 for the year ended 30 June 2016 as compared with the last year. As compared with the six months ended 31 December 2014, the revenue of the Groups for the six months ended 31 December 2015, decreased by approximately 29.9%. The revenue for the six months ended 30 June 2016 had shown a significant improvement, an increase of 37.1%, as compared with the same period of last year. Such improvement was a benefit of the Group effort to promote the "design" "production" "service" business model ("One-Stop Service") in the past year. During the first half of the financial year, the Group was negotiating with customers for the projects. These projects have been effectively implemented in the second half of this financial year.

For the year ended 30 June 2016, the Group has entered into contracts with amount of approximately HK$509,752,000, representing an increase of 48.6%, as compared with last year. As at 30 June 2016, the outstanding contracts amount was HK$274,709,000. Most of them were expected to be completed in the next financial year.

Management Discussion and Analysis

Under the difficult business environment faced by the Chinese paper industry, the Group tried to expand overseas market. Through a domestic import and export company, the Group recorded export sales of approximately HK$30,625,000 during the year (2015:Nil). In order to expand overseas market, the Group's sales staff participated in a number of international exhibitions, including: Paperex in India and International Print and Pack of Iran, and have visited various Southeast Asian countries to understand the latest information of the paper industry in these countries.

During the year, the Group continued our efforts to invest more resources in products research and development. Research and development expenses amounted to approximately HK$14,399,000 for the year ended 30 June 2016. The Group obtained 10 new patents during the year. As at 30 June 2016, the Group has registered 119 patents (including 38 invention patents, 70 utility model patents and 11 software copyrights).

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 wastewater treatment business, repayment of a third party's loan and general working capital. On 21 December 2015, the Group completed the acquisition of 70% interests in Wukong. The purchase consideration was RMB7,420,000 (equivalent to approximately HK$8,882,000). 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.

FINANCIAL REVIEW

Revenue and gross profit margin

Revenue increased by approximately 3.3% from approximately HK$381,355,000 for the year ended 30 June 2015 to approximately HK$393,779,000 for the year ended 30 June 2016. Gross profit margin remained stable at approximately 24.7% and approximately 24.7% for the years ended 30 June 2015 and 2016, respectively.

Industrial Automation Business

Revenue from sales of Industrial automation business increased by approximately 2.7% from approximately HK$281,954,000 for the year ended 30 June 2015 to approximately HK$289,657,000 for the year ended 30 June 2016. The increase in revenue from sales of Industrial Automation Business was primarily attributable to provision of One-Stop Services in relation to industrial automation systems. In early 2014, the Group established project division which have contributed revenue of approximately HK$180,811,000 for the year ended 30 June 2016, as compared with the same period in last year, revenue increased by 22.7% from approximately HK$147,412,000. Such services include sales of industrial automation systems and provision for installation and testing services. The gross profit margin of Industrial automation business increased from approximately 22.6% for the year ended 30 June 2015 to approximately 24.4% for the year ended 30 June 2016.

Sludge treatment products

Revenue from sales of sludge treatment products decreased by approximately 41.0% from approximately HK$63,948,000 for the year ended 30 June 2015 to approximately HK$37,788,000 for the year ended 30 June 2016, primarily attributing to more keen competition in the market. The Group intended to participate high-end projects, as a result, projects scales decreased and gross profit margin improved. The gross profit margin of our sludge treatment products increased from approximately 27.5% for the years ended 30 June 2015 to approximately 33.5% for the year ended 30 June 2016.

After-sales and other services

Revenue from provision of after-sales and other services increased by approximately 36.2% from approximately HK$35,453,000 for the year ended 30 June 2015 to approximately HK$48,300,000 for the year ended 30 June 2016. Such increase was primarily attributable to the increase in sales of the electrical components and increase in after-sales services. The gross profit margin for provision of after sales and other services decreased from approximately 36.2% for the year ended 30 June 2015 to approximately 26.2% for the year ended 30 June 2016. Such decrease is attributing to sales of the electrical components with a lower gross profit margin.

Other income

For the years ended 30 June 2015 and 2016, other income amounted to approximately HK$3,907,000 and HK$4,056,000, respectively, which remained stable. During the year ended 30 June 2016, the Group disposed of available-for-sales investment with a gain of approximately HK$1,603,000 and received a bidding-service income of approximately HK$539,000, which offset the impact on decrease in government subsidy of approximately HK$2,766,000.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately HK$1,663,000 from approximately HK$11,978,000 for the years ended 30 June 2015 to approximately HK$10,315,000 for the years ended 30 June 2016, accounting for approximately 3.1% and approximately 2.6% of the Group's revenue for the years ended 30 June 2015 and 2016, respectively. The decrease in absolute amounts is mainly attributable to decrease in warranty expenses of approximately HK$2,421,000, which offset the increase in advertising and promotion expenses of approximately HK$350,000.

Administrative expenses

The administrative expenses increased by approximately HK$6,917,000 from approximately HK$30,793,000 for the year ended 30 June 2015 to approximately HK$37,710,000 for the year ended 30 June 2016, accounting for approximately 9.6% of the Group's revenue for the year ended 30 June 2016, as compared with approximately 8.1% last year. Increase in the administrative expenses for the year ended 30 June 2016 is primarily due to increase in administrative expenses after the acquisition of the Wukong and increase in salaries and employee benefit expenses in relation to increase in number of management personnel.

Research and development expenses

The research and development expenses decreased by approximately HK$1,713,000 from approximately HK$16,052,000 for the year ended 30 June 2015 to approximately HK$14,339,000 for the year ended 30 June 2016, accounting for approximately 3.6% of the Group's revenue for the year ended 30 June 2016, as compared with approximately 4.2% last year. The decrease in research and development expenses was mainly attributing to the Group reduced the research and development activities under the current business environment and have owned sustainable technology to meet the industry developments.

Finance income - net

The net finance income increased by approximately HK$518,000 from approximately HK$807,000 for the year ended 30 June 2015 to approximately HK$1,325,000 for the year ended 30 June 2016. Such increase was mainly attributing to decrease in finance costs of approximately HK$594,000.

Income tax expense

Income tax expense increased by approximately HK$2,735,000 from approximately HK$4,763,000 for the year ended 30 June 2015 to approximately HK$7,498,000 for the year ended 30 June 2016. Such increase was mainly attributable to the change in tax rate adopted by an operating subsidiary of the Group for the year ended 30 June 2015, so the tax authority refunded the excess of tax payment to the subsidiary. The subsidiary's 2011 tax benefit period ended by 31 December 2013 and the application for the next three years tax benefit period from calendar year 2014 was approved by the PRC tax bureau in May 2015. As a result, the subsidiary provided and paid EIT at 25% before the approval. The EIT rate adopted by the subsidiary for the year ended 30 June 2015 and 2016 is 15% and 15% respectively.

The effective tax rates of the Group for the years ended 30 June 2015 and 2016 were 12.2% and 18.7% respectively. The increase was mainly attributing to the reason was mentioned as above and increase in operating performance contributed by other subsidiaries. The EIT rate of these subsidiaries is higher than 15%.

Profit for the year and net profit margin

Profit for the year decreased by approximately HK$1,791,000 from approximately HK$34,454,000 for the year ended 30 June 2015 to approximately HK$32,663,000 for the year ended 30 June 2016. At the same time, the net profit margin slightly decreased by approximately 0.7% from approximately 9.0% for the year ended 30 June 2015 to approximately 8.3% for the year ended 30 June 2016. Such decrease was primarily attributing to the increase in the income tax expense

Profit attributable to the owners of the parent

Profit attributable to the owners of the parent slightly decreased by approximately HK$295,000 from approximately HK$34,454,000 for the year ended 30 June 2015 to approximately HK$34,159,000 for the year ended 30 June 2016.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year under review. The Group was principally financed by internal resources, borrowings and net proceeds from the placing. As at 30 June 2016, the Group have net cash and cash equivalent balance amounting to approximately HK$74,133,000 (30 June 2015: approximately HK$46,941,000) and borrowings amounting to approximately HK$5,379,000 (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.

As at 30 June 2016, the unused banking facilities of the Group were HK$53,330,000 (30 June 2015: HK$51,974,000).

Borrowing and charges of assets

As at 30 June 2016, the Group's interest-bearing loan was approximately HK$5,379,000 (30 June 2015: HK$22,000,000) which will be repayable within 1 year. Such borrowing is all denominated in HK$, and bear interest of 7.2% per annum (30 June 2015: 3.6% per annum).

As at 30 June 2016, the banking facilities granted by the bank was secured by prepaid land lease payments, property, plant and equipment and investment properties of the Group amounting to approximately HK$4,047,000 and HK$32,934,000 and HK$7,735,000 respectively (30 June 2015: HK$2,579,000 and HK$15,975,000 and nil respectively).

Trade and bills receivables

Trade and bills receivables increased by approximately HK$198,886,000 from approximately HK$91,010,000 for the year ended 30 June 2015 to approximately HK$289,896,000 for the year ended 30 June 2016. The increase was mainly attributable to the Group provide the One-Stop Service, and accepted the customers to extend the repayment period to 2-3 years and to settle the receivable by instalment through the finance lease company. The Group believes that this model will enable the Group to improve market competitiveness, to provide more flexible services to customers. In addition, the Group will strengthen customer credit risk management to guard against bad debt provision increased.

Gearing ratio

The gearing ratio as at 30 June 2015 and 2016 were approximately 9.4% and approximately 1.6% respectively. Such decrease was mainly attributable to the Group were placing of share in July 2015 increase in total equity and the borrowing decrease as compared with the same period. As at 30 June 2016, the total equity increase by approximately HK$110,996,000 as compared with the last year. Based on the gearing ratio as at 30 June 2016, the Group still maintained a good financial position.

Gearing ratio is calculated based on the total debt at the end of the year divided by total debt plus total equity at the end of the respective year and multiplied by 100%.

Available-for-sale financial assets

As at 30 June 2016, the Group had no available-for-sale financial assets (30 June 2015: HK$10,145,000).

Capital Expenditure

For the year ended 30 June 2016, the Group's capital expenditure amounted to approximately HK$3,892,000 (30 June 2015: HK$ 10,302,000).

Commitments

As at 30 June 2016, the Group had no capital commitments.

Contingent liabilities

As at 30 June 2016, the Group had no material contingent liabilities.

Foreign Currency Risk

The Group's principal business is located in the PRC and its major transactions are conducted 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.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held and disposals during the year ended 30 June 2016.

On 21 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 year ended 30 June 2016.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2016, the Group had 287 employees (30 June 2015: 241 employees), including the Directors. Total staff costs (including Directors' emoluments) for the year ended 30 June 2016 were approximately HK$39,294,000, as comparable to approximately HK$42,025,000 for the year ended 30 June 2015.

The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the year, the Group continued its commitment to employees' training and development programme.

FUTURE PROSPECTS

With the Thirteenth Five-year Plan of China gradually rolling out, the overall direction of economic development in China has become clearer. The Chinese government is adopting more proactive measures to eliminate backward production capacity, step up environmental protection, and facilitate various industries to become smart industries and expand to overseas markets. The Group is fully prepared to respond to market changes.

Made in China 2025

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

One Belt, One Road

"One Belt, One Road" is a major economic policy over the next decade of China, allowing enterprises to extend their business overseas markets. The Group actively participated in overseas exhibitions and arranged visits of paper corporations in the Asia Pacific region over the past year, in order to understand the papermaking equipment demand in the region. The overseas market of papermaking equipment is vast, with a lack of quality provider. As such, with its advanced technology and competitive pricing, Chinese manufacturing equipment are in great demand. Hence, the Group has begun to set up a sales office in Southeast Asia. The sales office mainly provides services to on Thailand, Indonesia, Malaysia and other countries. The sales office is expected to generate revenue for the Group for the financial year ended 2017.

USE OF PROCEEDS FROM THE LISTING BY WAY OF PLACING

From the listing date to 30 June 2016, the proceeds from the listing by way of placing were used as follows:

	Use of proceeds in the same manner and proportion as shown in the prospectus from the listing date to 30 June 2016	Actual use of proceeds from the listing date to 30 June 2016	Unused proceeds
	HK$000	HK$000	HK$000
Increase production capacity	27,100	21,084	6,016
Cost saving construction	18,100	–	18,100
Continuous product development and innovation	6,000	6,000	–
Increase market awareness and image of the Group	3,900	1,639	2,261
Improve the current information management system	300	87	213
	55,400	28,810	26,590

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

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

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

The Board and management of the company are committed to establishing a good standards in environmental, social and corporate governance practices. In the past, the Group is in the pursuit of corporate profits, it also took the sustainable development of the environment, the society and corporate governance into consideration in all aspect of the business operation of the Group, so that those standards could be sustained. The Group believed that those standards were beneficial to improve the Group's corporate governance to a higher level, to make a commitment to the employees, the society and the environment, and enhance the reputation of the Group. The Board will continue to formulate guidelines and spearhead initiatives that can be implemented in the whole group.

This is the second environmental, social and governance report released by the Company pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") provided in Appendix 27 to the Listing Rules on the Stock Exchange, which sets out the Company's policies and practices in three aspects namely environmental protection, working environment, and community involvement for the year ended 30 June 2016. This report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the Company's corporate governance and culture. The Company is aware of the importance of having a reciprocal relationship with society. Utilising its influence on society, so that Huazhang Technology has become a social responsibilities enterprise.

ENVIRONMENTAL PROTECTION

Environmental Policy

The Company pledges to uphold quality management and implement policies for conserving resources and managing waste. The Company has established the following policies in compliance with environmental regulations:

1. The Company obtained the ISO14001 Environmental Management System certifications – implemented internal procedures to prevent and manage pollution.

2. The Company commits to fulfill and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.

The Group conduct regular testing in relation to air, noise and waste water emitted or produced to ensure that our pollution levels are within the allowed levels as stipulated in the relevant PRC laws and regulations.

Resource Management and Waste Management

The Company dedicated to manage our waste in a responsible way and westrive to optimise the use of our resources. Below is resources and waste management data:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Resource Management:		
Electricity (Mwh)	738,226	648,157
Water (Ton)	7,424	12,866
Waste Management:		
Cartridge / Ink cartridge (Unit(s))	67	88
Computers and equipment recovery (Unit(s))	3	2

WORKING ENVIRONMENT

The Group is committed to providing a safe and non-hazardous working environment for all staff. The Group are subject to the relevant PRC laws and regulations regarding production safely, including the principle law governing the administration of production safety in the PRC, namely the PRC Production Safety Law (中華人民共和國安全生產法) which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the process of production, we have adopted various measures such as the provision of periodic training courses on self-rescue and escape to employees, installation of first-aid cases at production sites, use of labour protective equipment. We have also undertaken accidental insurance policies for our employees. Our Group has obtained certifications for the following management systems, namely: (i) ISO 14001:2004 Environment Management System; and (ii) OHSAS 18001:2007 Occupational Health and Safely Management System, for our Group business operations.

As part of our internal control measures, our Group has set up a work injury and accident administration system for the management, report, investigation and settlement of work injury and accidents, and which prescribes in derail the procedure for handling an accident at different stages so that all the employees involved in an accident will have a clear guidance should an accident occur.

During the year, there were only 2 injury cases in Tongxiang, it has been identified as work-related injuries and have been settled. Overtime personnel mainly for the production workshop staff, overtime substantially between 2-3 hours.

EMPLOYEES PRACTICES

Almost 99% of employees hired by the Group have been located in the PRC. The Company strictly complies with the requirements of the Labour Law of the PRC without violating the relevant rules and regulations:

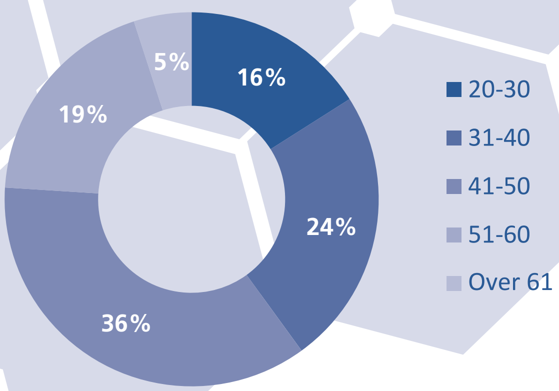
1. Workers' wages, overtime payments and related benefits are made in accordance with the local minimum wage (or above);

2. Holidays and statutory paid leaves are compliant with the requirements of the PRC;

3. The Company treats all the employees equally, and their employment, remuneration and promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status;

During the year, talent management was the key focus of the Group's human resources strategy. As at 30 June 2016, the Group employed a total of 287 staff, the majority of them are between the ages of 31 and 50, the detail of distribution as below:

Distribution of age groups of the Group



EMPLOYEE TRAINING AND DEVELOPMENT

The Company has established a comprehensive training system and mechanism to provide on-job teaching and training for its employees, in order to enhance their knowledge and skills. The trainings mainly consist of orientation training, on-job training and external training.

INTELLECTUAL PROPERTIES

Since the intellectual property rights authorized for our use are material and consist mainly of trade secrets, to guard our interests, we require all of our employees, including management personnel, research and development personnel, technical personnel, sales personnel and production workers to execute a confidentiality agreement which covers a wide range of confidential information including technical plans and reports, project design, circuit design, manufacturing methods, commercial secrets, industrial processes, technical standards, measurement software, database, product designs, and records of research design and development.

ANTI-CORRUPTION

The Group has established anti-corruption polices, and stringent policies for anti-corruption and anti-fraud, and is committed to prevent and monitor any malpractice or unethical practice.

COMMUNITY INVOLVEMENT

The Company strives to improve the society through community involvement. Apart from making cash donations to charitable organizations, both management and employees of the Company have been eager to take their own initiatives in helping and supporting the local communities and neighbors.

Directors' Report

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 30 June 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are, set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by segments is set out in note 4 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 30 June 2016 and the financial information of the Group as at 30 June 2016 are set out in the audited financial statements of this report.

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 30 June 2016 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 11 to 18 of this annual report. The analysis of the key financial performance indicators of the Group is also shown in "Management Discussion and Analysis" section of this annual report.

KEY RISKS AND UNCERTAINTIES

The demand for our industrial automation systems depends significantly on the level of installation, replacement and maintenance activities of the paper-making factories in the PRC, which in turn depends on the level of capital spending by such paper-making factories. However, there is no assurance that the fixed asset investment in relation to purchase of equipment in the paper-making industry in the PRC will continue to grow at the rate as we anticipate or that its growth will be steady in the future. Any decrease in the level of capital spending by the paper-making factories in the PRC may have a direct impact on our results of operations.

Fluctuations in costs of raw materials

The prices at which we purchase our raw materials are based on prevailing market prices which are primarily affected by market supply and demand, the conditions of which may fluctuate from time to time. Fluctuations in the prices of raw materials consumed for the production of our industrial automation systems and sludge treatment products may have a direct impact on the results of our operations. Such price fluctuations may be due to various factors beyond our control, including the global economic and market conditions and changes in the PRC government's policies.

Difficulty in obtaining financing

Our Group's ability to obtain bank financing or to access the capital markets for future offerings may be hindered by our Group's financial condition at the time of any such financing or offerings, as well as by adverse market conditions resulting from, among other things, general economic conditions, credit tightening policies, contingencies and uncertainties that are beyond our Group's control. Our Group's failure to obtain the necessary financing could impact our results of operations, financial condition and our ability to pay dividends.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 30 June 2016, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

ENVIRONMENTAL PROTECTION

The environmental protection policy adopted by the Group is set out in the section head "Environmental, Social and Governance Report" on pages 19 to 22 of this annual report.

RELATIONSHIP WITH OUR STAFF , CUSTOMERS AND SUPPLIERS

The Directors are of the view that our staff is one of the most valuable assets of our Group and have contributed to the success of the Group. Since its establishment, we have not experienced any disruption to its business operations as a result of labour disputes, nor has it experienced any material difficulty in recruiting or retaining its experienced staff. The Directors believe that we have maintained a very good relationship with our staff.

Through the efforts of sales and marketing team the Group have established solid relationships with many of our long-term customers for periods ranging from three to seven years. During the year, most of our major customers were located in Mainland China. We continue to maintain such relationships by conducting periodic visits to understand the construction needs of our customers and learn about their new projects.

The Group is in good relationship with its suppliers. The procurement department maintains a list of qualified suppliers. The qualified suppliers are selected based on our internal control system to record and handle customer's compliant on product quality. If we receive any compliant on our product quality, staff in the sales department will record all the details and inform the responsible person of the relevant department(s) to investigate the reason for the product quality issue and design measures to rectify the issues and prevent the occurrence in the future. The measures will be passed to the management for approval and implementation. The procurement department is responsible to review and update the list of qualified suppliers annually.

FINAL DIVIDEND

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

The board of directors now recommend to pay the final dividend for 2016 at 4.0 HK cents per share (2015: 2.3 HK cents per share) payable to shareholders of the Company whose names are on the register of members on 21 November 2016. It is expected that the final dividend will be paid on 25 November 2016. The proposed distribution of final dividends is subject to the approval of the Annual General Meeting ("AGM").

PROPOSED BONUS SHARES ISSUE

The Directors proposes a bonus issue of shares on the basis of one bonus share for every one existing share held by shareholders whose names appear on the register of members of the Company on 21 November 2016. The relevant resolution will be proposed in the forthcoming annual general meeting of the Company, and if passed and upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in such new shares, share certificates for the bonus shares will be dispatched to Shareholders on or around 25 November 2016.

The bonus shares will rank pari passu in all respects with the existing shares in issue from the date of issue except that they will not rank for the final dividend in respect of the year ended 30 June 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from 9 November 2016 (Wednesday) to 11 November 2016 (Friday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 8 November 2016 (Tuesday); and

(ii) from 17 November 2016 (Thursday) to 21 November 2016 (Monday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to the final dividend and bonus shares. In order to establish entitlements to the final dividend and bonus shares, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 16 November 2016 (Wednesday).

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 30 June 2016, 4,676,000 of its ordinary shares were repurchased on the Stock Exchange at an aggregate price of approximately HK$15,360,334 Subsequent to these share repurchase exercises, the Company has acquired and cancelled 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 Highest	Price paid per Share Lowest	Aggregate consideration paid
		HK$	HK$	HK$
September 2015	500,000	3.30	3.26	1,648,518
October 2015	3,850,000	3.43	3.27	12,928,081
December 2015	38,000	2.49	2.39	92,273
January 2016	288,000	2.44	2.30	691,462
	4,676,000			15,360,334

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 year ended 30 June 2016.

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.

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.

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 30 June 2016, 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$38,873,000 for general working. As at 30 June 2016, the unused balance of approximately HK$47,543,000 were currently placed into deposits and/or money market instruments, which will be used as general working capital purpose.

Directors' Report

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in notes 24, 25 and 26 to the consolidated financial statements.

As at 30 June 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amount to HK$150,433,000. The amount of HK$150,433,000 represents the Company's share premium, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

BORROWINGS

Particulars of borrowings of the Group as at 30 June 2016 are set out in note 22 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 30 June 2016 represented approximately 30.0% (30 June 2015: 17.2%) and approximately 58.3% (30 June 2015: 48.1%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 30 June 2016 represented approximately 10.7% (30 June 2015: 17.7%) and approximately 33.4% (30 June 2015: 53.0%), respectively, of the Group's total purchases.

To the best of the Directors' knowledge, except for Mr Zhu Gen Rong, Mr Wang Ai Yan, Mr Liu Chuan Jiang and Ms Zhu Ling Yun, who are the Company's controlling shareholders, none of the Directors or their respective associates, and none of the existing shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers and suppliers.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

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

Independent Non-Executive Directors

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

Directors' Report

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 7 to 10 in this annual report.

In accordance with Articles 84 of the Articles, Mr Zhu Gen Rong, Mr Jin Hao, Mr Dai Tian Zhu and Mr Kong Chi Mo will retire at the 2016 AGM and, being eligible, will offer themselves for re-election at the 2016 AGM.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 30 June 2016.

DIRECTORS' SERVICE CONTRACTS

Each of executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 16 May 2013 and will continue thereafter until terminated in accordance with the terms of the agreement, except that Mr Wang Ai Yan has entered into a service contract with the Company for an initial term of three years commencing from 1 October 2014 and will continue thereafter until terminated in accordance with the terms of the contract.

Independent non-executive Directors are appointed for a term up to 30 June 2015 and will continue thereafter unless terminated by either party giving at least one month's notice in writing. The appointment period of them has been extanded to 30 June 2018.

Other than as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Croup's business to which the Company, any of its subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

No contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries were made during the year.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors of the Company and five highest paid individuals are set out in note 8 and 9 to the consolidated financial statements in this annual report.

Except for Ms Chen Jin Mei, no Director has waived or has agreed to waive any emoluments during the year ended 30 June 2016.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of which are set out in the paragraph headed "Share Option Scheme" below.

Details of the retirement benefit schemes of the Group are set out in note 2.4 to the consolidated financial statements.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

In order to protect the Group's interest in its business activities, on 19 December 2014, 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 (the "Controlling Shareholders") of the Company, has given a non-competition undertaking ("Deed") 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 (the "Restricted Business") from time to time.

Each of the Controlling Shareholders has also covenanted to notify the Company shall he/she/it or his/her/its associates be offered or become aware of any business opportunity regarding the Restricted Business and shall provide the Company all necessary information. An independent board committee (the "Independent Board Committee") of the Company comprising all independent non-executive directors shall decide whether to accept such opportunity by simple majority, taking into account the Company's prevailing business, the financial resources required for the relevant opportunity and the commercial viability of such opportunity.

In this regard, each of the Controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the Deed for the year ended 30 June 2016. The independent non-executive directors of the Company who forms the Independent Board Committee have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings in the Deed and have confirmed that, as far as they can ascertain, there is no breach of any of the undertakings in the Deed given by the Controlling Shareholders.

As of the date of this annual report, the Company is not aware of any other matters regarding the compliance of the undertakings in the Deed that are required to be brought to the attention of the shareholders of the Company.

The Company will continue to disclose in its further annual reports the status of compliance to the Deed as reviewed by the Independent Board Committee.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as the information set out in the section headed "Compliance of Non-competition Undertakings", during the year ended 30 June 2016 and up to the date of this report, none of the Directors or controlling shareholder or any of their respective associates, had engaged in any business that competes or is likely to compete with the business of the Group, or has any other conflict of interest with the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 6 May 2013 and effective on the 16 May 2013 (the "Listing Date").

1. Purpose

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

2. Participants

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

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

The maximum number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Listing Date (i.e. a total of 27,200,000 shares). 27,200,000 shares representing approximately 9.06% of the issued shares of the Company as at the date of this annual report.

4. maximum entitlement of each participant

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

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

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

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

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

7. Basis of determining the subscription price

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

8. Life of the Share option Scheme

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

As at 30 June 2016, no option under the Share Option Scheme has been granted by the Company.

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

As at 30 June 2016, 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 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:

Long positions in the shares

Name of director	Company/name of associated company	Natural of interest	Number of securities	Approximate percentage of shareholding
Mr Zhu Gen Rong	The Company	Interest of a controlled corporation	205,927,000 shares (Note 1)	68.57%
		Beneficial owner	304,000 shares (Note 2)	0.10%
	Florescent Holdings Limited	Interest of a controlled corporation	7,790 shares (Note 3)	77.90%
	Lian Shun Limited	Beneficial interest	5,705,500 shares (Note 4)	61.31%
Mr Wang Ai Yan (Note 4)	The Company	Interest of a controlled corporation	205,927,000 shares (Note 5)	68.57%
	Florescent Holdings Limited	Interest of a controlled corporation	7,790 shares (Note 3)	77.90%
	Lian Shun Limited	Beneficial interest	1,930,000 shares (Note 4)	20.74%

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 61.31% by Mr Zhu Gen Rong. Mr Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited.

2. The 304,000 shares which Mr Zhu Gen Rong is interested in as beneficial owner.

3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited and as to 22.10% by Qunyu Limited.

4. 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.

5. 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 30 June 2016, 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.

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

As at 30 June 2016, 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/Natural of interest	Number of Shares directly or indirectly held	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owner	205,927,000	68.57%
Lian Shun Limited	Interest of a controlled corporation	205,927,000 (Note 1)	68.57%
Mr Zhu Gen Rong	Interest of a controlled corporation/Beneficial owner	206,231,000 (Note 2)	68.67%
Mr Wang Ai Yan	Interest of a controlled corporation	205,927,000 (Note 3)	68.57%
Mr Liu Chuan Jiang	Interest of a controlled corporation	205,927,000 (Note 4)	68.57%
Ms Zhu Ling Yun	Person acting in concert	205,927,000 (Note 5)	68.57%
Mr Fang Ankong	Beneficial owner	18,100,000 (Note 6)	6.03%

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. And include 304,000 shares which Mr Zhu is interested in as beneficial owner.

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 Gen Rong 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 Gen Rong under the Takeovers Code and is therefore deemed to be interested in the shares held by Florescent Holdings Limited.

5. 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.

6. Mr Fang An Kong is an individual investor and Mr Fang was interested in 18,100,000 shares.

Save as disclosed above, as at 30 June 2016, 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 30 June 2016 was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF THE COMPLIANCE ADVISER

As at 30 June 2016, 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.

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 auditor; 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, external auditor and internal auditor about the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the Group's consolidated financial statements for the year ended 30 June 2016.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing Rules.

Directors' Report

PERMITTED INDEMNITY PROVISION

At no time during the financial year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

AUDITORS

During the year, Pricewaterhouse Coopers resigned as auditors of the company and Ernst & Young were appionted by the Directors to fill the casual vacancy so arising.

Ernst & Young was appointed by the Directors as the auditor of the Company. Ernst & Young will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 30 June 2016 have been audited by Ernst & Young.

On behalf of the Board
Zhu Gen Rong
Chairman

Zhejiang, China
14 September 2016

Corporate Governance Report

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 year ended 30 June 2016.

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 year ended 30 June 2016 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. Board should ensure that changes to its composition can be managed without undue disruption. Board should include a balanced composition of Executive Directors and Independent Non-Executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment. As of the date of this annual report, the composition of the Board is as follows:

Executive Directors:	Mr Zhu Gen Rong (Chairman) Mr Wang Ai Yan (Chief Executive Officer) Mr Zhong Xin Gang Mr Jin Hao
Independent Non-executive Directors:	Ms Chen Jin Mei Mr Dai Tian Zhu Mr Kong Chi Mo

An updated list of directors and their role and functions is maintained at the websites of the Company and the Stock Exchange and the independent non-executive Directors are identified by name in all corporate communications.

Each independent non-executive Director has given an annual confirmation of his/her independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

RESPONSIBILITIES OF THE BOARD

All the directors (including the independent non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the Listing Rules and other applicable legal and regulatory requirements. Every director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

Apart from the Audit Committee, Remuneration Committee and Nomination Committee (as defined below), the Company did not set up any other board committees for dealing with any matters during the year.

The Company has in force appropriate insurance coverage on Director's and Officer's liabilities arising from the Group's business. The Company reviews the extent of insurance coverage on an annual basis.

THE ATTENDANCE OF MEETINGS OF THE BOARD

During the year, the Company held 4 regular Board meetings for the reviewing and approving the financial and operating performance of the Group. At least 14 days notice of regular Board meetings would be given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers would be sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents. The Chairman would also ensure that all directors are properly briefed on matters arising at board meetings.

Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes. The duly signed minutes are open for inspection by any director. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. The Board members are enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to discharge their duties. They are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

Details of the Director's attendance record in full meetings of the Board are as follows:

Name of Director	Meeting of the Board of Directors No. of Attendance by Directors/No. of Meetings	General meeting No. of Attendance by Directors/No. of Meetings
Mr Zhu Gen Rong (Chairman)	4/4	1/1
Mr Wang Ai Yan (Chief Executive Officer)	4/4	1/1
Mr Zhong Xin Gang	4/4	1/1
Mr Jin Hao	4/4	1/1
Ms Chen Jin Mei	4/4	1/1
Mr Dai Tian Zhu	4/4	1/1
Mr Kong Chi Mo	4/4	1/1

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. This corporate governance report has been reviewed by the Board in discharge of its corporate governance functions in compliance with the Code Provision D.3 of the Corporate Governance Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Zhu Gen Rong and Mr Wang Ai Yan is the Chairman and Chief Executive Officer of the Board of the Company, respectively and are responsible for the overall strategy planning and policy making of the Group.

The Chairman also takes the lead to ensure that the Board works effectively and acts in the best interest of the Company by encouraging the directors to make active contribution in Board's affairs and promoting a culture of openness and debate.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "Articles") provide that at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and that every director shall be subject to retirement by rotation at least once every 3 years.

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his/her independence and must provide an annual confirmation of his/her independence to the Company. Up to the date of this report, no independent non-executive director has served the Company more than 9 years.

PROFESSIONAL DEVELOPMENT

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. Directors also participate in continuous professional development programmes such as external seminars organized by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. Records of the training received by the respective directors are kept and updated by the company secretary of the Company.

The individual training record of each director received for the year ended 30 June 2016 is summarized below:

Name of director	Attending seminar(s)/ programme(s)/ conference(s) relevant to the business or directors' duties
Mr Zhu Gen Rong	✔
Mr Wang Ai Yan	✔
Mr Zhong Xin Gang	✔
Mr Jin Hao	✔
Ms Chen Jin Mei	✔
Mr Dai Tian Zhu	✔
Mr Kong Chi Mo	✔

All directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 6 May 2013 comprising 3 independent non-executive Directors namely, Mr Kong Chi Mo, Ms Chen Jin Mei and Mr Dai Tian Zhu. Mr Kong Chi Mo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee are available at the Company's website and on the website of the Stock Exchange.

The major roles and functions of the Audit Committee are to review and supervise the financial reporting process, financial controls, internal control and risk management system of the Company and to provide recommendations and advices to the Board on the appointment, re-appointment and removal of the external auditor as well as their terms of appointment.

In performing its duties in accordance with its terms of reference, the work to be performed by the Audit Committee includes:

(a) review and supervise the financial reporting process and internal control system of the Company and its subsidiaries;

(b) recommendation to the Board, for the approval by shareholders, of the re-appointment of external Auditor and approval of their remuneration;

(c) determination of the nature and scope of the audit; and

(d) review the financial statements for the relevant financial period and discuss corporate governance practice.

Draft and final versions of the minutes of the Audit Committee meetings will be sent to all committee members for their comment and records within a reasonable time after the meetings and the full minutes will be kept by the company secretary who is also the secretary of the Audit Committee.

The Audit Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

During the year, the Audit Committee reviewed the final and interim results of the Group as well as discussed with the management and/or the external auditors of the Group. In addition, the Audit Committee has reviewed external auditor's remuneration and internal control system for the year ended 30 June 2016 at the relevant meeting and recorded unanimous decisions.

The attendance of each Director at Audit Committee meetings as follows:

Name of Director	Audit Committee meeting No. of Attendance/ No. of Meetings
Mr Kong Chi Mo (Chairman)	4/4
Ms Chen Jin Mei	4/4
Mr Dai Tian Zhu	4/4

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors. Ms Chen Jin Mei is the chairlady of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The roles and functions of the Remuneration Committee include consulting the Chairman of the Board about their remuneration proposals for other executive directors, having the delegated responsibility to determine the specific remuneration packages of all executive directors of the Group and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of the non-executive Directors.

The Remuneration Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

During the year, the Remuneration Committee held one meeting. The Remuneration committee has reviewed and approved the remuneration package of the Executive Directors. Details of the directors' emolument are set out in note 8 to the financial statements.

The attendance of each Director at Remuneration Committee meetings as follows:

Name of Director	Remuneration Committee meeting No. of Attendance/ No. of Meetings
Ms Chen Jin Mei (Chairlady)	1/1
Mr Dai Tian Zhu	1/1
Mr Kong Chi Mo	1/1

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 6 May 2013 comprising the 3 independent non-executive directors and Mr Zhu Gen Rong. Mr Dai Tian Zhu is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of the Stock Exchange.

The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non- executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman. In considering the nomination of new directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in industrial automation systems and sludge treatment products and/or other professional areas.

The Nomination Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

One meeting was held during the year ended 30 June 2016. No change has been proposed to the structure, size and composition of the Board during the meeting and the committee had also confirmed the diversity of the Board.

The attendance of each Director at Nomination Committee meetings as follows:

Name of Director	Nomination Committee meeting No. of Attendance/ No. of Meetings
Mr Dai Tian Zhu (Chairman)	1/1
Mr Zhu Gen Rong	1/1
Ms Chen Jin Mei	1/1
Mr Kong Chi Mo	1/1

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company.

The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives as stated in the above. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 7 directors. One of them is woman. Three of the directors are independent non-executive directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibilities (as set out in the Independent Auditor's Report) for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditor about their reporting responsibility is set out in the Independent Auditor's Report.

Internal Control and Risk Management

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group as well as the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system includes a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

The Board reviews the effectiveness of the Group's material internal controls. Based on information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

AUDITORS' REMUNERATION

During the financial year ended 30 June 2016, the fees paid/payable to the Company's auditors are set out as follows:

Services rendered	**Fees paid/ payable** (HK$'000)
Annual audit services	662
Interim review services	662
	1,324

COMPANY SECRETARY

Mr Chan So Kuen was appointed as the Company Secretary on 28 February 2014. According to Rule 3.29 of the Listing Rules, an issuer's company secretary must take no less than 15 hours of relevant professional training in each financial year while Mr Chan has taken no less than 15 hours of relevant professional training in 2016.

The biographical details of Mr Chan are set out under the section headed "Biographical Details of Directors and Senior Management".

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

Any one or more members holding at the date of the deposit of the requisition not less than one- tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal office as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business at Unit No. 5A, 8th Floor, Tower 1, South Seas Centre, 75 Mody Road, Kowloon, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within twenty-one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

(a) At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company;

(b) At least 21 clear days' notice in writing (and not less than 20 business days) if calling for an annual general meeting or the proposal constitutes a special resolution of the Company in EGM.

Right to put enquiries to the board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by phone at (852) 3153 4985.

Right to put forward proposals at general meetings

There are no provisions allowing shareholders to purpose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 58 of the Company's Articles for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 85 of the Articles, no person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election as a director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual, interim reports, notices, announcements and circulars and the Company's website at www.hzeg.com.

During the year ended 30 June 2016, there had been no significant change in the Company's constitutional documents.

Independent auditors' report

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To the shareholders of Huazhang Technology Holding Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries set out on pages 49 to 116, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 30 June 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
14 September 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2016

	Notes	For the year ended 30 June 2016 HK$	2015 HK$
REVENUE	6	**393,779,048**	381,355,419
Cost of sales		**(296,634,140)**	(287,081,429)
Gross profit		**97,144,908**	94,273,990
Other income and gains	6	**4,055,860**	3,907,416
Selling and distribution expenses		**(10,315,091)**	(11,977,729)
Administrative expenses		**(37, 709,849)**	(30,793,452)
Research and development expenses		**(14,339,165)**	(16,052,036)
Other losses - net	8	**–**	(947,989)
OPERATING PROFIT		**38,836,663**	38,410,200
Finance income	11	**1,605,815**	1,682,320
Finance expense	11	**(281,218)**	(875,640)
Finance income - net	11	**1,324,597**	806,680
PROFIT BEFORE INCOME TAX		**40,161,260**	39,216,880
Income tax expense	12	**(7,498,418)**	(4,762,743)
PROFIT FOR THE YEAR		**32,662,842**	34,454,137
Attributable to:			
– Owners of the parent		**34,158,634**	34,454,137
– Non-controlling interests		**(1,495,792)**	–
		32,662,842	34,454,137
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		**(19,265,499)**	1,300,705
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(19,265,499)**	1,300,705
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13,397,343**	35,754,842
Attributable to:			
– Owners of the parent		**14,382,179**	35,754,842
– Non-controlling interests		**(984,836)**	–
		13,397,343	35,754,842
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	13		
– Basic earnings per share		**0.11**	0.13
– Diluted earnings per share		**0.11**	0.13

Consolidated Statement of Financial Position

30 June 2016

	Notes	As at 30 June 2016 HK$	2015 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	14	**51,670,182**	50,599,851
Investment properties	15	**7,735,476**	8,777,607
Prepaid land lease payments	16	**4,046,880**	4,519,007
Goodwill	5	**714,051**	–
Derivative financial instrument	5	**513,249**	–
Available-for-sale instrument	17	**–**	10,144,560
Deferred tax assets	23	**3,042,952**	3,737,117
Trade and other receivables	19	**25,433,210**	11,255,611
Prepayments	19	**275,057**	435,874
Total non-current assets		**93,431,057**	89,469,627
CURRENT ASSETS			
Inventories	18	**95,139,487**	70,968,562
Trade and other receivables	19	**283,017,964**	116,075,455
Prepayments	19	**28,778,659**	13,525,805
Pledged deposits	20	**27,560,333**	1,567,382
Cash and cash equivalents	20	**74,132,788**	46,940,520
Total current assets		**508,629,231**	249,077,724
CURRENT LIABILITIES			
Trade and other payables	21	**267,660,120**	101,864,038
Interest-bearing loans	22	**5,378,684**	22,000,000
Income tax payable		**4,786,422**	2,397,959
Total current liabilities		**277,825,226**	126,261,997
NET CURRENT ASSETS		**230,804,005**	122,815,727
TOTAL ASSETS LESS CURRENT LIABILITIES		**324,235,062**	212,285,354
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	**1,343,474**	389,594
Total non-current liabilities		**1,343,474**	389,594
NET ASSETS		**322,891,588**	211,895,760

Consolidated Statement of Financial Position

30 June 2016

	Notes	As at 30 June 2016 HK$	2015 HK$
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	**3,003,240**	2,720,000
Share premium	24	**135,568,655**	41,534,254
Other reserves	26	**54,670,611**	70,589,582
Retained earnings	26	**127,353,074**	97,051,924
		320,595,580	211,895,760
Non-controlling interests		**2,296,008**	–
TOTAL EQUITY		**322,891,588**	211,895,760

Approved on behalf of the board of directors.

Zhu Gen Rong
Director

Wang Ai Yan
Director

Consolidated Statement of Changes in Equity

Year ended 30 June 2016

	Notes	Attributable to owners of the parent						
		Share capital HK$	Share premium HK$	Other reserves HK$	Retained earnings HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
At 1 July 2015		2,720,000	41,534,254	70,589,582	97,051,924	211,895,760	–	211,895,760
Comprehensive income								
Profit for the year		–	–	–	34,158,634	34,158,634	(1,495,792)	32,662,842
Translation differences		–	–	(19,776,455)	–	(19,776,455)	510,956	(19,265,499)
Total comprehensive income		–	–	(19,776,455)	34,158,634	14,382,179	(984,836)	13,397,343
Issue of shares	24	330,000	116,262,927	–	–	116,592,927	–	116,592,927
Shares repurchased	24	(46,760)	(15,313,574)	–	–	(15,360,334)	–	(15,360,334)
Dividends paid	24	–	(6,914,952)	–	–	(6,914,952)	–	(6,914,952)
Acquisition of a subsidiary		–	–	–	–	–	3,280,844	3,280,844
Profit appropriation to statutory reserves		–	–	3,857,484	(3,857,484)	–	–	–
At 30 June 2016		3,003,240	135,568,655	54,670,611	127,353,074	320,595,580	2,296,008	322,891,588

	Notes	Attributable to owners of the parent						
		Share capital HK$	Share premium HK$	Other reserves HK$	Retained earnings HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
At 1 July 2014		2,720,000	61,934,254	64,604,279	67,282,385	196,540,918	–	196,540,918
Comprehensive income								
Profit for the year		–	–	–	34,454,137	34,454,137	–	34,454,137
Translation differences		–	–	1,300,705	–	1,300,705	–	1,300,705
Total comprehensive income		–	–	1,300,705	34,454,137	35,754,842	–	35,754,842
Transactions with onwners								
Dividends paid	24	–	(20,400,000)	–	–	(20,400,000)	–	(20,400,000)
Profit appropriation to statutory reserves		–	–	4,684,598	(4,684,598)	–	–	–
At 30 June 2015		2,720,000	41,534,254	70,589,582	97,051,924	211,895,760	–	211,895,760

Consolidated Statement of Cash Flows

Year ended 30 June 2016

	Notes	2016 HK$	2015 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**40,161,260**	39,216,880
Adjustments for:			
Finance income	10	**(1,605,815)**	(1,682,320)
Finance expense	10	**281,218**	875,640
Gain on disposal of available-for-sale investment	6	**(1,602,697)**	(52,011)
Depreciation of property, plant and equipment	14	**5,099,617**	4,247,117
Depreciation of investment properties	15	**374,132**	98,133
Amortisation of prepaid land lease payments	16	**126,350**	246,066
Impairment of trade receivables	19	**2,771,689**	1,873,258
Impairment of inventories	18	**917,398**	2,194,597
Gain on disposal of items of property, plant and equipment, net		**(50,176)**	–
		46,472,976	47,017,360
(Increase)/decrease in inventories		**(24,941,434)**	35,453,726
Increase in trade and other receivables		**(192,189,443)**	(24,271,935)
Increase/(decrease) in trade and other payables		**165,815,663**	(46,782,640)
Increase in pledged deposits		**(26,871,931)**	(610,157)
Cash (used in)/generated from operations		**(31,714,169)**	10,806,354
Income taxes paid		**(4,735,824)**	(8,569,909)
Net cash flows (used in)/generated from operating activities		**(36,449,993)**	2,236,445
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,734,522)**	(18,383,813)
Acquisition of a subsidiary	5	**(7,800,823)**	–
Proceeds from disposal of items of property, plant and equipment		**83,678**	–
Interest received		**1,587,149**	1,609,356
Cash paid for purchase of available-for-sale financial assets	17	**–**	(73,266,243)
Proceeds from disposal of available-for-sale financial assets	6, 17	**11,234,289**	63,212,565
Net cash flows generated/(used in) investing activities		**1,369,771**	(26,828,135)

Consolidated Statement of Cash Flows

Year ended 30 June 2016

	Notes	2016 HK$	2015 HK$
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placing,net	24	**116,592,927**	–
Shares repurchased	24	**(15,360,334)**	–
Repayment of loan from non-controlling shareholders		**(11,111,093)**	–
Repayment of loan from an independent third party		**(22,000,000)**	–
Loan from non-controlling of shareholders		**6,019,980**	–
Interest paid		**(1,019,643)**	–
Dividends paid to shareholders		**(6,914,952)**	(20,400,000)
Net cash flows generated from/(used in) financing activities		**66,206,885**	(20,400,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**31,126,663**	(44,991,690)
Cash and cash equivalents at beginning of year		**46,940,520**	91,859,246
Effect of foreign exchange rate changes, net		**(3,934,395)**	72,964
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**74,132,788**	46,940,520
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	20	**101,693,121**	48,507,902
Pledged deposits	20	**(27,560,333)**	(1,567,382)
Cash and cash equivalents as stated in the statement of cash flows		**74,132,788**	46,940,520

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

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of incorporation	Registered or authorised capital	Issued and fully paid share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhejiang Huazhang Technology Limited* ("Zhejiang Huazhang")	PRC, 19 July 2001	USD31,300,000 (2015) USD16,300,000	USD16,300,000 (2015) USD13,578,280	–	100%	Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales and other service
Huazhang Electric Holding Limited ("zhang Electric")	Hong Kong, 25 March 1993	HK$5,000,000	HK$3,000,002	–	100%	Investment holding and trade of electronic parts
Likwin Limited ("Likwin")	BVI, 8 June 2012	USD50,000	USD1	100%	–	Investment holding
Huazhang Technology (Hangzhou) Limited ("Huazhang Hangzhou")	PRC, 7 August 2014	RMB30,000,000	RMB11,000,000	–	100%	Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales and other services
Wuhan Wukong Control System Engineering Co., Ltd. ("Wukong")	PRC, 23 April 2001	RMB12,000,000	RMB12,000,000	–	70%	Wastewater treatment business

* Zhejiang Huazhang is registered as a wholly-foreign-owned enterprise under PRC law.

During the year, the Group acquired Wukong. Further details of this acquisition are included in note 5 to the financial statements.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirement of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 30 June 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) *(Continued)*

HKAS 16 *Property, Plant and Equipment and HKAS 38 Intangible Assets:* Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

HKAS 24 *Related Party Disclosures:* Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

HKFRS 3 *Business Combinations:* Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

HKFRS 13 *Fair Value Measurement:* Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

HKAS 40 *Investment Property:* Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instrument*[3]
Amendments to HKFRS 2	*Classification and measurement of Share-based Payment Transactions*[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to HKFRS 10 HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
HKFRS 16	*Leases*[4]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 7	*Disclosure Initiative*[2]
Amendments to HKAS 12	*Recognition on Deferred Tax Assets for unrealised losses*[2]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Amendments to HKFRS 15	*Revenue from Contracts with Customers (Clarification to HKFRS 15)*[3]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1. Effective for annual periods beginning on or after 1 January 2016
2. Effective for annual periods beginning on or after 1 January 2017
3. Effective for annual periods beginning on or after 1 January 2018
4. Effective for annual periods beginning on or after 1 January 2019
5. Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
6. No mandatory effective yet determined but available for adoption

Management is in the process of making an assessment of the impact of above new standards and amendments to standards on the financial statements of the Group in the initial application.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 July 2018. The Group is currently assessing the impact of the standard upon adoption.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. In June 2016, the HKICPA issued further amendments to HKFRS 15 to address certain implementation issues, relating to identification of a performance obligation, application guidance on principal versus agent and licenses of intellectual property; and to add two practical expedients to the transition requirement. The Group expects to adopt HKFRS 15 on 1 JanuaryJuly 2018. During the year ended 30 June 2016, the Group performed a preliminary assessment on and is currently assessing the impact of theHKFRS 15 upon adoption of HKFRS 15. .

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for the lessee and the lessor to a contract. For lessee, HKFRS 16 introduces a single accounting model for all leases, with certain exemptions, which requires lessees to recognise most leases on their statement of financial positions. For lessors, HKFRS 16 substantially carried forward the lessor accounting requirements in HKAS 17. The Group expects to adopt HKFRS 16 on 1 July 2019 and is currently assessing its impact upon adoption.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosures in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and profit or loss. The Group expects to adopt the amendments from 1 July 2016. The amendments are not expected to have any significant impact on the financial statements.

Amendments to HKAS 7 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are to be applied retrospectively.

Amendments to HKAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are to be applied retrospectively. On initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 July 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 30 June. 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination and goodwill *(Continued)*

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

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

Fair value measurement

The Group measures its available-for-sales investments and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Machinerie and vehicles	10%-25%
Furniture, fittings and equipment	20%

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment property, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at depreciated cost less accumulated impairment.

Depreciation of investment properties is calculated using the straight-line method to allocate cost to their residual value over their estimated useful lives of 15 to 34 years. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each statement of financial position date. The effects of any revision are included in profit or loss when the changes arise.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in profit or loss during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. If an item of property, plant and equipment becomes an investment property because its use has changed, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement or disclosure purposes.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, derivative financial instruments and available-for-sale investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance expense for loans and in other losses-net.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other losses-net in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing loans.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance expense in profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined using weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance expense in profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods
The Group manufactures and sells a range of industrial automation systems and sludge treatment products. Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually upon delivery of the products to the customer and completion of the installation and debugging (if required), and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Revenue from after-sales and other service
The Group is engaged in the provision of after-sales and other service to the existing industrial automation systems customers and sludge treatment products customers. Revenue from after-sales and other service are recognised in accounting period in which the services rendered.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(c) Construction contracts

A construction contract is defined by HKAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(d) Operating lease rental income

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

(e) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Retirement benefits

Pursuant to the relevant regulations, the Group's subsidiaries which operate in Mainland China participate in a local municipal government retirement benefit scheme, whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme mentioned above. Contributions under the scheme are charged to profit or loss as incurred. There are no provisions under the scheme whereby forfeited contributions may be used to reduce future contributions.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Dividend distribution to the owners of the Company is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the shareholders.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 30 June 2016 was HK$714,051 (2015: Nil). Further details are given in note 5.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Carrying values of non-current assets

Non-current assets, including prepaid land lease payments, investment properties and property, plant and equipment are carried at cost less accumulated amortisation/depreciation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the noncurrent assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Useful lives of property, plant, equipment and investment properties

The management determine the estimated useful lives and related depreciation charges for its property, plant, equipment and investment properties. This estimate is based on the historical experience of the actual useful lives of property, plant, equipment and investment properties of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. The management will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of trade receivables

Over 25% and 28% of the trade receivables were past due but not considered as impaired as at 30 June 2016 and 2015 respectively. The management estimates the provision of impairment of such receivables by assessing their recoverability individually with reference to their past repayment history as well as subsequent settlement status. Provisions are applied to these receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade receivables and impairment charge in the period in which such estimate has been changed.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each statement of financial position date.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Current and deferred income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

Warranty claims

The Group generally offers one to two years warranties for its products sold. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. However, in so far as the factors changes, the estimate of the associated expenses may be subject to revision from time to time.

Judgements

Revenue recognition

The Group manufactures and sells a range of industrial automation systems and sludge treatment products. Cash collection is in accordance with the milestone specified in each sales contract. Under respective contracts, the Group is obliged to design and manufacture the products, and complete the functional testing after the customer's whole production line including the Group's products has been installed, for which the duration of each contact fluctuated and may last over one year. As such, the revenue to be recognised in future periods maybe related to products delivered in earlier periods.

The Group determines whether a sales contract is sales of goods or qualifies as construction contract. In making its judgement, the Group considers whether the sales contract is specifically negotiated for construction of a product. If the major structural elements of the products are standard products designed by the Group with limited custom-built features based on the customer's requirements, revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually upon delivery of products to the customer and completion of the installation and debugging (if required), and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Otherwise, the sales contract qualifies as construction contract. Judgment is applied in determining whether the customers' specifications are limited and that a sales contract does not qualify as construction contract. The Group considers each sales contract separately in making its judgment.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Revenue recognition *(Continued)*

The Group uses the percentage-of-completion method in the accounting of a construction contract. Use of the percentage-of-completion method requires the Group to estimate the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs to completion for each contract. Where contract costs incurred to total estimated costs to completion differ by 10% from management's estimates, the amount of revenue recognised in the year would be increased or decreased by HK$ 19,884,461 if the proportion performed were increased or decreased.

4. OPERATING SEGMENT INFORMATION

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

(a) industrial automation systems and related projects;

(b) sludge treatment;

(c) after-sales and other services, and

(d) wastewater treatment business

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

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

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 30 June 2016	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Wastewater treatment business HK$	Total HK$
Segment revenue:					
Sales to external customers	289,656,700	37,787,899	48,299,972	18,034,477	393,779,048
Segment cost of sales	(218,715,306)	(25,125,922)	(35,647,056)	(17,145,856)	(296,634,140)
Segment gross profit	70,941,394	12,661,977	12,652,916	888,621	97,144,908
Segment results	49,931,182	5,003,025	12,093,573	(4,985,973)	62,041,807
Common administrative expenses					(27,619,163)
Other income and gains					4,055,860
Finance income-net					1,324,597
Profit before income tax					39,803,101
Income tax expense					(7,140,259)
Profit for the year					32,662,842

Other segment information:

	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Wastewater treatment business HK$	Unallocated HK$	Total HK$
Capital expenditure	2,463,443	459,391	–	–	969,357	3,892,191
Depreciation of property, plant and equipment	931,964	1,355,212	–	767	2,811,674	5,099,617
Amortisation of prepaid prepaid land lease payments	35,861	47,580	–	–	42,909	126,350
Gains on disposal of property, plant and equipment, net	–	–	–	–	50,176	50,176
Depreciation of investment properties	–	–	–	–	374,132	374,132

4. OPERATING SEGMENT INFORMATION *(Continued)*

The segment assets and liabilities as at 30 June 2016 are as follows:

	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Wastewater treatment business HK$	Unallocated HK$	Total HK$
Assets	329,626,378	84,520,457	8,012,304	43,070,768	136,830,381	602,060,288
Liabilities	214,882,558	24,572,187	2,448,762	20,259,002	17,006,191	279,168,700

Year ended 30 June 2015	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Total HK$
Segment revenue:				
Sales to external customers	281,954,394	63,947,627	35,453,398	381,355,419
Segment cost of sales	(218,113,246)	(46,358,309)	(22,609,874)	(287,081,429)
Segment gross profit	63,841,148	17,589,318	12,843,524	94,273,990
Segment results	41,818,505	11,021,761	12,395,861	65,236,127
Common administrative expenses				(29,785,354)
Other losses - net				(947,989)
Other income and gains				3,907,416
Finance income-net				806,680
Profit before income tax				39,216,880
Income tax expense				(4,762,743)
Profit for the year				34,454,137

4. OPERATING SEGMENT INFORMATION *(Continued)*

Other segment information:

	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Unallocated HK$	Total HK$
Capital expenditure	8,204,862	1,554,967	–	542,546	10,302,375
Depreciation of property, plant and equipment	1,825,517	739,250	–	1,682,350	4,247,117
Amortisation of prepaid prepaid land lease payments	135,350	58,216	–	52,500	246,066
Depreciation of investment properties	–	–	–	98,133	98,133

The segment assets and liabilities as at 30 June 2015 are as follows:

	Industrial automation systems and related projects HK$	Sludge treatment products HK$	After-sales and other services HK$	Unallocated HK$	Total HK$
Assets	179,845,344	58,667,294	6,673,377	93,361,336	338,547,351
Liabilities	67,077,865	23,572,185	4,094,333	31,907,208	126,651,591

Geographical information

No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and return.

Information about major customers

Revenues from top two customers of the industrial automation systems segment amounted to HK$116,014,847 (2015: HK$65,686,976) and HK$41,794,925 (2015: HK$47,505,374) each representing over 10% of the Group's total revenue for the year ended 30 June 2016.

5. BUSINESS COMBINATION

On 22 December 2015 (the "Completion Date"), the Group completed the acquisition of 70% of the equity interest (the "Acquisition") in Wuhan Wukong Control System Engineering Co., Ltd. ("Wukong"), an unlisted company in Mainland China. Wukong principally engaged in the business of design and construction of wastewater treatment facilities in the Mainland China as well as other construction and fixture installation projects and the ancillary services. The Acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Wukong for the period from the Completion Date to 30 June 2016.

5. BUSINESS COMBINATION *(Continued)*

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

	HK$
Inventories	6,493,722
Property, plant and equipment	6,537,387
Prepayments	2,219,785
Trade and other receivables	18,229,727
Cash and cash equivalents	194,962
Interest-bearing bank and other borrowings	(11,145,816)
Trade and other payables	(9,308,007)
Income tax payable	(995,036)
Deferred tax liabilities	(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	714,051
Derivative financial instruments	513,249
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	(7,995,785)
	(7,800,823)

The Group has elected to measure the non-controlling interest in Wukong at the non-controlling interest's proportionate share of Wukong's identifiable net assets.

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.

Since the Acquisition, Wukong contributed HK$18,034,477 to the Group's revenue and incurred a net loss of HK$4,985,973 for the year ended 30 June 2016.

5. BUSINESS COMBINATION *(Continued)*

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the net profit of the Group for the year would have been HK$407,957,925 and HK$33,583,062, respectively.

The Group's interim financial statements for the six months ended 31 December 2015 were based on a provisional assessment of the Acquisition with a provisional goodwill of HK$1,227,300 recognised in the interim condensed consolidated statement of financial position in accordance with HKFRS 3 (Revised) *Business Combinations*. After considering all the facts and circumstances, management completed the measurement of the goodwill, and revised the provisional goodwill recognised at the Completion date from HK$1,227,300 to HK$714,051 and recognized a derivative financial instruments at HK$513,249, representing a call option in which the Group has a right to acquire the shares from Wukong's non-controlling shareholders at a future date at a consideration with reference to future profits.

Impairment testing of goodwill and other non-current assets

Goodwill of the Group includes HK$714,051 arising from the acquisition of Wukong in 2015. No impairment was recognised for the year ended 30 June 2016.

Goodwill is allocated to the waste water treatment business cash-generating unit ("CGU") for impairment testing.

In 2016, the recoverable amount of the waste water business CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projection was 18% and cash flows beyond the five-year period were extrapolated using a growth rate of 3% which was less than the long term average growth rate of waste water business industry. Management determined budgeted growth rates based on past performance and its expectations of market development, taking into consideration of the Group's specific synergies and reflecting the Group's strategy and intention in operating the business.

Assumptions were used in the value in use calculation of the waste water business CGU for 30 June 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Management does not foresee any significant change in the key assumptions used in the value in use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

The Group performed its annual impairment test on 30 June 2016. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing the indicators of impairment. No indicators of impairment were noted during 2016.

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	For the year ended 30 June	
	2016	2015
	HK$	HK$
Revenue		
Industrial automation systems and related projects	**289,656,700**	281,954,394
Sludge treatment products	**37,787,899**	63,947,627
After-sales and other services	**48,299,972**	35,453,398
Wastewater treatment business	**18,034,477**	–
	393,779,048	381,355,419
Other income and gains		
Gain on disposal of available-for sale investment	**1,602,697**	–
Government grant	**325,442**	3,090,951
Other leasing income	**659,796**	458,566
Bidding service income	**538,619**	–
Scrap steel income	**247,073**	–
Others	**682,233**	357,899
	4,055,860	3,907,416

Government grant mainly consist of subsidy for encouragement of foreign investment in Mainland China. There are no unfulfilled conditions or contingencies attached to these grants.

7. PROFIT BEFORE TAX

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

	For the year ended 30 June 2016 HK$	2015 HK$
Raw materials used	**260,407,295**	241,424,238
Employee benefit expenses	**39,294,187**	42,025,170
Change in inventories of finished goods and work in progress (Note 18)	**17,013,533**	23,137,528
Travelling expenses	**6,514,997**	5,997,983
Depreciation of property, plant and equipment (Note 14)	**5,099,617**	4,247,117
Office expenses	**4,358,906**	3,608,748
Miscellaneous tax charges other than value added tax and income tax	**3,470,362**	2,779,944
Impairment of trade receivables (Note 20)	**2,771,689**	1,873,258
Transportation expenses	**2,418,722**	3,214,112
Professional service fees	**1,823,477**	2,110,263
Auditor's remuneration	**1,779,763**	1,885,387
Warranty expenses	**1,619,485**	4,040,790
Utilities	**1,409,041**	1,532,079

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$	2015 HK$
Fees	**240,000**	240,000
Other emoluments:		
Salaries, allowances and benefits in kind	**2,791,672**	2,745,366
Bonuses	**232,607**	239,871
Other benefits	**58,290**	36,855
	3,082,569	3,022,092
	3,322,569	3,262,092

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 HK$	2015 HK$
Mr Kong Chi Mo	**120,000**	120,000
Mr Dai Tian Zhu	**120,000**	120,000
Ms Chen Jin Mei	**–**	–
	240,000	240,000

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) Executive directors and the chief executive

Year ended 30 June 2016

	Fees HK$	**Salaries, allowances and benefits in kind HK$**	**Bonuses HK$**	**Other benefits HK$**	**Total remuneration HK$**
Executive Directors					
Mr Zhu Gen Rong (Chairman)	**–**	**1,020,189**	**84,280**	**17,213**	**1,121,682**
Mr Wang Ai Yan (Chief Executive Officer)	**–**	**962,398**	**79,464**	**17,213**	**1,059,075**
Mr Jin Hao	**–**	**476,782**	**31,864**	**12,257**	**520,903**
Mr Zhong Xin Gang	**–**	**332,303**	**36,999**	**11,607**	**380,909**
	–	**2,791,672**	**232,607**	**58,290**	**3,082,569**

Year ended 30 June 2015

	Fees HK$	Salaries, allowances and benefits in kind HK$	Bonuses HK$	Other benefits HK$	Total remuneration HK$
Executive Directors					
Mr Zhu Gen Rong (Chairman)	–	978,561	12,632	5,754	996,947
Mr Wang Ai Yan (Chief Executive Officer)	–	917,927	–	5,754	923,681
Mr Jin Hao	–	500,232	189,343	13,333	702,908
Mr Zhong Xin Gang	–	348,646	37,896	12,014	398,556
	–	2,745,366	239,871	36,855	3,022,092

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2015: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2015: two) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016 HK$	2015 HK$
Salaries, allowances and benefits in kind	**722,398**	1,357,927
Bonuses	**60,200**	138,425
Other benefits	**12,437**	13,333
	795,035	1,509,685

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
Nil to HK$1,000,000	**1**	2

For the years ended 30 June 2016 and 2015, no emoluments were paid by the Group to the five highest individuals as inducement to join or upon joining the Group or as compensation for loss of office.

10. FINANCE INCOME – NET

An analysis of finance income - net is as follows:

	2016 HK$	2015 HK$
Finance income		
– Interest income	**1,587,149**	1,609,356
– Exchange gain	**18,666**	72,964
	1,605,815	1,682,320
Finance expense		
– Interest expenses on loans	**(281,218)**	(875,640)
Finance income - net	**1,324,597**	806,680

11. INCOME TAX EXPENSE

	For the year ended 30 June	
	2016	2015
	HK$	HK$
Current – PRC		
Charge for the year	**7,384,350**	5,154,896
Deferred tax (Note 23)	**114,068**	(392,153)
Income tax expense	**7,498,418**	4,762,743

(i) Cayman Islands profits tax

The Company is not subject to profit tax in the Cayman Islands.

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the year ended 30 June 2016 (2015:Nil), as the Group had no taxable profits earned or derived in Hong Kong for the year.

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

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

Pursuant to the PRC Enterprise Income Tax Law (the "New EIT Law"), the EIT of companies established in the PRC is unified at 25%, effective from 1 January 2008.

Zhejiang Huazhang's applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, Zhejiang Huazhang had obtained the qualification of High and New Technology Enterprise in the calendar years of 2008, 2011 and 2014, with a validation period of three years each. The applicable EIT rate of Zhejiang Huazhang is 15% from 2008 till 2017, hence the applicable income tax rate of Zhejiang Huazhang was 15% for the year ended 30 June 2016 (2015: 15%). For Wukong, EIT is levied on 2% of the total revenue.

(iv) PRC withholding income tax

According to the new EIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company. The deferred tax liabilities in respect of the withholding tax on the unremitted earnings of the PRC subsidiaries are disclosed in Note 23.

11. INCOME TAX EXPENSE *(Continued)*

(iv) PRC withholding income tax *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	For the year ended 30 June	
	2016	2015
	HK$	HK$
Profit before tax	**40,161,260**	39,216,880
Income tax charge at the statutory income tax rate	**12,339,938**	10,195,825
Effect of preferential tax rate	**(4,526,535)**	(7,798,866)
Expenses not deductible for tax purposes	**120,490**	132,166
Super deduction for research and development expense	**(199,584)**	–
Tax losses not recognised	**–**	760,174
Re-measurement of deferred income tax	**(120,130)**	1,238,134
Adjustments in respect of current tax of previous periods	**67,071**	–
Effect of withholding tax on the expected distributable profits of the subsidiary in Mainland China	**(182,832)**	235,310
Tax charge for the year at the effective rate	**7,498,418**	4,762,743

12. DIVIDENDS

(i) Dividends attributable to the year

	For the year ended 30 June	
	2016	2015
	HK$	HK$
Interim – nil (2015: 2.5 HK cents) per ordinary share	**–**	6,800,000
Proposed final – 4.0 HK cents (2015: 2.3 HK cents) per ordinary share	**12,012,960**	7,015,000
	12,012,960	13,815,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. DIVIDENDS *(Continued)*

(ii) Dividends attributable to the previous financial year, approved and paid during the year:

	2016 HK$	2015 HK$
Final dividend in respect of the previous financial years, Approved and paid during the year, of 2.3 HK cents (2015: 5.0 HK cents) per share	**6,914,952**	13,600,000

A dividend in respect of the year ended 30 June 2016 of 4.0 HK cents per share, amounting to a total dividend of HK$12,012,960 based on the number of issued shares outstanding at that relevant time was proposed at the Board meeting on 14 September 2016. These financial statements do not reflect this dividend payable.

The aggregate amount of the dividends paid and proposed during the years ended 30 June 2016 and 2015 have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordinance.

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 299,768,607 (2015: 272,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 30 June 2016 and 2015.

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

	2016 HK$	2015 HK$
Earnings		
Profit attributable to owners of the parent, used in the basic and diluted earnings per share calculation:	**34,158,634**	34,454,137
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**299,768,607**	272,000,000
Basic and diluted earnings per share	**0.11**	0.13

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$	Machineries and vehicles HK$	Furniture fittings and equipment HK$	Total HK$
30 June 2016				
At 1 July 2015:				
Cost	54,157,938	11,519,257	8,698,825	74,376,020
Accumulated depreciation and impairment	(15,168,096)	(3,567,343)	(5,040,730)	(23,776,169)
Net carrying amount	38,989,842	7,951,914	3,658,095	50,599,851
Year ended 30 June 2016				
Opening net book amount	38,989,842	7,951,914	3,658,095	50,599,851
Additions	2,421,437	484,212	786,746	3,692,395
Additions resulting from acquisition of a subsidiary (Note 5)	5,748,840	781,397	7,150	6,537,387
Disposals	–	(33,502)	–	(33,502)
Depreciation provided during the year(Note 7)	(2,544,200)	(1,110,736)	(1,444,681)	(5,099,617)
Exchange realignment	(3,147,339)	(615,354)	(263,639)	(4,026,332)
At 30 June 2016, net of accumulated depreciation	41,468,580	7,457,931	2,743,671	51,670,182
At 30 June 2016:				
Cost	52,322,576	12,391,225	8,800,803	73,514,604
Accumulated depreciation	(10,853,996)	(4,933,294)	(6,057,132)	(21,844,422)
Net carrying amount	41,468,580	7,457,931	2,743,671	51,670,182

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings HK$	Machineries and vehicles HK$	Furniture fittings and equipment HK$	Construction in progress HK$	Total HK$
30 June 2015					
At 1 July 2014:					
Cost	34,372,402	9,798,861	7,264,743	12,189,489	63,625,495
Accumulated depreciation and impairment	(8,480,531)	(2,600,318)	(3,581,691)	–	(14,662,540)
Net carrying amount	25,891,871	7,198,543	3,683,052	12,189,489	48,962,955
Year ended 30 June 2015					
Opening net book amount	25,891,871	7,198,543	3,683,052	12,189,489	48,962,955
Additions	69,843	1,649,438	1,391,847	7,191,247	10,302,375
Transfers	19,414,098	–	–	(19,414,098)	–
Transfers to investment properties (Note 15)	(4,746,185)	–	–	–	(4,746,185)
Depreciation provided during the year (Note 7)	(1,860,048)	(946,240)	(1,440,829)	–	(4,247,117)
Exchange realignment	220,263	50,173	24,025	33,362	327,823
At 30 June 2015, net of accumulated depreciation	38,989,842	7,951,914	3,658,095	–	50,599,851
At 30 June 2015:					
Cost	54,157,938	11,519,257	8,698,825	–	74,376,020
Accumulated depreciation	(15,168,096)	(3,567,343)	(5,040,730)	–	(23,776,169)
Net carrying amount	38,989,842	7,951,914	3,658,095	–	50,599,851

As at 30 June 2016, buildings with an aggregate carrying amount of HK$32,934,408 were pledged as collateral for the Group`s banking facilities (Note 22) (2015: HK$15,974,584).

15. INVESTMENT PROPERTIES

The investment properties are located in the PRC and their net book values are analysed as follows:

	2016 HK$	2015 HK$
At beginning of year		
Cost	10,739,347	–
Accumulated amortisation	(1,961,740)	–
Net book amount	8,777,607	–
Opening net book amount	8,777,607	–
Transferred from property, plant and equipment (Note 14)	–	4,746,185
Transferred from prepaid land lease payment (Note 16)	–	4,095,922
Depreciation	(374,132)	(98,133)
Foreign exchange difference	(667,999)	33,633
Closing net book amount	7,735,476	8,777,607
At end of year		
Cost	10,739,347	10,739,347
Accumulated amortisation	(3,003,871)	(1,961,740)
Net book amount	7,735,476	8,777,607

As at 30 June 2016, the fair value of the investment property was approximately HK$14,840,000 (2015: HK$14,270,000). The valuation is made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate. The fair value of investment properties was measured on Level 3 fair value measurement.

Amounts recognised in profit or loss for investment properties included:

	2016 HK$	2015 HK$
Rental income	659,797	151,707
Depreciation of investment properties charged to profit or loss	(374,132)	(98,133)
	285,665	53,574

As at 30 June 2016, investment properties with an aggregate carrying amount of HK$7,735,476 were pledged as collateral for the Group's banking facilities (2015: Nil).

As at 30 June 2016, the Group had no significant contractual obligations for future repairs and maintenance of the investment properties (2015: Nil).

16. PREPAID LAND LEASE PAYMENTS

	2016 HK$	2015 HK$
Carrying amount as at 1 July 2015	**4,519,007**	8,819,541
Recognised during the year	**(126,350)**	(246,066)
Transferred to investment properties(Note 15)	**–**	(4,095,922)
Foreign exchange difference	**(345,777)**	41,454
Carrying amount as at 30 June 2016	**4,046,880**	4,519,007

As at 30 June 2016, prepaid land lease payments with an aggregate carrying amount of HK$4,046,880 were pledged as collateral for the Group`s banking facilities (Note 22)(2015: HK$2,579,084).

17. AVAILABLE-FOR-SALE INVESTMENT

	2016 HK$	2015 HK$
As at 30 June	**10,144,560**	–
Additions	**–**	73,266,243
Disposals	**(9,631,592)**	(63,160,554)
Foreign exchange difference	**(512,968)**	38,871
	–	10,144,560

Available-for-sale financial assets including the following:

	2016 HK$	2015 HK$
Unlisted equity interests	**–**	10,144,560

The Group disposed of the investment in the unlisted equity interest in May 2016.

18. INVENTORIES

	2016 HK$	2015 HK$
Raw materials	**27,281,050**	20,123,658
Work in progress	**31,721,055**	36,487,473
Finished goods	**36,137,382**	14,357,431
	95,139,487	70,968,562

18. INVENTORIES *(Continued)*

Movements on the Group's provision for write-down of inventories are as follows:

	2016 HK$	2015 HK$
At 1 July	**6,289,512**	4,059,704
Provision for write-down of inventories	**917,398**	2,194,597
Foreign exchange difference	**(512,080)**	35,211
At 30 June	**6,694,830**	6,289,512

As at 30 June 2016, raw materials with a cost of HK$10,223,626 were considered as obsolete (2015: HK$12,420,463) and a provision of HK$6,694,830 (2015: HK$ 6,289,512) to write down to their net realisable value was made. The Group made an additional provision for inventory write-down of HK$917,398 (2015: HK$2,194,597) for the year ended 30 June 2016. The amount charged has been included in 'cost of sales' in profit or loss.

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(i) Trade and other receivables

	As at 30 June	
	2016 HK$	2015 HK$
Warranty receivables (a)	**29,248,150**	23,433,385
Amounts due from contract customers (b)	**71,787,099**	8,405,791
Other trade receivables (c)	**166,629,682**	62,642,301
	267,664,931	94,481,477
Less:provision for impairment of trade receivables (d)	**(8,060,303)**	(6,464,571)
Trade receivables-net	**259,604,628**	88,016,906
Bills receivables (e)	**30,291,511**	2,993,275
Trade and bills receivables	**289,896,139**	91,010,181
Other receivables due from a related party (Note 28)	**20,393**	63,403
Other receivables – performance guarantee	**8,039,115**	26,472,451
Others	**10,495,527**	9,785,031
	18,555,035	36,320,885
Total trade and other receivables	**308,451,174**	127,331,066
Less:trade receivables-non-current portion	**(25,433,210)**	(11,255,611)
	283,017,964	116,075,455

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

	As at 30 June	
	2016	2015
	HK$	HK$
Up to 3 months	**9,232,342**	3,780,256
3 months to 6 months	**1,858,494**	1,425,813
6 months to 1 year	**2,977,775**	4,475,914
1 year to 2 years	**6,536,929**	7,189,013
Over 2 years	**8,642,610**	6,562,389
	29,248,150	23,433,385

(b) Amounts due from contract customers at the date of the statement of financial position are as follows:

	For the year ended 30 June	
	2016	2015
	HK$	HK$
Cost incurred	**133,345,501**	12,991,022
Recognised profits	**39,986,862**	1,445,974
	173,332,363	14,436,996
Less: progress billings	**(96,802,729)**	(6,086,736)
Foreign exchange difference	**(4,742,535)**	55,531
	71,787,099	8,405,791
Represented by:		
Amounts due from contract customers	**71,787,099**	8,405,791

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

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

	As at 30 June	
	2016	2015
	HK$	HK$
Other trade receivables		
Up to 3 months	**66,916,356**	19,278,531
3 months to 6 months	**57,790,282**	26,959,292
6 months to 1 year	**11,574,277**	8,318,339
1 year to 2 years	**25,953,465**	5,915,126
Over 2 years	**4,395,302**	2,171,013
	166,629,682	62,642,301

(d) Movements on the Group’s provision for impairment of trade receivables
The aged analysis of the warranty and other trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 30 June	
	2016	2015
	HK$	HK$
Neither past due nor impaired	**138,304,607**	55,919,806
Past due but not impaired	**49,512,922**	23,691,309
	187,817,529	79,611,115

Receivables that were neither past due nor impaired are mainly relate to few customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

(d) Movements on the Group's provision for impairment of trade receivables *(Continued)*

The movements in provision for impairment of trade receivables are as follows:

	For the year ended 30 June	
	2016	2015
	HK$	HK$
At beginning of the year	**6,464,571**	6,722,075
Impairment losses recognised (Note 7)	**2,771,689**	1,873,258
Amounts written off as uncollectible	**(622,135)**	(2,173,930)
Foreign exchange difference	**(553,822)**	43,168
	8,060,303	6,464,571

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$8,060,303 (2015: HK$6,464,571) with a carrying amount before provision of HK$8,060,303 (2015: HK$6,464,571).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

	As at 30 June	
	2016	2015
	HK$	HK$
1 year to 2 years	**2,935,938**	2,752,252
Over 2 years	**5,124,365**	3,712,319
	8,060,303	6,464,571

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

(i) Trade and other receivables *(Continued)*

(e) Bills receivables

Transfer of financial assets that are not derecognised in their entirety

At 30 June 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of HK$19,225,558 to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, 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 aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was HK$19,225,558 as at June 2016.

The Group keeps monitoring the default risk of endorsed bills and as of 30 June 2016, all endorsed bills became mature except for the amount retained on the book totalling HK$19,225,558 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 30 June 2016, the Group endorsed certain bills receivables 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$34,919,452. 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"). In the opinion of the directors, 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. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 30 June 2016, 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.

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

(ii) Prepayments

	As at 30 June 2016 HK$	2015 HK$
Prepayments for raw materials	**28,171,543**	13,449,138
Others	**882,173**	512,541
Total prepayments	**29,053,716**	13,961,679
Less: prepayments-non-current portion	**(275,057)**	(435,874)
	28,778,659	13,525,805

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 HK$	2015 HK$
Cash at banks and on hand	**101,693,121**	48,507,902
Less: pledged deposits	**(27,560,333)**	(1,567,382)
Cash and cash equivalents	**74,132,788**	46,940,520

(a) The pledged deposits represent cash set aside as deposits for issuance of trade facilities such as bills payable and letters of credit.

(b) Cash and cash equivalents are denominated in the following currencies:

	2016 HK$	2015 HK$
RMB	**59,540,034**	44,716,024
HK$	**13,956,036**	1,587,854
USD	**636,718**	636,642
	74,132,788	46,940,520

21. TRADE AND OTHER PAYABLES

	As at 30 June 2016 HK$	2015 HK$
Trade payables	103,353,328	35,556,594
Construction payables	–	3,601,917
Bills payables	65,964,762	4,230,145
	169,318,090	43,388,656
Other taxes payables	1,770,044	1,567,450
Employee benefit payables	5,366,738	3,170,175
Advances from customers	70,123,773	47,056,346
Provision for warranty expenses	805,987	2,060,749
Payables for property, plant and equipment	127,531	169,658
Amount due to non-controlling shareholders (note 28)	738,426	–
Others	19,409,531	4,451,004
	98,342,030	58,475,382
	267,660,120	101,864,038

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

	As at 30 June 2016 HK$	2015 HK$
Up to 3 months	62,685,970	24,994,445
3 months to 6 months	23,852,600	1,357,662
6 months to 1 year	12,225,152	7,194,635
1 year to 2 years	3,292,049	1,539,382
Over 2 years	1,297,557	470,470
	103,353,328	35,556,594

22. INTEREST-BEARING LOANS

	2016 HK$	2015 HK$
Loan from non-controlling shareholders (Note 28)	**5,378,684**	–
Loan from an independent third party	**–**	22,000,000
	5,378,684	22,000,000

As at 30 June 2016, the Group's borrowings amounting to approximately HK$5,378,684 (30 June 2015: HK$22,000,000) will be repayable within 1 year. Such borrowings are all denominated in RMB, and bear interest 7.2% per annum (30 June 2015: denominated in HK$ and 3.6% per annum).

As at 30 June 2016, the banking facilities granted by the bank was secured by property, plant and equipment, prepaid land lease payments and investment properties of the Group amounting to approximately HK$32,934,000, HK$4,047,000 and HK$7,735,000 respectively (30 June 2015: HK$15,975,000, HK$2,579,000 and nil respectively).

As at 30 June 2016, the Group had the following unutilised banking facilities:

	2016 HK$	2015 HK$
Authorised banking facilities - expiring within three years	**113,232,008**	63,403,500
Less: utilised banking facilities	**(59,902,010)**	(11,429,622)
	53,329,998	51,973,878

23. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred taxes related to the same tax authority.

The movements on deferred income tax assets and liabilities during the year were as follows:

	Deferred tax assets				
	Provision for warranty expense HK$	**Provision for impairment** HK$	**Provision for deductible losses** HK$	**Provision for accrual expense** HK$	**Total** HK$
At 1 July 2015	309,111	1,913,112	1,355,528	159,366	3,737,117
Credited/(charged) to profit or loss	(169,087)	384,647	(481,277)	(151,313)	(417,030)
Foreign exchange difference	(19,125)	(158,740)	(91,217)	(8,053)	(277,135)
At 30 June 2016	120,899	2,139,019	783,034	–	3,042,952
At 1 July 2014	391,441	2,695,445	–	–	3,086,886
Credited/(charged) to profit or loss	(84,585)	(797,041)	1,350,334	158,755	627,463
Foreign exchange difference	2,255	14,708	5,194	611	22,768
At 30 June 2015	309,111	1,913,112	1,355,528	159,366	3,737,117

	Deferred tax liabilities		
	Withholding tax on unremitted earnings of Zhejiang Huazhang HK$	**Fair value adjustments arising from acquisition of subsidiary** HK$	**Total** HK$
At 1 July 2015	(389,594)	–	(389,594)
Acquisition of subsidiary	–	(1,298,395)	(1,298,395)
Deferred tax charged to profit or loss during the year	182,832	120,130	(302,962)
Foreign exchange difference	6,762	34,791	41,553
At 30 June 2016	(200,000)	(1,143,474)	(1,343,474)
At 1 July 2014	(1,360,000)	–	(1,360,000)
Payments	1,212,478	–	1,212,478
Deferred tax charged to profit or loss during the year	(235,310)	–	(235,310)
Foreign exchange difference	(6,762)	–	(6,762)
At 30 June 2015	(389,594)	–	(389,594)

24. SHARE CAPITAL AND PREMIUM

	2016 HK$	2015 HK$
Issued and fully paid:		
300,324,000 (2015: 272,000,000) ordinary shares	**3,003,240**	2,720,000

A summary of movements in the Company's share capital is as follows:

	Number of issued shares	Ordinary shares HK$	Share premium HK$	Total HK$
At 1 July 2015	272,000,000	2,720,000	41,534,254	44,254,254
Issue of shares (i)	33,000,000	330,000	116,262,927	116,592,927
Shares repurchased (ii)	(4,676,000)	(46,760)	(15,313,574)	(15,360,334)
Dividends (iii)	–	–	(6,914,952)	(6,914,952)
At 30 June 2016	300,324,000	3,003,240	135,568,655	138,571,895
At 1 July 2014	272,000,000	2,720,000	61,934,254	64,654,254
Dividends (iii)	–	–	(20,400,000)	(20,400,000)
At 30 June 2015	272,000,000	2,720,000	41,534,254	44,254,254

(i) On 21 July 2016, the Company issued 33,000,000 new ordinary shares (with an aggregate nominal value of HK$330,000) to Florescent Holdings Limited ("Florescent"), the controlling shareholder of the Company, at an issue price of HK$3.60 per share. The Company raised approximately HK$118,800,000 (net of directly attributable expense of approximately HK$116,593,000).

(ii) The Company purchased 4,676,000 of its shares on the Hong Kong Stock Exchange for a total consideration of HK$15,360,000 which was paid wholly out of share premium. The purchased shares were cancelled during the year and the total amount paid for the purchase of the shares of HK$15,313,574 has been charged to share premium of the Company.

(iii) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, the 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. Details of dividends are set out in Note 12.

25. RETAINED EARNINGS

	2016 HK$	2015 HK$
At 1 July 2015	**97,051,924**	67,282,385
Profit for the year	**34,158,634**	34,454,137
Appropriation to statutory reserves (Note 26)	**(3,857,484)**	(4,684,598)
At 30 June 2016	**127,353,074**	97,051,924

26. OTHER RESERVES

	Reorganisation reserves HK$	**Merger reserves** HK$	**Statutory reserves** HK$	**Translation reserves** HK$	**Total** HK$
At 1 July 2015	3,000,000	40,424,773	13,259,599	13,905,210	70,589,582
Translation differences	–	–	–	(19,776,455)	(19,776,455)
Appropriation to statutory reserves	–	–	3,857,484	–	3,857,484
At 30 June 2016	3,000,000	40,424,773	17,117,083	(5,871,245)	54,670,611
At 1 July 2014	3,000,000	40,424,773	8,575,001	12,604,505	64,604,279
Translation differences	–	–	–	1,300,705	1,300,705
Appropriation to statutory reserves	–	–	4,684,598	–	4,684,598
At 30 June 2015	3,000,000	40,424,773	13,259,599	13,905,210	70,589,582

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The future minimum lease receivables under non-cancellable operating leases as at 30 June 2016 and 30 June 2015 are summarised as follows:

	2016 HK$	2015 HK$
No later than 1 year	**447,221**	411,979
Later than 1 year and no later than 5 years	**462,453**	865,155
	909,674	1,277,134

27. OPERATING LEASE ARRANGEMENT *(Continued)*

(b) As lessee

The Group leases a warehouse, an office and motor vehicles under non-cancellable operating leases 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 leases as at 30 June 2016 and 30 June 2015 are summarised as follows:

	2016 **HK$**	2015 HK$
No later than 1 year	**1,434,712**	1,539,637
Later than 1 year and no later than 5 years	**2,085,044**	2,776,674
	3,519,756	4,316,311

28. 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 years ended 30 June 2016 and 30 June 2015,and balances arising from related party transactions as at 30 June 2016 and 30 June 2015.

(a) Name and relationship with related parties

Company name	**Relationships**
Mr Zhu Gen Rong ("Mr Zhu") (i)	Person acting in concert, chairman of the Company
Mr Wang Ai Yan ("Mr Wang") (i)	Person acting in concert
Mr Liu Chuan Jiang ("Mr Liu") (i)	Person acting in concert
Mr Zhu Genyi	Brother of Mr Zhu
Mr Tang Zhi Chao	Key management
Mr Zhong Xin Gang	Key management
Mr Jin Hao	Key management
Mr Chen So Kuen	Key management
Huazhang Overseas Holding, Inc. ("Huazhang Overseas")	The former parent company, controlled by the Controlling Shareholders
Mr Ma Dai Yong, Mr He Jun Min	Non-controlling shareholders of Wukong, one of the subsidiaries under the Group

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

On 8 November 2015, Ms Zhu Ling Yun ("Ms Zhu") sold her 7.52% interests in Lian Shun to Mr Zhu at a cash consideration of approximately RMB 30.3 million. Accordingly, Ms Zhu has ceased to hold any share or interest in Lian Shun. As the Company has not yet obtained confirmation from the executive director of the Corporate Finance Division of the Securities and Futures Commission 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, Mr Zhu, Mr Wang, Mr Liu and Ms Zhu will remain as a group of parties acting in concert within the meaning of the Takeovers Code.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

	2016 HK$	2015 HK$
Key management compensation		
– Salaries	**4,330,789**	4,330,670
– Bonuses	**472,575**	386,191
– Other benefits	**100,478**	62,202
	4,903,842	4,779,063
Interest expense to non-controlling shareholders	**91,731**	–

(c) Balances with related parties

(i) Due from related parties (note 19):

	2016 HK$	2015 HK$
Mr Zhu Gen Yi		
– Included in other receivables	**20,393**	63,403

The receivables from related parties as at 30 June 2016 and 30 June 2015 arise mainly from ordinary course of business.

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:

	2016 HK$	2015 HK$
Loan from non-controlling shareholders (note 22)	**5,378,684**	–
Amount due to non-controlling shareholders (note 21)	**738,426**	–
	6,117,110	–

The loan was borrowed from Mr Ma Dai Yong and Mr He Jun Min, the non-controlling shareholders of Wukong, one of the subsidiaries under the Group. The loan was borrowed in April, 2016 with an interest rate of 0.6% per month and repayable within one year.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

Financial assets	**Loans and receivables HK$**	**Derivative financial instruments HK$**	**Total HK$**
Trade and bills receivables (Note 19)	**308,451,174**	**–**	**308,451,174**
Derivative financial instruments (Note 5)	**–**	**513,249**	**513,249**
Pledged deposits (Note 20)	**27,560,333**	**–**	**27,560,333**
Cash and bank balances (Note 20)	**74,132,788**	**–**	**74,132,788**
Total	**410,144,295**	**513,249**	**410,657,544**

Financial liabilities	**Financial liabilities measured at amortised cost HK$**
Interest-bearing loans (Note 22)	**5,378,684**
Trade and bills payables (Note 21)	**169,318,090**
Financial liabilities included in other payables (Note 21)	**20,275,488**
Total	**194,972,262**

2015

Financial assets	Loans and receivables HK$	Available-for-sale financial assets HK$	Total HK$
Available-for-sale investment (Note 17)	–	10,144,560	10,144,560
Trade and bills receivables (Note 19)	127,331,066	–	127,331,066
Pledged deposits (Note 20)	1,567,382	–	1,567,382
Cash and bank balances (Note 20)	46,940,520	–	46,940,520
Total	175,838,968	10,144,560	185,983,528

29. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities	Financial liabilities measured at amortised cost HK$
Interest-bearing loans (Note 22)	22,000,000
Trade and bills payables (Note 21)	43,388,656
Financial liabilities included in other payables (Note 21)	4,620,662
Total	70,009,318

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's other financial assets (including trade and other receivables, available-for-sale financial assets, cash and cash equivalents and restricted cash) and short term liabilities (including trade and other payables and short term loans) are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Derivative financial instruments derived from the business combination (note 5) are measured using valuation techniques and the carrying amounts of derivative financial instruments are the same as their fair values.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2016:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value of the input HK$
Derivative financial instruments	Monte Carlo Simulation	Estimated standard deviation of equity value	39.96%-42.56%	0.2% increase (decrease) in estimated standard deviation of equity value would result in increase (decrease) in fair value by HK$6,000
		Growth rate	2%-4%	1% increase (decrease) in growth rate would result in increase (decrease) in fair value by HK$41,000
		Risk free rate	1.6%-2.1%	0.5% increase (decrease) in risk free rate would result in decrease (increase) in fair value by HK$23,000

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2016

	Fair value measurement using Quoted prices in active markets (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Derivative financial instruments	–	–	513,249	513,249

As at 30 June 2015

	Fair value measurement using Quoted prices in active markets (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Available-for-sale investment:				
Equity investments	10,144,560	–	–	10,144,560

The movements in fair value measurements within Level 3 during the year are as follows:

	2016 HK$	2015 HK$
Derivative financial instruments		
At 1 July 2015	–	–
Additions	513,249	–
At 30 June 2016	513,249	–

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives financial instrument, comprise interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivative financial instruments are set out in note 2.4 to the financial statements.

Foreign currency risk

The functional currency of the Company and most of its subsidiaries, except for Zhejiang Huazhang, Huazhang Hangzhou and Wuhan Wukong is HK$, since the companies other than Zhejiang Huazhang, Huazhang Hangzhou and Wuhan Wukong are investment holding companies and their operation, financing and dividend income are primarily denominated in HK$. The functional currency of Zhejiang Huazhang, Huazhang Hangzhou and Wuhan Wukong is Renminbi ("RMB"), since the majority of Zhejiang Huazhang, Huazhang Hangzhou and Wuhan Wukong's revenue is derived from operations in Mainland China.

The Group has not entered into any hedging trasnactions to manage the potential fluctuation in foreign currencies.

The results and financial positions of Zhejiang Huazhang, Huazhang Hangzhou and Wuhan Wukong are translated from the functional currency of RMB into the presentation currency HK$. All resulting exchange differences are recognised as comprehensive income in equity.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in RMB rate %	**Increase/ (decrease) in equity HK$**
2016		
If the Hong Kong dollar weakens against the RMB	**5%**	**(17,136,752)**
If the Hong Kong dollar strengthens against the RMB	**(5%)**	**17,136,752**

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in equity HK$
2015		
If the Hong Kong dollar weakens against the RMB	5%	(12,405,715)
If the Hong Kong dollar strengthens against the RMB	(5%)	12,405,715

* Excluding retained profits

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

Credit risk arises from cash and cash equivalents, restricted cash and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

The Group usually requires a down payment of approximately 10 % to 30% of the total contract value to be paid upon signing the relevant contract or within 30 days from the date of the contract; up to approximately 90% to 95% of the contract sum upon delivery; and the remaining 5% to 10% of the contract value will normally be payable upon the expiry of the warranty period (which is usually for a period of 18 months from the date of delivery or 12 months after completion of on-site testing whichever is earlier). In this connection, the Group's credit risk in respect of trade and other receivables is limited as we are entitled to receive up to approximately 90% to 95% of the contract sum upon delivery.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by maintaining an adequate amount of cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$	Total HK$
As at 30 June 2016				
Interest-bearing loans	6,117,109	–	–	6,117,109
Trade and other payables	189,593,578	–	–	189,593,578
	195,710,687	–	–	195,710,687
As at 30 June 2015				
Interest-bearing loans	22,047,737	–	–	22,047,737
Trade and other payables	48,009,318	–	–	48,009,318
	70,057,055	–	–	70,057,055

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt refers to total 'borrowings' as shown in the consolidated statement of financial position. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position plus total debt.

During the years ended 30 June 2016 and 2015, the Group's strategy was to maintain the gearing ratio below 50%. The gearing ratios at 30 June 2016 and 2015 were as follows:

	2016 HK$	2015 HK$
Total debt – total interest-bearing loans (Note 22) (a)	**5,378,684**	22,000,000
Total equity	**322,891,588**	211,895,760
Total capital (b)	**328,270,272**	233,895,760
Gearing ratio ((a)/(b))	**1.6%**	9.4%

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK$	2015 HK$
NON-CURRENT ASSETS		
Investments in subsidiaries	**90,017,008**	66,697,008
Total non-current assets	**90,017,008**	66,697,008
CURRENT ASSETS		
Other receivables	**59,845,178**	601,000
Prepayments	**72,500**	76,666
Cash and cash equivalents	**11,068,564**	507,247
Total current assets	**70,986,242**	1,184,913

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2016 HK$	2015 HK$
CURRENT LIABILITIES		
Other payables and accruals	**7,567,110**	7,948,942
Total current liabilities	**7,567,110**	7,948,942
NET CURRENT ASSETS/(LIABILITIES)	**63,419,132**	(6,764,029)
TOTAL ASSETS LESS CURRENT LIABILITIES	**153,436,140**	59,932,979
Net assets	**153,436,140**	59,932,979
EQUITY		
Share capital	**3,003,240**	2,720,000
Share premium	**135,568,655**	41,534,254
Retained earnings	**14,864,245**	15,678,725
Total equity	**153,436,140**	59,932,979

33. EVENTS AFTER THE REPORTING PERIOD

Proposed bonus shares issue

The Directors proposed a bonus issue of shares on the basis of one bonus share for every one existing share held by shareholders whose names appear on the register of members of the Company on 21 November 2016. The relevant resolution will be proposed in the forthcoming annual general meeting of the Company, and if passed and upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in such new shares, share certificates for the bonus shares will be dispatched to Shareholders on or around 25 November 2016.

The bonus shares will rank pari passu in all respects with the existing shares in issue from the date of issue except that they will not rank for the final dividend in respect of the year ended 30 June 2016.

Save as disclosed above, subsequent to the date of approval of the financial statements, no material subsequent event requiring disclosure occurred.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 September 2016.