华章科技
HUAZHANG TECHNOLOGY

華 章 科 技 控 股 有 限 公 司
Huazhang Technology Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8276

LISTING BY WAY OF PLACING

Sole Sponsor

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Bookrunner and Sole Lead Manager

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

IMPORTANT

If you are in any doubt about the contents of this prospectus, you should obtain independent professional advice.

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

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LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

Number of Placing Shares	**:**	**68,000,000 Shares (Subject to the Offer Size Adjustment Option)**
Placing Price	**:**	**HK$1.20 per Placing Share (payable in full on application, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**8276**

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representations as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors should note that the Underwriters are entitled to terminate its obligations under the Underwriting Agreement by notice in writing to be given by the Sole Lead Manager (on behalf of the Underwriters) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of these termination provisions are set out under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus. Prospective investors should refer to that section for further details.

9 May 2013

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Companies listed on GEM are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to GEM website in order to obtain up-to-date information on companies listed on GEM.

Announcement of the level of indication of interest in the Placing to be published on the GEM website at **www.hkgem.com** and our Company's website at **www.hzeg.com** on or before	Wednesday, 15 May 2013
Allotment of the Placing Shares to placees on or before	Wednesday, 15 May 2013
Deposit of share certificates for Placing Shares into CCASS on or before *(Note 2)*	Wednesday, 15 May 2013
Dealings in Shares on GEM expected to commence at 9:00 a.m. on	Thursday, 16 May 2013

Notes:

1. All times and dates refer to Hong Kong local time and dates.

2. The share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited in CCASS on or about Wednesday, 15 May 2013 for credit to the relevant CCASS participants' or CCASS investor participants' stock accounts designated by the Sole Lead Manager (for itself and on behalf of the Underwriters), the placees or their respective agents (as the case may be). No temporary document or evidence of title will be issued by our Company. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

3. If there is any change to the above expected timetable, our Company will make an appropriate announcement on the GEM website at **www.hkgem.com** and on our Company's website at **www.hzeg.com**.

Please refer to the section headed "Structure and conditions of the Placing" in this prospectus for details of the structure of the Placing.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus pursuant to the Placing. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a Placing of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Sole Lead Manager, the Sole Bookrunner, any of the Underwriters, any of their respective directors, or any other person involved in the Placing. The contents of our Company's website of **www.hzeg.com** do not form part of this prospectus.

CONTENTS

Page

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information which may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares. There are risks associated with any investment. Some of the particular risks of investing in the Placing Shares are summarised in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares. Various expressions used in this summary are defined in the sections headed "Definitions" in this prospectus.

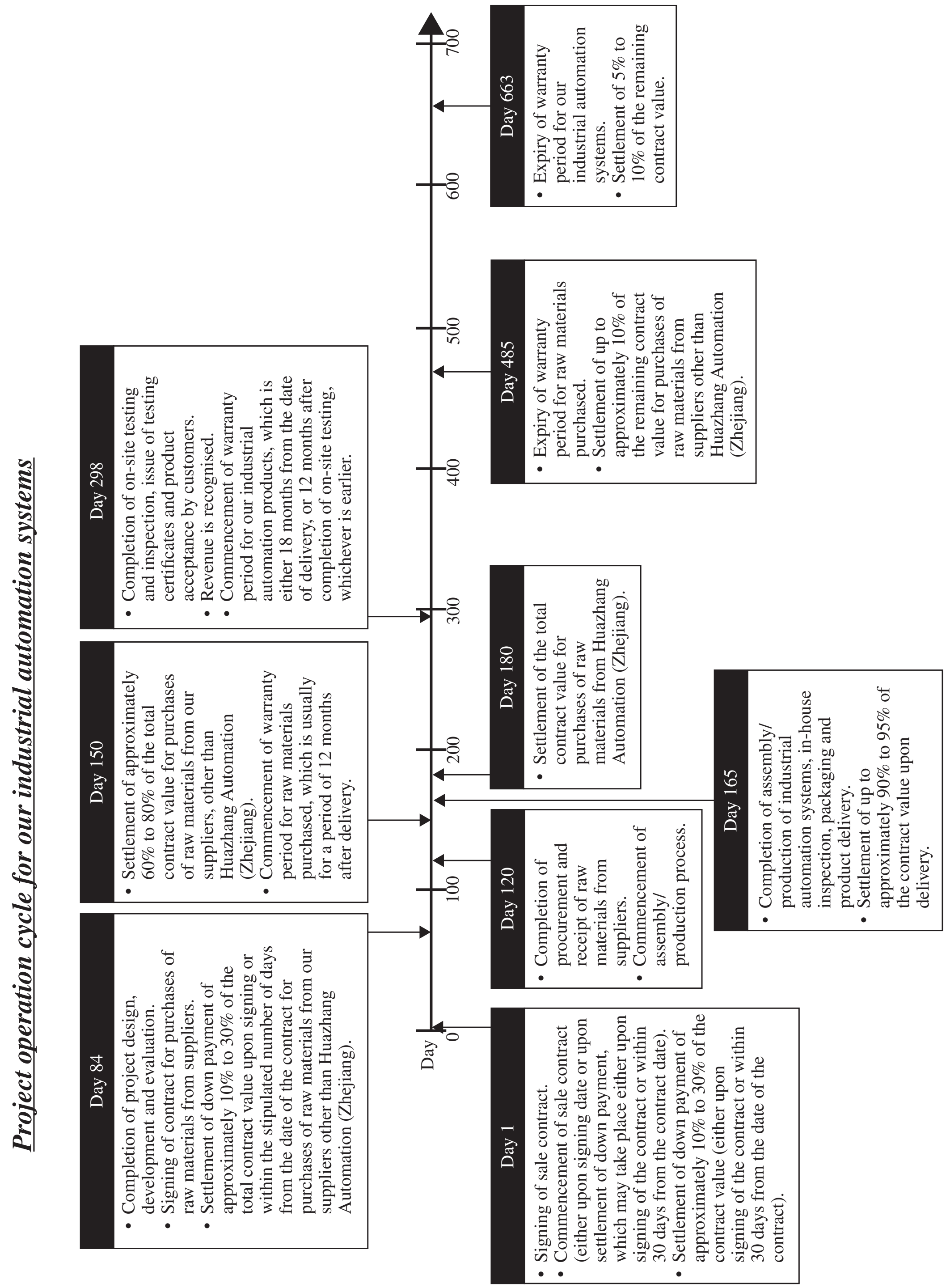
OVERVIEW

We are principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products for the paper-making industry and other industries such as metallurgy and electricity in the PRC. Our industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers and are mainly sold to customers in the paper-making industry in the PRC. According to Euromonitor, in 2011, our Group had a market share of approximately 5.7% of the industrial automation system market for the paper-making industry in the PRC and a market share of approximately 0.1% of the entire industrial automation system market in the PRC in the same year. We are also engaged in the provision of after-sales services to our existing customers.

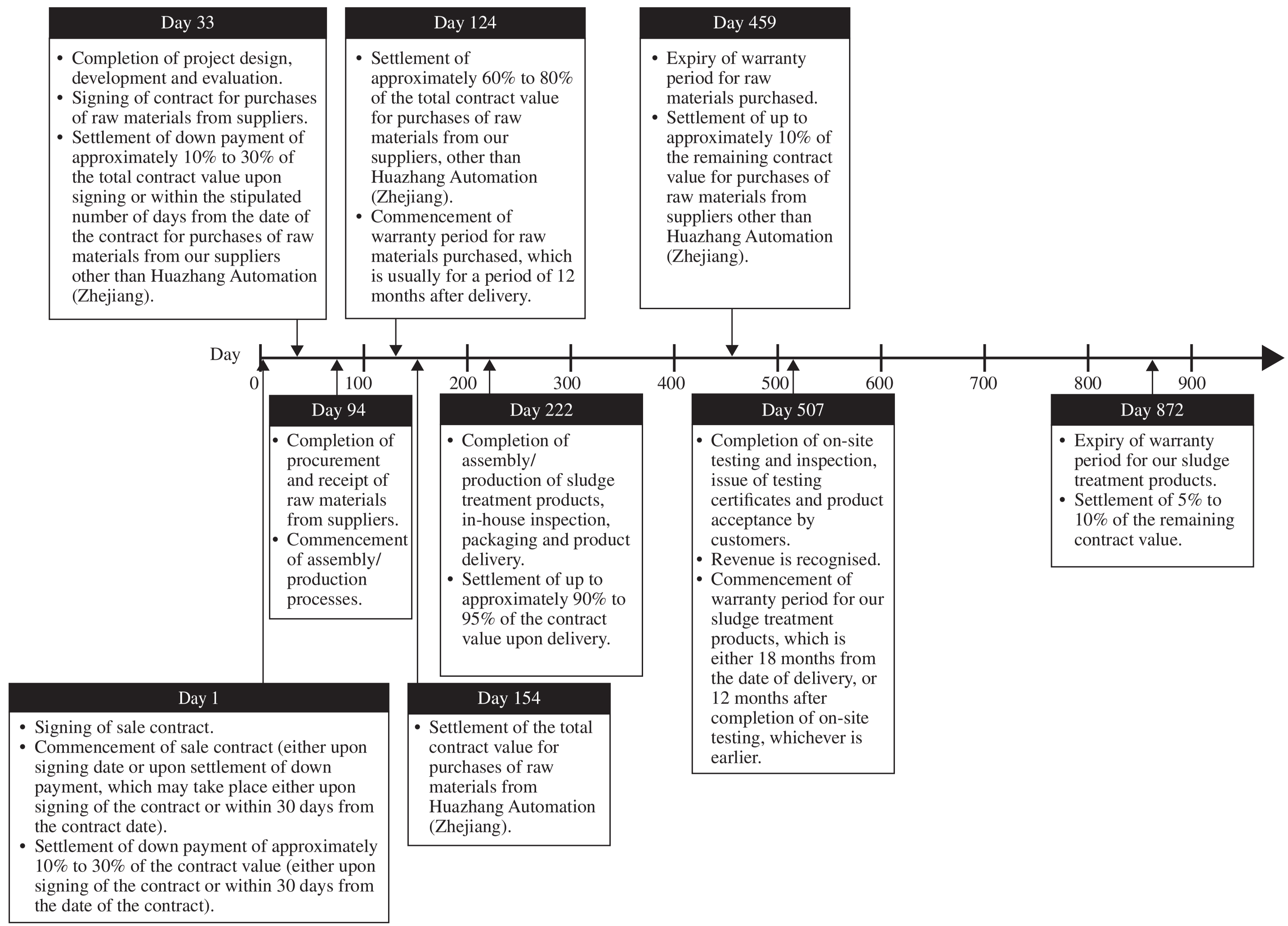
Majority of our industrial automation systems are made from our self-developed software and hardware sourced from our suppliers, and are used in industrial production applications to improve production line efficiency by controlling the production process. Our industrial automation systems mainly comprise four types of products, namely drive control system, distributed control system, machine control system and motor control centre. Our sludge treatment products are dewatering systems made from our self-developed software and hardware sourced from our suppliers and 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 requirements for environmental protection. Our sludge treatment products include filter press and steel-belt filter press. We also sell the hardware of our sludge treatment products separately. We also provide after-sales services, including on-site engineering and maintenance services, as well as the repair and replacement of spare parts and components, to customers of both our industrial automation systems and sludge treatment products. After-sales services are provided to our customers free-of-charge within the warranty period and our customers would be required to pay us for such services after the expiry of the warranty period.

Project operation cycle

The timelines below set out the overall project operation cycle of our industrial automation systems and sludge treatment products and the actual average time required for each stage of the cycle:



Project operation cycle for our sludge treatment products



We generally experience long on-site installation, testing and inspection time in our project operation cycle. To the best of our Directors' understanding and knowledge, other suppliers of parts and components for the assembly of paper-making machines also generally experience long on-site installation, testing and inspection time, and therefore our Directors consider that the long on-site installation, testing and inspection time experienced by our Group during the Track Record Period was in line with the industry practice of assembling paper-making machines. Our Directors confirm that there were no prolonged failures to obtain customer acceptance during the Track Record Period and up to the Latest Practicable Date.

As a result of such long on-site installation, testing and inspection time in our project operation cycle, we are subject to several significant risks inherent to our Group's business operations including (i) risk of delays in completion of on-site testing and acceptance of our products; (ii) risk of significant cash flow mismatch; (iii) risk of cost overruns; and (iv) risk of our substantial inventory balance. For details of significant risks inherent to our Group's business operations as well as other risks and uncertainties that may affect the value of our Shares, please refer to the section headed "Risk Factors" beginning on page 29 in this prospectus. Please also refer to the paragraphs headed "Business model" and "Internal controls" under the section headed "Business" beginning on page 111 and page 119 respectively in this prospectus for details of the measures adopted to mitigate our said significant risks.

Customers

The majority of our revenue was generated from sales of our industrial automation systems to customers in the paper-making industry in the PRC. Sales to our five largest customers accounted for approximately 30.7%, 48.1% and 47.2% of our total revenue, and sales to our largest customer accounted for approximately 10.2%, 14.3% and 11.7% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Huazhang Automation (Zhejiang) was our largest customer for the year ended 30 June 2011. Huazhang Automation (Zhejiang) is indirectly owned as to 70% by French Business Partner, an Independent Third Party, and as to 30% by Huazhang Overseas, which is in turn owned as to approximately 77.9% in aggregate by our Controlling Shareholders. Huazhang Automation (Zhejiang) is principally engaged in the business of trading, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems and is currently an authorised distributor of the Branded Industrial Automation Products in Zhejiang Province, the PRC. We anticipate that our sales of industrial automation systems to Huazhang Automation (Zhejiang) will continue after the Listing. Save for Huazhang Automation (Zhejiang), none of our five largest customers during the Track Record Period was a Connected Person of our Company.

Suppliers

We source the parts and components required for the production of our industrial automation systems and sludge treatment products from our suppliers. Purchases from our five largest suppliers accounted for approximately 64.3%, 55.4% and 54.0% of our total purchases, and purchases from our largest supplier Huazhang Automation (Zhejiang) accounted for approximately 44.1%, 42.3% and 36.9% of our total purchases for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. We anticipate that our purchase of the Branded Industrial Automation Products from Huazhang Automation (Zhejiang) will continue after the Listing. Save for Huazhang Automation (Zhejiang), none of our five largest suppliers during the Track Record Period was a Connected Person of our Company. Please refer to the paragraph headed "Excluded Business" under the section headed "Relationship with Controlling Shareholders" beginning on page 177 in this prospectus for further details of Huazhang Automation (Zhejiang) and its relationship with our Group.

COMPETITIVE STRENGTHS

Our Directors consider that we possess competitive strengths including (i) our experience in providing industrial automation systems for the paper-making industry; (ii) our technical expertise and comprehensive after-sales services; (iii) our registered patents in relation to technologies required by the steel-belt filter press; and (iv) our participation in setting the PRC's industry standards as well as technical conditions for the filter press. Please refer to the paragraph headed "Competitive strengths of our Group" under the section headed "Business" beginning on page 106 in this prospectus for further details.

BUSINESS OBJECTIVE AND STRATEGIES

Our business objective is to become one of the leading providers of industrial automation systems and sludge treatment products in the PRC. By adopting various business strategies, we plan to strengthen the market position of our existing products and services in the PRC, and develop new products and markets. Our key business strategies, which are expected to be implemented to fulfill our business objective, include (i) expanding our production plant; (ii) a new production line for cabinets; (iii) developing new products and newer models of our existing products; (iv) enhancing our presence among our existing and potential customers through various advertising and marketing methods; (v) upgrading our current ERP system; (vi) expanding our business into new industries; and (vii) providing more comprehensive customer service. Please refer to the paragraph headed "Business objective and strategies" under the section headed "Business" beginning on page 108 in this prospectus for further details.

FUTURE PLANS AND USE OF PROCEEDS

Assuming that the Offer Size Adjustment Option is not exercised and a Placing Price of HK$1.20 per Placing Share, we estimate that the net proceeds to us from the Placing (after deducting underwriting fees and estimated expenses payable by us in connection with the Placing) will be approximately HK$59.5 million. We intend to apply such net proceeds from the Placing for several purposes, including the development of both our industrial automation system business segment and sludge treatment products business segment, in the following manner:

Intended use	% of net proceeds	HK$ million
Building a new production plant of approximately 11,000 sq.m. and improvement of the roads and greenery in the factory area	30.4	18.1
Improvement of production process using the high/low voltage power supply systems and addition of new laboratory facilities and testing facilities	15.1	9.0
A new production line for our cabinets	30.4	18.1
Product development and innovation	10.1	6.0
Increasing the market awareness and enhancing the presence of our Group among existing and potential customers	6.6	3.9
Upgrading our current ERP system	0.5	0.3
Working capital and other general corporate purposes	6.9	4.1

Please refer to the paragraph headed "Use of Proceeds" under the section headed "Future Plans and Use of Proceeds from the Placing" beginning on page 286 in this prospectus for further details.

CONTROLLING SHAREHOLDERS' INFORMATION AND CONTINUING CONNECTED TRANSACTIONS

Our Group is established and controlled by Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu, parties mutually agreed to act in concert regarding the consolidation of control of our Company. Immediately following the completion of the Capitalisation Issue and the Placing, Lian Shun, which is owned as to 53.79%, 20.74%, 17.95% and 7.52% by Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu respectively, will hold 77.9% of the issued share capital in Florescent Holdings, which in turn will hold 75% of the interests in our Company, assuming the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme is not exercised. Please refer to the section headed "Relationship with Controlling Shareholders" beginning on page 175 in this prospectus for further details.

During the Track Record Period, our Group entered into a number of transactions with Huazhang Automation (Zhejiang), a company which is indirectly owned as to 30% by Huazhang Overseas, which is in turn owned as to approximately 77.9% in aggregate by our Controlling Shareholders. As such, Huazhang Automation (Zhejiang) will become a Connected Person of our Company upon the Listing. The table below sets out the transactions with Huazhang Automation (Zhejiang) during the Track Record Period and the relevant annual caps for each of the three years ending 30 June 2015:

Nature of transactions	Year ended 30 June 2011	2012	Six months ended 31 December 2012	Annual caps Year ending 30 June 2013	2014	2015
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
Sales of industrial automation systems to Huazhang Automation (Zhejiang)	10.1	5.8	2.7	6.0	6.3	6.6
Purchases of raw materials from Huazhang Automation (Zhejiang)	54.9	67.9	31.2	68.0	64.6	61.4

Please refer to the section headed "Continuing Connected Transactions" beginning on page 187 in this prospectus for further details.

SELECTED FINANCIAL INFORMATION

The following sets out selected items from the combined financial information as at and for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, extracted from the accountant's report set out in Appendix I to this prospectus, and should be read in conjunction with the accountant's report set out in Appendix I to this prospectus.

Selected combined statements of comprehensive income

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(Unaudited)	
Revenue	99,115,212	229,520,229	103,252,990	119,650,158
Gross profit	28,760,539	64,348,803	26,870,688	34,513,692
Operating profit	1,515,336	24,037,172	7,182,553	8,481,686
Profit for the year/period, all attributable to the owner of our Company	545,350	19,083,369	5,777,958	6,248,542
Total comprehensive income for the year/period, all attributable to the owner of our Company	3,667,633	20,398,711	7,271,873	6,684,549

Selected combined balance sheets

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Non-current assets	40,131,361	50,513,239	49,543,867
Current assets	181,194,694	199,612,318	184,348,372
Non-current liabilities	–	–	215,248
Current liabilities	185,900,173	171,789,787	143,456,672
Net current (liabilities)/assets	(4,705,479)	27,822,531	40,891,700
Net assets	35,425,882	78,335,770	90,220,319

We recorded net current liabilities of approximately HK$4.7 million as at 30 June 2011. Please refer to the paragraph headed "Net current (liabilities)/assets" under the section headed "Financial Information" beginning on page 246 in this prospectus for further details on our current assets and liabilities during the Track Record Period.

Revenue by business segment

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*	*HK$*	*%*
					(Unaudited)			
Industrial automation systems	84,716,265	85.5	200,760,826	87.5	92,367,906	89.5	69,381,447	58.0
Sludge treatment products	2,362,602	2.4	14,465,470	6.3	5,455,220	5.3	41,839,930	35.0
After-sales services	12,036,345	12.1	14,293,933	6.2	5,429,864	5.2	8,428,781	7.0
	99,115,212	100.0	229,520,229	100.0	103,252,990	100.0	119,650,158	100.0

Please refer to the paragraph headed "Our results of operations" under the section headed "Financial Information" beginning on page 228 in this prospectus for further details on the fluctuations in our revenue during the Track Record Period.

Gross profit

	Year ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
			(Unaudited)	
Industrial automation systems	26.4%	27.3%	25.3%	29.3%
Sludge treatment products	25.2%	26.5%	22.1%	26.0%
After-sales services	48.0%	39.7%	42.0%	39.4%
Overall	29.0%	28.0%	26.0%	28.8%

The overall gross profit margin of our Group decreased by approximately 1.0% during the two years ended 30 June 2011 and 2012. This was primarily due to the substantial decrease in gross profit margin in our provision of after-sales services for the year ended 30 June 2012. The gross profit margin for provision of after-sales services decreased by approximately 8.3% during the two years ended 30 June 2011 and 2012. The decrease in the gross profit margin for provision of after-sales services was primarily due to: (i) the decrease in gross profit margin for the provision of engineering and maintenance services together with the supply of spare parts and components; and (ii) the decrease in proportion of revenue attributable to the provision of engineering and maintenance services to the revenue from provision of after-sales services in the year ended 30 June 2012.

Our overall gross profit margin increased by approximately 2.8% for the six months ended 31 December 2012 as compared to the same period in 2011 due to the increase in gross profit margin for sales of industrial automation systems and sludge treatment products for the six months ended 31 December 2012. The gross profit margin for sales of industrial automation systems in the six months ended 31 December 2011 was relatively lower due to the completion of three industrial automation system projects with a lower average profit margin of approximately 10.4% during the same period. The gross profit margin in relation to our sludge treatment product segment for the six months ended 31 December 2011 was lower than its gross profit margin for the six months ended 31 December 2012 primarily due to the completion of our major sludge treatment project with a relatively low gross margin of about 22% during the six months ended 31 December 2011 which accounted for approximately 94.4% of our sales of sludge treatment products during the same period.

Please refer to the paragraph headed "Gross profit" under the section headed "Financial Information" beginning on page 237 in this prospectus for further details.

Impact on our financial results due to expenses incurred in relation to the Listing

Our Directors estimated that expenses relating to the Listing of approximately HK$7.8 million and HK$7.4 million will be charged to combined statements of comprehensive income for the year ending 30 June 2013 and our equity directly upon Listing, respectively, which may have a material adverse impact on our financial results for the year ending 30 June 2013. Approximately HK$2.2 million and HK$4.7 million of expenses relating to the Listing has been recognised in our combined statement of comprehensive income for the year ended 30 June 2012 and the six months ended 31 December 2012, respectively.

Key financial ratios

The following table sets out the key financial ratios for our Group during the Track Record Period:

	Year ended 30 June 2011	Year ended 30 June 2012	Six months ended 31 December 2012
Profitability ratios			
Return on assets (%)	0.2	7.6	5.3
Return on equity (%)	1.5	24.4	13.9
Liquidity ratios			
Current ratio	1.0	1.2	1.3
Quick ratio	0.4	0.5	0.5
Capital adequacy ratio			
Gearing ratio (%)	33.7	23.9	6.4
Interest coverage	2.2	15.5	14.5

Please refer to the paragraph headed "Key financial ratios" under the section headed "Financial Information" beginning on page 252 in this prospectus for further details.

No material adverse change

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since 31 December 2012, being the date to which our latest audited financial statements were prepared, and up to the date of this prospectus.

RECENT DEVELOPMENTS SUBSEQUENT TO 31 DECEMBER 2012

As at the Latest Practicable Date, our sales contracts on hand amounted to approximately HK$197.9 million. Based on our unaudited financial statements, our total revenue increased by approximately 13.5% for the nine months ended 31 March 2013 as compared to the same period in 2012. The table below sets out the revenue, the corresponding amount as a percentage of our total revenue and the gross profit margin for each of our business segments for the periods indicated:

	Nine months ended					
	31 March 2012			31 March 2013		
			Gross profit margin			*Gross profit margin*
	HK$	*%*	*%*	*HK$*	*%*	*%*
Industrial automation systems	125,539,555	90.1	25.9	99,470,898	62.9	28.1
Sludge treatment products	5,484,202	3.9	20.6	43,852,302	27.7	25.1
After-sales services	8,313,186	6.0	42.1	14,817,392	9.4	40.6
	139,336,943	100.0	26.6	158,140,592	100.0	28.5

The financial information as shown above was extracted from the unaudited condensed combined financial statements for the nine months ended 31 March 2013 prepared by our Directors in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which were reviewed by the reporting accountant of our Company, with reference to the principles set out in Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The comparative financial information as shown above for the period from 1 July 2011 to 31 March 2012 has not been reviewed.

Revenue from sales of industrial automation systems decreased by approximately 20.8% for the nine months ended 31 March 2013 as compared to the same period in 2012. Such decrease was primarily attributable to the higher level of revenue recognised during the nine months ended 31 March 2012 due to delay in acceptance of our industrial automation systems in relation to seven of our sales contracts. Such delay in acceptance was primarily due to the delay in the construction work of our customers' production facilities. The higher gross profit margin of approximately 28.1% for the nine months ended 31 March 2013 as compared to the same period in 2012 was primarily due to the lower level of gross profit margin during the nine months ended 31 March 2012 as a result of the completion of three industrial automation system projects with a lower average profit margin, which were treated as opportunities to explore the industrial automation system market in the electricity industry and provide value-added on-site services to customers during the said period.

Revenue from sales of sludge treatment products increased by approximately 7.0 times for the nine months ended 31 March 2013 as compared to the same period in 2012, because we received our first order for our sludge treatment products in March 2010 and first recognised revenue from sales of sludge treatment products in December 2010 after spending several years developing our sludge treatment products. Since then, we have managed to secure more sales orders for our sludge treatment business which were subsequently delivered to our customers. Sales of sludge treatment products increased by approximately HK$2.0 million in the three months ended 31 March 2013 as compared to the same period in 2012 due to the completion of 22 contracts in the three months ended 31 March 2013. The gross profit margin for our sludge treatment products increased from approximately 20.6% in the nine months ended 31 March 2012 to approximately 25.1% in the nine months ended 31 March 2013 primarily due to the completion of our major sludge treatment project with a relatively low gross margin of about 22% during the nine months ended 31 March 2012 which accounted for approximately 93.9% of our sales of sludge treatment products during the same period, and shared a relatively higher production costs due to small scale of production in the three months ended 31 March 2012.

Revenue from provision of after-sales services increased by approximately 78.2% for the nine months ended 31 March 2013 as compared to the same period in 2012 due to an increase in the number of completed sales contracts with expired warranty period. The gross profit margin for provision of after-sales services decreased to approximately 40.6% for the nine months ended 31 March 2013 due to an increase in the proportion of revenue from the sole supply of spare parts and components, which had a lower gross profit margin.

Our trade receivables maintained at approximately HK$37.5 million and HK$37.5 million as at 31 December 2012 and 31 March 2013 respectively. As at 31 March 2013, approximately HK$6.7 million of our trade receivables as at 31 December 2012 have been settled. Our bank borrowing amounted to approximately HK$6.2 million as at 31 December 2012 and we did not have any banking borrowing as at 31 March 2013 as our Group repaid the bank loan in January 2013. As at the Latest Practicable Date, unutilised banking facilities amounted to approximately HK$52.1 million.

Please refer to the paragraph headed "Recent developments subsequent to 31 December 2012" under the section headed "Financial Information" beginning on page 280 in this prospectus for further details.

DIVIDEND

Following the Listing, our Shareholders will be entitled to receive dividends declared by our Company. There is no plan of dividend distribution in the foreseeable future for unremitted earnings of Huazhang Technology, our PRC subsidiary, that was earned on and after 1 January 2008 till 30 June 2012. We intend to declare dividends of not less than 25% of our net profit for each of the financial years starting from the year ending 30 June 2013, subject to the approval of our board of Directors and Shareholders and factors such as our results of operations and operating and capital requirements. Please refer to the paragraph headed "Dividend" under the section headed "Financial Information" beginning on page 278 in this prospectus for further details.

PLACING STATISTICS

	Based on a Placing Price of HK$1.20 per Share
Market capitalisation of our Shares *(Note)*	HK$326.4 million
Unaudited pro forma adjusted net tangible asset value per Share	HK$0.58

Note:

The calculation of the market capitalisation of our Shares is based on 272,000,000 Shares expected to be in issue immediately after completion of the Capitalisation Issue and the Placing but does not take into account any Shares which may be allotted or issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.

Please refer to the paragraph headed "Unaudited Pro Forma Adjusted Net Tangible Assets" in Appendix II to this prospectus for further details.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

"Adjusted Cost of Raw Materials"	the sum of cost of raw materials consumed, changes in inventories of finished goods and work in progress (which includes cost of raw materials unsold and related labour, depreciation costs and other production overhead) and provision for write-down of inventories;
"Articles of Association" or "Articles"	the articles of association of our Company, conditionally adopted on 6 May 2013 to become effective upon the Listing, and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus;
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules;
"Audit Committee"	the audit committee of the Board;
"Board"	our board of Directors;
"Branded Industrial Automation Products"	industrial automation products bearing or associated with one brand name. For the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, approximately 96.8%, 97.8% and 99.2% of our Group's total turnover was attributable to the sale of our products which had applied such branded industrial automation products respectively;
"Business Day(s)"	any day(s) (excluding Saturday(s), Sunday(s) and public holidays) in Hong Kong on which licensed banks in Hong Kong are open for banking business throughout their normal business hours;
"BVI"	British Virgin Islands;
"Capitalisation Issue"	the issue of Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed "Resolutions in writing of our Shareholders passed on 6 May 2013" in Appendix V to this prospectus;
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC;

"Circular No. 75"	the Notice on Relevant Issues Relating to the Foreign Exchange Administration of Financing and Return Investment Activities by Domestic Residents Conducted via Offshore Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by the SAFE on 21 October 2005;
"Companies Law" and "Cayman Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Company" or "our Company"	Huazhang Technology Holding Limited (華章科技控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 26 June 2012 under the Companies Law;
"Connected Person(s)"	has the meaning ascribed thereto under the GEM Listing Rules;
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the GEM Listing Rules and unless the context requires otherwise, refers to Florescent Holdings, Lian Shun, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu;
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會);
"Director(s)"	director(s) of our Company;
"EIT"	the PRC enterprise income tax (中華人民共和國企業所得税);
"EJV"	Sino-Foreign Equity Joint Venture (中外合資企業);
"Employment Contract Law"	Law of the PRC on Employment Contracts (中華人民共和國勞動合同法), as amended, supplemented or otherwise modified from time to time;

"Euro"	euro, the official currency of eurozone, which consisted of 17 member states of the European Union as at the Latest Practicable Date;
"Euromonitor"	Euromonitor International Ltd, an independent market research firm commissioned by our Company for the preparation of the industry report in relation to, among others, the use of industrial automation systems and sludge treatment products in the PRC's paper-making industry which was set out in the section headed "Industry overview" in this prospectus;
"Florescent Holdings"	Florescent Holdings Limited (博榮控股有限公司), a company incorporated in the BVI on 8 June 2012 with limited liability and one of our Controlling Shareholders. As at the Latest Practicable Date, 77.9% of its issued share capital was owned by Lian Shun, while the remaining 22.1% was owned by Qunyu;
"French Business Partner"	a simplified joint stock company governed by the laws of France and a wholly-owned subsidiary of the French Listed Company, and an Independent Third Party;
"French Listed Company"	a simplified joint stock company governed by the laws of France and incorporated on 16 December 2004, whose shares are listed and traded on the NYSE Euronext Paris, and an Independent Third Party;
"GEM"	the Growth Enterprise Market of the Stock Exchange;
"GEM Listing Rules"	Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time;
"GEM Website"	the internet website at **www.hkgem.com** operated by the Stock Exchange for the purpose of GEM;
"Group", "we", "our" or "us"	our Company and its subsidiaries or, where the context otherwise requires, in respect of the period before our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company, some or any of them and the businesses carried on by such subsidiaries, as the case may be;

"Guotai Junan Capital" or "Sole Sponsor"	Guotai Junan Capital Limited, a licensed corporation under the SFO permitted to engage in type 6 of the regulated activities (as defined under the SFO), acting as the sole sponsor to the Listing;
"Guotai Junan Securities" or "Sole Bookrunner and Sole Lead Manager"	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation under the SFO permitted to engage in type 1 and type 4 of the regulated activities (as defined under the SFO), acting as the sole bookrunner and sole lead manager of the Placing;
"HAHK 2007 S&P Agreement"	the sale and purchase agreement dated 2 March 2007 entered into between, among others, Huazhang Overseas, Huazhang Automation (Hong Kong) and French Business Partner in relation to the disposal of 51% interests in Huazhang Automation (Hong Kong) by Huazhang Overseas to French Business Partner;
"HAHK First Call Option"	an option granted to French Business Partner to require Huazhang Overseas (or its successor) to sell 19% interests in Huazhang Automation (Hong Kong) to French Business Partner pursuant to the terms of the HAHK 2007 S&P Agreement;
"HAHK Second Call Option"	an option granted to French Business Partner to require Huazhang Overseas (or its successor) to sell all outstanding interests in Huazhang Automation (Hong Kong) to French Business Partner pursuant to the terms of the HAHK 2007 S&P Agreement (as supplemented by an agreement dated 30 June 2009);
"HAHK Shareholders' Agreement"	the shareholders' agreement in relation to Huazhang Automation (Hong Kong) dated 16 March 2007 entered into between, among others, Huazhang Overseas, Mr. Zhu, Mr. Wang, Mr. Liu, Ms. Zhu and French Business Partner;
"Hangzhou Rongtai Electric"	Hangzhou Rongtai Electric Company Limited (杭州榮泰電氣有限公司), an EJV incorporated in the PRC with limited liability on 24 December 1998. As at the Latest Practicable Date, Hangzhou Rongtai Electric was deregistered;

"Hangzhou Yiyi Consultation"	Hangzhou Yiyi Corporate Management Consultation Limited (杭州意義企業管理諮詢有限公司), formerly known as Hangzhou Huazhang Electric Engineering Company Limited (杭州華章電氣工程有限公司), a company incorporated in the PRC with limited liability on 18 December 1996. As at the Latest Practicable Date, its registered capital was owned as to approximately 71.30% by Mr. Wang, approximately 5.92% by Ms. Zhu and approximately 22.78% in aggregate by Independent Third Parties, and its principal business was consulting corporate management and economic information;
"HK$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong;
"HKAS"	Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants;
"HKFRSs"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
"HKSCC"	Hong Kong Securities Clearing Company Limited;
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Share Registrar"	Tricor Investor Services Limited, the Hong Kong branch share registrar of our Company;
"Huazhang Automation (Hong Kong)"	Huazhang Electric Automation Holding Company Limited (華章電氣自動化控股有限公司), a company incorporated in Hong Kong with limited liability on 2 June 2006. As at the Latest Practicable Date, 70% of its issued share capital was held by French Business Partner, an Independent Third Party, while the remaining 30% was held by Huazhang Overseas;

"Huazhang Automation (Zhejiang)"	Zhejiang Huazhang Automation Equipment Company Limited (浙江華章自動化設備有限公司), a WFOE incorporated in the PRC on 5 September 2006 and a wholly-owned subsidiary of Huazhang Automation (Hong Kong). It is an authorised distributor of the Branded Industrial Automation Products in Zhejiang Province of the PRC;
"Huazhang Electric"	Hua Zhang Electric Holding Company Limited (華章電氣控股有限公司), a company incorporated in Hong Kong with limited liability on 25 March 1993 and an indirect wholly-owned subsidiary of our Company and a direct wholly-owned subsidiary of Likwin;
"Huazhang Overseas"	Huazhang Overseas Holding, Inc., a company incorporated in the Cayman Islands on 25 March 2003 with limited liability which beneficially held the entire interest of Huazhang Electric prior to the Reorganisation. As at the Latest Practicable Date, it was a Connected Person of our Company and its issued share capital was owned as to 41.90% by Mr. Zhu, 16.16% by Mr. Wang, 13.98% by Mr. Liu, 5.86% by Ms. Zhu and 22.10% by United Offshore;
"Huazhang Technology"	Zhejiang Huazhang Technology Limited (浙江華章科技有限公司) (formerly known as Huazhang Electric (Tongxiang) Company Limited (華章電氣(桐鄉)有限公司)), a WFOE incorporated in the PRC on 19 July 2001 and an indirect wholly-owned operating subsidiary of our Company and a direct wholly-owned subsidiary of Huazhang Electric;
"Independent Third Party(ies)"	a person(s) or company(ies) which is/are independent of and not connected with any directors, chief executive and Substantial Shareholders of our Company or any of its subsidiaries and their respective associates;
"Latest Practicable Date"	30 April 2013, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus;

"Lian Shun"	Lian Shun Limited (聯順有限公司), a company incorporated in the BVI with limited liability on 25 May 2012 and one of our Controlling Shareholders. As at the Latest Practicable Date, its issued share capital was owned as to 53.79% by Mr. Zhu, 20.74% by Mr. Wang, 17.95% by Mr. Liu and 7.52% by Ms. Zhu, all of them were our Controlling Shareholders;
"Likwin"	Likwin Limited (力榮有限公司), a company incorporated in the BVI with limited liability on 8 June 2012 and a direct wholly-owned subsidiary of our Company;
"Listing"	the listing of our Shares on GEM;
"Listing Date"	the date on which dealings in our Shares on GEM commence;
"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding option market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt excludes GEM;
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company, conditionally adopted on 6 May 2013 with effect upon the Listing Date, and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus;
"MEP"	Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部);
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部);
"Mr. Liu"	Mr. Liu Chuan Jiang (劉川江), an ultimate beneficial owner of approximately 17.95% shareholding interest in Lian Shun, and one of the members of the senior management of our Group. Mr. Liu is one of our Controlling Shareholders as he is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code;

"Mr. Wang"	Mr. Wang Ai Yan (王愛燕), an owner of approximately 20.74% shareholding interest in Lian Shun, and he was a director of Huazhang Technology during the period from 1 July 2010 to 10 October 2012. Mr. Wang is one of our Controlling Shareholders as he is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code;
"Mr. Zhu"	Mr. Zhu Gen Rong (朱根榮), the founder of our Group, one of our Controlling Shareholders and an executive Director;
"Ms. Zhu"	Ms. Zhu Ling Yun (朱凌雲), an owner of approximately 7.52% shareholding interest in Lian Shun, and she was a director of Huazhang Technology during the period from 1 July 2010 to 10 October 2012, and save for acting in concert with Mr. Zhu, Ms. Zhu is not otherwise related to Mr. Zhu. Ms. Zhu is one of our Controlling Shareholders as she is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code;
"MST"	Ministry of Science and Technology of the PRC (中華人民共和國科學技術部);
"NDRC"	National Development and Reform Commission (中華人民共和國國家發展和改革委員會);
"Nomination Committee"	the nomination committee of the Board;
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會);
"Offer Size Adjustment Option"	the option granted by our Company to the Sole Lead Manager under the Underwriting Agreement pursuant to which the Sole Lead Manager may require us to allot and issue up to an aggregate of 10,200,000 additional Placing Shares, representing 15% of the initial number of Placing Shares under the Placing to cover any over-allocation in the Placing;
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC;

"People's Court"	the Supreme People's Court of the PRC (中華人民共和國最高人民法院);
"Placing"	the conditional placing of the Placing Shares at the Placing Price, as further described in the section headed "Structure and conditions of the Placing" in this prospectus;
"Placing Price"	the placing price of HK$1.20 per Placing Share (exclusive of brokerage, the Stock Exchange trading fee and SFC transaction levy);
"Placing Shares"	the 68,000,000 new Shares being offered by our Company for subscription at the Placing Price pursuant to the Placing, subject to the Offer Size Adjustment Option set forth in the section headed "Structure and conditions of the Placing" in this prospectus;
"PRC" or "China"	the People's Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan;
"PRC Legal Advisers"	ETR Law Firm, the legal advisers of our Company as to the PRC laws;
"Qunyu"	Qunyu Limited (群御有限公司), a company incorporated in the BVI with limited liability on 10 April 2012. As at the Latest Practicable Date, its issued share capital was held by 67 individuals, and none of these individuals held more than 16% interests in Qunyu;
"Remuneration Committee"	the remuneration committee of the Board;
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing as described under the paragraph of "Corporate Reorganisation" in the section headed "History, corporate structure and reorganisation" in this prospectus;
"RMB"	Renminbi, the lawful currency of the PRC;
"Rules of CCASS"	the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國外滙管理局);
"SAIC"	the State Administration of Industry and Commerce (中華人民共和國國家工商行政管理總局);
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家税務總局);
"SFC"	the Securities and Futures Commission of Hong Kong;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Shanghai Yunjie Consultation"	Shanghai Yunjie Corporate Management Consultation Limited (上海蘊頡企業管理諮詢有限公司), formerly known as Shanghai Huazhang Electric Control Engineering Company Limited (上海華章電氣控制工程有限公司), a company incorporated in the PRC with limited liability on 28 May 1999. As at the Latest Practicable Date, it was a Connected Person with 85% of its registered capital was paid up by Mr. Wang and the remaining 15% was paid up by Ms. Zhu;
"Share(s)"	the ordinary share(s) with a nominal value of HK$0.01 each in the capital of our Company;
"Shareholder(s)"	holder(s) of our Share(s);
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 6 May 2013, a summary of principal terms of which is set out under the paragraphs headed "Share Option Scheme" in Appendix V to this prospectus;
"Standing Committee"	Standing Committee of the NPC (全國人民代表大會常委會);
"State Council"	State Council of the PRC (中華人民共和國國務院);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)"	has the meaning ascribed thereto under the Companies Ordinance;

"Substantial Shareholder(s)"	has the meaning ascribed thereto under the GEM Listing Rules;
"Takeovers Code"	the Code on Takeovers and Mergers issued by SFC, as amended, supplemented or otherwise modified from time to time;
"Tax Law"	The Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which was promulgated on 16 March 2007 by the NPC and the implementation rules thereof was promulgated on 6 December 2007 by the State Council both became effective on 1 January 2008;
"Tongxiang Baimadun"	Tongxiang Baimadun Travel Development Company Limited (桐鄉白馬墩旅遊開發有限公司), an EJV incorporated in the PRC with limited liability on 30 December 2004. Tongxiang Baimadun ceased to be a subsidiary of Huazhang Electric on 10 April 2012 and was wholly-owned by two Independent Third Parties as at the Latest Practicable Date;
"Tongxiang Modern Eco-Agriculture"	Tongxiang Modern Eco-Agriculture Development Company Limited (桐鄉華章現代生態農業開發有限公司), a WFOE incorporated in the PRC with limited liability on 19 December 2001. Tongxiang Modern Eco-Agriculture ceased to be a subsidiary of Huazhang Electric on 10 April 2012 and was wholly-owned by an Independent Third Party as at the Latest Practicable Date;
"Track Record Period"	the two financial years ended 30 June 2011 and 2012 and the six months ended 31 December 2012;
"Underwriters"	the underwriters in respect of the Placing named in the section headed "Underwriting" in this prospectus;
"Underwriting Agreement"	the conditional underwriting agreement dated 8 May 2013 relating to the Placing entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Lead Manager and the Underwriters, as further described in the section headed "Underwriting" in this prospectus;

"United Offshore"	United Offshore Inc., a company incorporated in the BVI with limited liability on 30 January 2003. As at the Latest Practicable Date, United Offshore was an Independent Third Party and its issued share capital was held by 67 individuals, and none of these individuals held more than 16% interests in United Offshore;
"US" or "United States"	the United States of America;
"US$" or "USD"	United States dollars, the lawful currency of the US;
"VAT"	the PRC value-added tax (中華人民共和國增值稅);
"WFOE"	wholly foreign owned enterprise;
"sq.m." or "m^2"	square metres; and
"%"	per cent.

Unless otherwise specified, for the purpose of this prospectus and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rate:

HK$1.00 = RMB0.8012

No representation is made that any amounts in HK$ or RMB were or could have been converted at the above rate or at any other rates or at all.

For ease of reference, the names of the PRC established companies or entities and PRC laws, rules and regulations have been included in this prospectus in both the Chinese and English languages. The English names of these PRC companies and entities and PRC laws, rules and regulations are only English translation of their respective official Chinese names. In the event of any inconsistency, the Chinese version shall prevail.

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"AC"	alternating current
"CAGR"	compound annual growth rate
"ControlNet"	a real-time control network that provides high-speed transport of time-critical data and allows for synchronised performance of machines
"DC"	direct current
"DeviceNet"	network system used in the industrial automation industry, such as to interconnect control devices for data exchanges
"ERP"	enterprise resources planning
"EtherNet/IP"	network that enables, such as real-time control and access to information
"Filter Cake"	condensed solid after filtering process
"Filter Chamber"	the space where filter press conducts filtration
"Filter Cloths"	woven fabrics or other filtering materials that are used for filtration
"Mpa"	megapascal, or one million pascals. A pascal is the pressure generated by a man of approximately 100 grams on a square metre under the earth's gravitational field
"N/cm"	newton per centimeter
"RGU"	regenerative DC bus supply unit, a component which has the ability to facilitate power flow between AC and DC

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would" or similar words or statements, in particular, in the sections headed "Industry overview", "Business" and "Financial information" in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets. These statements are based on various assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our ability to implement such strategies;
- our ability to further develop and manage our projects as planned;
- our dividend distribution plans;
- changes in policies, legislation, regulations, or practices in Hong Kong, the PRC or any other countries or territories in which we operate that may affect our projects;
- changes in economic conditions and competition in the areas in which we operate, including a downturn in general economy in China;
- exchange rate fluctuations and restrictions;
- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters; and
- other factors beyond our control.

Our Directors confirm that these forward-looking statements are made after due and careful consideration. Although our Directors believe that our current views as reflected in those forward-looking statements based on currently available information are reasonable, we cannot assure you that those views will prove to be correct, and investors are cautioned not to place undue reliance on such statements.

The words "anticipate", "believe", "could", "estimate", "intend", "may", "plan", "seek", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws and regulations of the PRC government and the rules, regulations and policies of the relevant PRC governmental authorities relating to all aspects of our business;

- general economic, market and business conditions in the PRC;

- macroeconomic policies of the PRC Government;

- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;

- the effects of competition in the deployment services of optical fibers and low-voltage equipment integration services industries on the demand for and price of our services and products;

- various business opportunities that we may pursue; and

- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations and the GEM Listing Rules, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section. In this prospectus, unless otherwise stated, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

Potential investors should carefully consider all of the information set out in this prospectus before making an investment in the Placing Shares in the Placing, including the risks and uncertainties described below. Particular attention should be paid to the fact that our Group's business is located exclusively in the PRC, and is governed by a legal and regulatory environment which may in some respects, differ from that prevailing in other countries. Our business, financial condition or results of operations could be materially and adversely affected by any of the risks stated below. The trading price of the Placing Shares in this Placing could decline due to any of the risks and potential investors may lose part or all of their investment.

This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions, which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below.

RISKS RELATING TO OUR GROUP

Reliance on a small number of key suppliers may affect our operations should there be any disruption in the supply of raw materials from our major suppliers

Our Group's purchases from our five largest suppliers accounted for approximately 64.3%, 55.4% and 54.0% of our total purchase for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Huazhang Automation (Zhejiang) was our largest supplier accounting for approximately 44.1%, 42.3% and 36.9% of our total purchases for years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. During the Track Record Period, we relied solely on Huazhang Automation (Zhejiang) for the supply of the Branded Industrial Automation Products in Zhejiang Province, the PRC. During the Track Record Period, approximately 96.8%, 97.8% and 99.2% of our Group's total turnover was attributable to the sale of our products which had applied the Branded Industrial Automation Products to various extent. Huazhang Automation (Zhejiang) is an authorised distributor of the Branded Industrial Automation Products in Zhejiang Province, the PRC, and our Group will be required to obtain prior written approval if we were to purchase the Branded Industrial Automation Products from another authorised distributor. If we are not able to source the Branded Industrial Automation Products from Huazhang Automation (Zhejiang) in a timely manner and under acceptable terms, our production schedule and financial performance may be adversely affected. Even if we manage to obtain the approval for purchasing the Branded Industrial Automation Products from other authorised distributor in the PRC, there is no assurance that another authorised distributor in the PRC could offer sufficient quantity of the Branded Industrial Automation Products to us to meet our business needs in a timely manner or offer prices and terms comparable to or better than those offered by Huazhang Automation (Zhejiang), and our production, liquidity and financial performance may be adversely affected. Should there be any disruption in the supply of raw materials from our major suppliers, and we are unable to identify alternative sources of supply with competitive prices, sufficient quantity and satisfactory quality, our production, profitability and financial performance may be adversely affected. Also, these suppliers may not have sufficient capacity to meet our needs in a timely manner or in accordance with our required quality standards. Therefore, there is no assurance that we will not encounter problems with our suppliers in the future, or that alternative suppliers will be identified to replace unsatisfactory suppliers. Any delays or shortages in the supply of parts and components from our suppliers may adversely affect our business operations and financial results.

Reliance on customers from the paper-making industry

For the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our sales to our customers in the paper-making industry amounted to approximately HK$85.2 million, HK$214.9 million and HK$98.5 million respectively, representing approximately 86.0%, 93.6% and 82.3% respectively of our Group's total revenue for the same period. Besides, except for two of the five largest customers for the year ended 30 June 2011, all of the five largest customers of our Group for each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, were from the paper-making industry. As such, any economic factor or event affecting the paper-making industry will inevitably have a direct impact on our Group's business operations and profitability.

Any failure to manage our liquidity situation prudently may materially and adversely affect our results of operations, and hence our ability to expand

As at 30 June 2011, we had net current liabilities of approximately HK$4.7 million, which was primarily due to the loans obtained from Huazhang Overseas for the investment in the registered capital of Huazhang Technology for the purpose of financing the expansion of its production facilities. As at 30 June 2012 and 31 December 2012, we had net current assets of approximately HK$27.8 million and HK$40.9 million respectively, and the change was mainly due to capitalisation of loan amounting to approximately HK$35.2 million borrowed from Huazhang Overseas on 30 June 2012. There is no assurance that we will be able to sustain our net current assets position at the end of each reporting period or achieve positive cash flows from operating activities in the future.

A net current liability position may impair our ability to make necessary capital expenditures, develop business opportunities or make strategic acquisitions. There can be no assurance that our business will generate sufficient cash flow from operations in the future to service any future debt and make necessary capital expenditure, in which case we may have to seek additional financing, dispose of certain assets or seek to refinance some of or all our future debts. In the event that we are unable to meet our liabilities when they fall due or if our creditors take legal action against us for default payment, we may have to liquidate our long-term assets to repay our creditors. We may encounter difficulty converting our long-term assets into current assets and may suffer losses upon the sale of our long-term assets. This would materially and adversely affect our operations and prevent us from successfully implementing our business strategies.

Any infringement on our intellectual property rights or by us on the intellectual property rights of others may adversely affect our reputation and profitability

Core technologies and critical manufacturing processes are crucial for our Group's continued success and development. If our core technologies and licence rights are infringed by way of unauthorised copying, use or imitation, our sales and reputation may be seriously affected and large amounts of resources may need to be expended on litigation to protect our intellectual property. All of these may adversely affect the operation and profitability of our Group.

Conversely, there is also a risk that we may infringe the intellectual property rights of others, thereby incurring costs in either defending or settling any intellectual property disputes alleging infringement. In the event that we are subject to any infringement claims, we may be required to spend a significant amount of money to develop non-infringing alternatives or to obtain licences. There is no assurance that our Group will succeed in developing such alternatives or in obtaining such licences on reasonable terms, or at all, and any failure to do so may disrupt our Group's manufacturing processes, damage our reputation and affect our profitability.

Any delay in delivery and/or installation of our industrial automation systems and sludge treatment products may affect our cash flow position and results of our operation, and may cause material fluctuations in our revenue in the future

We principally sell our industrial automation systems and sludge treatment products to our customers on a project basis, and contract sums are usually payable by our customers in the following stages: (i) a down payment of approximately 10% to 30% of the total contract value either upon signing of the relevant contract or within the stipulated number of days from the date of the contract, which is usually within 30 days from the date of the contract; (ii) up to approximately 90% to 95% of the contract sum upon delivery of our products to our customer's site; and (iii) approximately 5% to 10% of the remaining contract value 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 on-site testing, whichever is earlier).

Production of our industrial automation systems requires an average of 45 days from the commencement of primary processing until such products are available for delivery, whereas for our sludge treatment products, it usually takes an average of 128 days for the final sludge treatment product to be available for delivery to our customers after the commencement of primary processing, depending on the complexity and scale of the individual project.

Although we are offered credit terms by our suppliers and may be able to rely on the credit granted by the financial institutions for meeting some of the payment obligations to our suppliers if necessary, we may still have to pay in advance certain costs and expenses prior to receipt of a substantial portion of the contract sum from customers upon the delivery of our products. As our customers are required to pay up to approximately 90% to 95% upon product delivery, any delay in any stage of our production process, or if our customers request us to delay our product delivery due to (i) customers' own delay in the completion time of required preparatory work at their premises before machinery installation; or (ii) customers' own delay in the construction schedule of their production facilities, it may result in delayed receipt of payments from our customers. As such, the timing difference between the payment and credit terms given by us to our customers and the payment and credit terms given to us by our suppliers may result in significant cashflow mismatch which may adversely affect our cash flow position and our ability to meet our working capital requirements in the future.

Generally, we require an average of 133 days for the completion of on-site installation, testing and inspection for our industrial automation systems and an average of 285 days for our sludge treatment products. During the Track Record Period, we generally recognised revenue from the sales of industrial automation systems upon successful completion of on-site testing and inspection and receipt of our customer's acknowledgement of acceptance of our products. As the installation of our industrial automation systems as well as other parts and components provided by other third-party suppliers to the customers' paper-making machine may take place simultaneously, the actual time required for on-site installation of the customers' paper-making machine will depend on when all of these necessary parts and components, including our Group's industrial automation systems, can be fully installed. The on-site testing of our customers' entire paper-making machine cannot commence unless installation of all such parts and components, including our industrial automation systems, is fully completed. As the parts and components required for the assembly of our customers' paper-making machine, other than our industrial automation systems, are not provided by our Group, and we are unable to control the time required by our customers for the installation of such other parts and components, there is no assurance that our customers may complete the on-site testing and inspection and acknowledge acceptance of our products in a timely manner. As such, any delay in on-site installation and final testing of our products may result in delay in the timing of revenue recognition of our sales of these products and may adversely affect our results of operations.

If there is substantial inventory balance, our spare parts and components become obsolete or their market prices fall below their costs in the future, and our results of operations may be adversely affected

Our inventory comprises raw materials, work in progress and finished goods. Raw materials mainly comprise parts and components of industrial automation systems and sludge treatment products such as inverters, low voltage components and modules used in the assembly and manufacture of our products, and spare parts and components used as replacement parts during the warranty period, in our after-sales services or as back-up supplies in case of urgent needs by customers. Work in progress represents semi-finished products assembled at our production plant. Finished goods represent our industrial automation systems and sludge treatment products which have been delivered to our customers but have not passed the final testing and inspection at the customers' sites. As at 30 June 2011, 30 June 2012 and 31 December 2012, we had an inventory balance of approximately HK$104.7 million, HK$111.2 million and HK$115.1 million respectively, representing approximately 47.3%, 44.4% and 49.2% of our total assets as at the respective date. The significant inventory balance was primarily due to our relatively long production, on-site installation and testing cycle as all of our delivered products which required on-site installation and testing had been recorded as finished goods as part of our inventory if these products had not yet passed the final testing and inspection at the customers' sites.

Apart from the parts and components we procure for our projects on a per-contract basis, it is our policy to maintain spare parts and components that we consider sufficient for meeting urgent needs of our customers for repair and maintenance. The spare parts and components we maintained amounted to approximately HK$10.1 million, HK$10.4 million and HK$10.5 million as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively, representing approximately 9.6%, 9.4% and 9.1% of our inventory balance as at the respective date. We generally determine the level of our spare parts and components that are required for meeting our customers' urgent needs for repair and maintenance based on our own experience. We would usually consider the factors such as (i) the frequency of usage of the particular types of spare parts and components in our production processes; (ii) whether they are of a nature that we can use in subsequent projects; (iii) the availability of these spare parts and components based on our previous experience when dealing with the suppliers; (iv) the estimated level of usage of the particular types of spare parts and components in providing our after-sales services; and (v) the lead time of our purchase orders to suppliers.

The paper-making process is often required to operate continuously for practical as well as economic reasons, and the shutting down and starting up of paper-making machine may result in loss of operating time and the production of off-quality products that may need to be reprocessed or disposed of. It is therefore important for paper-making companies to ensure that their paper-making machines can operate continuously without any disruptions as well as access to spare parts for timely repair in the event of a system failure or malfunction.

As at 31 December 2012, a batch of raw materials with cost of approximately HK$2.0 million was considered as obsolete. A provision of approximately HK$1.6 million was made as at 31 December 2012. If our spare parts and components become obsolete due to reasons such as technological advancement of industrial automation systems and sludge treatment products, improper maintenance of them or their market prices falling below their costs in the future, we would have to record impairment losses for them which would adversely affect our results of operations.

Any price and supply fluctuations of raw materials, in particular, the inverters, the low voltage components and the modules used in our production processes may increase our production costs and affect our Group's results of operations

The supply of parts and components for our industrial automation systems and sludge treatment products may be interrupted for various reasons, including the availability and pricing of raw materials, such as inverters, low voltage components and modules which are the major types of raw material used in our production processes. Any sudden or significant increases in prices for the requisite parts and components for production may adversely affect our Group's results of operations and profit margins. Our suppliers of raw materials may also increase their prices steeply in response to increases in costs of parts and components used by them in their manufacturing. Adjusted Cost of Raw Materials was the largest component of our cost of sales, accounting for approximately 86.5%, 92.1% and 89.3% for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. There is no guarantee that the costs of raw materials will remain stable in the future, or that any price increases will not lead to unexpected and potentially significant increases in our Group's production costs. Our Group cannot assure that it will be able to increase the price of its products without affecting its sales in the future. If we are unable to increase the prices of our products or services to set-off any increases in the costs of the raw materials, our Group's profitability and profit margins may be adversely affected.

If we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price contracts, our results of operations would be adversely affected

Most of our Group's revenue was derived from fixed-price contracts during the Track Record Period. Under these contracts, we execute our projects or perform our services at a fixed price and, as a result, we may be unable to recover any cost overruns. In determining the price of the contracts, our Group shall estimate the costs of executing the projects or performing our services, taking into account various factors, including but not limited to, the costs of engineering, raw materials and labour. As most of our sales contracts entered into during the Track Record Period and up to the Latest Practicable Date were fixed-price in nature and procurement arrangements with our suppliers of raw material were entered into after signing of relevant sales contracts, our Group would not be able to pass on any increase in cost of raw materials to our customers if our Group experienced an unexpected increase in cost of raw materials during the period from signing of a sales contract to placing the relevant purchase order. The actual costs may differ from our Group's estimation due to unanticipated technical problems which may require us to incur additional costs we cannot recoup, failure to properly estimate the repair or maintenance requirements of our customers and other unforeseeable reasons. In the event that the costs of the contracts increase unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensations, the financial performance and profitability of our Group will be adversely affected.

If we fail to collect trade receivables that are long overdue from our customers, our cash flow position and results of our operation may be adversely affected

Our total trade receivables consist of warranty deposits which represented 5% to 10% of the contract sum receivable from customers upon expiry of the warranty period and other trade receivables which represented the outstanding receivables, excluding warranty deposits, from customers in relation to the completed projects (i.e. products have been delivered and on-site testing and inspection have been completed and acceptance of products acknowledged by the customers) or in relation to our after-sales services.

As at 31 December 2012, our total trade receivables amounted to approximately HK$40.3 million and a provision of impairment of trade receivables of approximately HK$2.8 million was made. Out of our net trade receivables of approximately HK$37.5 million, approximately HK$10.0 million, or 26.5% were overdue by more than three months as at 31 December 2012.

Up to 31 March 2013, 20.6% of these trade receivables that were overdue by more than three months as at 31 December 2012 had been settled. We cannot assure that we will be able to collect all trade receivables, in particular those overdue by more than three months from our customers. Any default or delay in payment by our customers or our failure to collect trade receivables from them may cause provision for trade receivables to be made in the future, and may adversely affect our cash flow position and results of operations.

Reliance on key management and ability to attract and retain key personnel

Our Directors believe that our success is, to a large extent, attributable to the expertise and experience of our executive Directors, Mr. Zhu, Mr. Zhong Xin Gang and Mr. Jin Hao (details of whom are disclosed in the section headed "Directors, senior management and staff" in this prospectus) and the technical expertise of our research development team. Although we have entered into a service agreement with each of the key technical and management and research and development personnel for a fixed term, competition for professional employees is intense, and there is no assurance that they will remain employed with our Group in the future. If any such members leave our Group and we are unable to find immediate replacements or recruit competent successors, or hire competent personnel in connection with our future growth, our Group's future plans, implementation of our business strategies and our current business operations may be disrupted.

We have limited insurance coverage and we have not maintained any product liability insurance

Our business operations, particularly our production activities, involve inherent risks and occupational hazards which cannot be completely eradicated through preventive efforts. We cannot assure that accidents, which may result in property damage, bodily injuries or even fatalities, will not occur at our Group's production facilities. Any uninsured loss or damage to property, litigation or business disruption may cause our Group to incur substantial costs, which could materially and adversely affect our financial condition and operation results. The occurrence of certain incidents including earthquake, fire, severe weather, war, floods, power shortages and the consequent damages and/or disruptions resulting from them may not be adequately covered, or at all, by our Group's existing insurance policies. If we incur substantial liabilities not covered by our Group's existing insurance policies, or if our business operations are interrupted for a substantial period of time, we may incur costs and losses that may materially and adversely affect our Group's business, financial condition, results of operations and business prospects.

We may also be subject to product liability claims, litigation and complaints. Under the PRC laws, our Group is not required to maintain any insurance policies in relation to its business or its products sold or distributed. We may be exposed to claims of personal injury, property loss suffered by our customers or their employees due to defective products produced by us. We have not maintained any insurance coverage for product liability. This may cause our Group to expend significant resources and time to defend ourselves if legal proceedings for product liability are instituted against us. This may adversely affect our reputation, leading to a loss of future business and customers, which may in turn affect our financial condition, results of operation and prospects.

Any significant downtime in our production facilities will adversely affect our Group's business

Substantial investments in production facilities and uninterrupted production processes are essential for our business. Repair works and disruptions to our production due to material damage to our production facilities from unforeseeable events, such as earthquakes, floods and fires, or its resulting consequences and disruptions, could be costly and time-consuming. Any disruption or delay in our production may cause us to incur additional expenses in order to produce sufficient inventory to meet our deadlines and could consequently impair our ability to fulfil our customers' demands, leading to cancellation of orders, all of which will have an adverse impact on our Group's reputation and results of operations.

Our research and development activities may not yield the expected benefits for us

Our Group's continued success partly depends on our ability to maintain our commitment to our research and development efforts. During the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we expended approximately HK$5.8 million, HK$7.4 million and HK$5.8 million respectively on research and development activities, representing approximately 5.9%, 3.2% and 4.8% respectively of our total revenue for the same period. However, there is no assurance that research and development activities undertaken by us will be successful or yield the anticipated benefits. Even if such activities are successful, we may not be able to apply the new technologies to our products in a timely manner to take advantage of the market opportunities available. Market demand anticipated at the initial stages of our Group's lengthy research and development cycle may not materialise by the end of the research, and the benefits that may be reaped from such newly developed technologies or products may be affected by competitors' rampant replication of such technologies or products. Technologies or products developed may also be rendered obsolete by new products, newer models of existing products, or new technologies developed by other competitors in the industry. In the event that technologies or products developed by us are replicated, replaced or made redundant, our revenues may not be sufficient to offset the costs incurred for research and development activities, which could adversely affect our Group's business and financial performance.

Our industrial automation systems and sludge treatment products have a long useful life which may lead to a long average replacement cycle

We estimate that the useful life of our industrial automation systems and sludge treatment products ranges from 12 years and seven years, respectively, provided that regular inspections and maintenance of the machinery are performed by our customers. While we may from time to time derive revenue from our existing customers by providing after-sales services for their products, there is no assurance that we can derive revenue from our existing customer base through sales of industrial automation systems and sludge treatment products as these customers' needs for product replacement may be low due to long useful life of our industrial automation systems and sludge treatment products or technical advancement is slower than what we expected. If our Group is not able to acquire new customers for our industrial automation systems and sludge treatment products or develop new products which fulfill the evolving technical and capacity requirements of our new and existing customers, the growth of our turnover from sale of industrial automation systems and sludge treatment products may be restricted and as a result our Group's financial performance may be adversely affected.

Unexpected difficulties in the future expansion of our business may affect our operations and financial results

We have plans to expand our business in the future by, among other things, increasing the range of products offered and expanding our customer base. However, any expansion may require managerial, technical, financial, production, operational and other resources, systematic internal control systems and the employment of additional skilled personnel. We may also be required to look for new customers, suppliers, and establish business relationships with other relevant third parties. Our Group cannot assure that we will be able to expand our operations effectively in the future and any failure to do so may adversely affect our operations and financial results, since we would have devoted substantial financial resources (in the form of capital expenditures) and human resources (in the form of management time and expenses associated with hiring and training new employees) towards any such failed attempts at expansion.

Compliance with existing or future environmental laws and regulations may increase our costs and affect our Group's profitability

The production of our industrial automation systems and sludge treatment products mainly involves the assembly of parts and components, and such production processes are subject to various PRC environmental laws and regulations such as the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (中華人民共和國固體廢物污染環境防治法). We are unable to predict the nature, scope or effect of future regulatory requirements on our operations or the manner in which existing or future laws will be implemented or interpreted. Materials, products or certain activities that were previously not subject to any environmental regulations may be subject to future regulations. There may be significant costs involved in complying with new or more stringent regulations, or as a result of more vigorous enforcement from regulatory authorities. Any violations of such regulatory requirements may result in monetary penalties and other sanctions that may negatively impact our Group's reputation and financial conditions. We may also be required to suspend part or all of our operations until a violation is rectified. The costs of rectifying violations or settling enforcement actions initiated by regulatory or government authorities may be substantial.

The preferential tax treatment our Group currently enjoys may be changed or discontinued which may adversely affect our Group's profitability

Huazhang Technology has been granted a certificate of high-tech enterprises with a validity period from January 2008 to December 2010 and from January 2011 to December 2013 respectively according to Measures for the Administration of the Recognition of Hi-tech Enterprises (《高新技術企業認定管理方法》), which was promulgated by the MST, Ministry of Finance of the PRC (中華人民共和國財政部) and SAT on 14 April 2008 and retrospectively came into force from 1 January 2008. Therefore, Huazhang Technology shall enjoy a preferential tax rate of 15% on enterprise income tax during the foregoing period. However, there is no assurance that Huazhang Technology will be continuously granted the status of high-tech enterprises with the favourable tax rate of 15%, and any change or discontinuation of such favourable tax treatments may adversely affect our Group's profitability.

RISKS RELATING TO THE INDUSTRIAL AUTOMATION AND SLUDGE TREATMENT INDUSTRY

The growth of paper-making industry is correlated to macro-economic market conditions

For the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our sales to our customers in the paper-making industry amounted to approximately HK$85.2 million, HK$214.9 million and HK$98.5 million respectively, representing approximately 86.0%, 93.6% and 82.3% respectively of our Group's total revenue for the same period.

The demand and supply for paper and paperboard products are correlated to macro-economic market conditions. There is no assurance that the growing trend of our revenue will continue in the future. If the PRC's economy experiences a slowdown or downturn thereby resulting in decreased demand of paper and paperboard products, the demand for our Group's industrial automation systems and sludge treatment products may also be decreased and thereby affecting our financial condition and results of operations.

Competition from other international competitors in the PRC may affect our business and profitability

Competition in the industrial automation system market is very intense. Renowned international companies have set up offices in the PRC and domestic companies have been taking a proactive approach to absorb international standards in order to join the competition for market share. Given that revenue derived from sales of our industrial automation systems represented approximately 85.5%, 87.5% and 58.0% of our Group's total revenue during the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, if other new competitors were to enter the industry, our Group's market share might be reduced and this may have a negative impact on our future business and profitability.

Rapid changes in the industrial automation system industry may render our Group's industrial automation systems and sludge treatment products obsolete

The industrial automation system industry and sludge treatment product industry are constantly evolving and the technology incorporated in the manufacture of such products is ever-changing. If our Group cannot adapt to changes in customers' requirements or is unable to keep pace with new technological advancements in the industrial automation industry system and sludge treatment product industry or upgrade our production equipment and facilities in a timely manner, we may not be able to produce industrial automation systems and sludge treatment products in the future that will meet customers' specific needs. Any future inability to manufacture such new products will result in a reduction in sales volume, thereby reducing our market share and adversely affecting the revenue and profitability of our Group's business.

RISKS RELATING TO THE PRC

We are affected by general PRC and global economic and market conditions

For the past three years, the global financial crisis and economic downturn have materially and adversely affected the global economy, including the economy of the PRC. Primarily as a result of the continued effects of the global financial crisis in 2008 and the recent euro zone sovereign debt crisis, there has been a general slowdown in the growth of the overall economy of the PRC. We cannot predict whether these adverse conditions will continue, how this may affect the overall global economy, and what effect this may have on the PRC economy. Any slowdown of the growth and development of the PRC economy may have a corresponding effect on our industry and demand for our products. In addition, the PRC government may implement measures to control liquidity in the market, including increases of interest rates, which could contribute to a slowdown in the overall economy of the PRC and result in further adverse developments in the PRC industrial automation and sludge treatment industry. Future adverse developments in the overall economy of the PRC could reduce the demand for our products in the domestic market and result in a material adverse effect on our business, results of operations and financial condition.

Provision of staff benefits as required by the PRC government may increase our operating costs and affect our profitability

Pursuant to the relevant PRC laws and regulations, we have made and will continue to make contributions to a National Social Security Fund (全國社會保障基金). Should the scope of these employee contribution funds expand or the rate of our Group's mandatory contributions increase, our Group's operating costs may increase which may consequently affect our profitability.

Failure to comply with workplace safety regulations in the PRC leading to penalties or fines may adversely affect our reputation and business operations

Our operations are subject to applicable workplace health and safety, fire prevention laws and other regulations. Such laws and regulations are increasingly stringent and the PRC government is adopting a rigorous enforcement approach. As such, we may need to allocate more capital expenditure in order to ensure compliance with the relevant laws and regulations. If we fail to comply with such laws or regulations, we may be required to take corrective action, or pay penalties or fines. Any of these factors may have a material adverse effect on our Group's reputation, business operations and financial condition.

PRC governmental control on currency conversion and exchange control may adversely affect our financial condition and results of operations

RMB is not freely convertible to other currencies. According to the Foreign Exchange Control Regulations and the Regulations on the Foreign Exchange Settlement, Sales and Payments, foreign investment enterprises are allowed to remit their profit or dividends overseas in foreign currencies or remit such profit or dividends after converting them from RMB to foreign currencies through banks which are authorised to engage in the foreign exchange business. Foreign investment enterprises are also allowed to convert RMB to foreign currencies for items in current accounts (including such dividend payments to foreign investors), whereas the conversion of RMB to foreign currencies for items in capital accounts (such as direct investment, loan and investment in securities) is subject to more stringent controls.

Our Group's PRC operations are mainly undertaken by RMB, and are subject to the abovementioned regulations. There is no assurance that we will be able to obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange. This may, therefore, adversely affect our Group's ability to pay dividends.

On 21 July 2005, the PRC government abolished the dollar pegging system applied previously and adopted a controlled floating exchange rate that is adjusted based on market demand and by reference to a basket of currencies. The revaluation has since resulted in the RMB appreciating against the US dollar and Hong Kong dollar. Any increase in the value of the RMB may negatively affect the growth of the PRC economy, as well as the competitiveness of various industries in the PRC, which could in turn affect our financial condition and results of operations.

If our Group expands its business to other jurisdictions in the future, and earn, incur or acquire revenues, expenses and assets in currencies other than RMB, any exchange rate fluctuations with respect to foreign currencies may have a material effect on our business, financial condition and operations in the future.

Payment of dividends by our Group is subject to restrictions under the applicable PRC law

Our Group operates its principal business through our subsidiary in the PRC, therefore the availability of funds to pay dividends to the Shareholders and to service our Group's indebtedness depends upon dividends received from this subsidiary. If our Group incurs any debts or losses, such indebtedness or loss may impair their ability to distribute dividends to our Company. As a result, our Group's ability to pay dividends and to service our Group's indebtedness will be restricted.

In addition, the PRC laws require dividends to be paid out of the net profit calculated according to PRC accounting principles and any PRC company must make contributions to a statutory reserve fund at a rate of 10% of the after tax profits. These statutory reserves are not available for distribution as cash dividends. Before making up the losses (if any) of previous years and allocating to the statutory reserve fund, any PRC company is prohibited from distributing dividends. Such restrictions may impact our Group's ability to pay dividends to the Shareholders.

Interest and dividends payable by us to our investors and gain on the sales of our Shares may be subject to income taxes under the PRC tax laws

According to Tax Law, the PRC withholding tax at the rate of 10% is applicable to interest and dividends payable to investors that are "non-resident enterprises" which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC withholding tax if such gain is considered as income derived from sources within the PRC.

If our Company is considered as a PRC "resident enterprise", it is unclear whether the interest or dividends paid in relation to our ordinary shares, or the gain that our non-PRC shareholders may realise from transfer of our ordinary shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. However, Hong Kong, where the intermediate holding company of our PRC operating subsidiary was incorporated, has entered into a treaty that reduces the withholding tax rate to 5% on dividends received by Hong Kong companies from their PRC subsidiaries under certain conditions.

Similarly, the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise* (關於加強非居民企業股權轉讓所得稅管理的通知) (Circular Guoshuihan [2009] No. 698) provides that except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company ("Indirect Transfer") located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterise the Indirect Transfer. As a result, the foreign investor is subject to the risk that gains derived from such Indirect Transfer by the foreign investor may be subject to the PRC EIT.

If the Tax Law requires our Company to withhold PRC income tax on interest or dividends payable to our non-PRC shareholders that are "non-resident enterprises" or if investors are required to pay PRC income tax on the transfer of our Shares, the value of investors' investment in our Shares may be materially and adversely affected. A recently enacted PRC tax law could also affect tax exemptions on dividends received by our Company and our shareholders, and increase the enterprise income tax rate applicable to us.

The PRC legal system is not fully developed and has inherent uncertainties that may limit the legal protections available to our Group

The PRC legal system is fundamentally based on written statutes and legal interpretation by the Standing Committee of the NPC. Although prior court decisions may be cited for reference, they have limited precedential value. The PRC government has been developing a comprehensive system of commercial laws, and there has been considerable progress made in the introduction of laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and due to the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties and this may limit the legal protections available to our Group.

Difficulties in seeking recognition and enforcement of foreign judgments or arbitral awards in the PRC

Almost all of our executive Directors and senior management reside in the PRC, and a substantial part of our Group's assets are located within the PRC. Thus, investors may encounter difficulties in enforcing foreign judgments or arbitral awards against our executive Directors, senior management or our Group within the territory of the PRC. The PRC does not have treaties or arrangements providing for the recognition and enforcement of judgments made by the courts in most jurisdictions. On 14 July 2006, Hong Kong and China entered into the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Region Pursuant to Choice of Court Agreements Between Parties Concerned" (the "Arrangement"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring monetary payment in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. As such, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not entered in writing a choice of court agreement. Therefore, investors may have difficulties effecting service of process against our Group's assets in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

The PRC is a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"), which allows for the enforcement of arbitral awards given by the arbitral bodies of other New York Convention signatories. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in other parts of the PRC. As a result, a memorandum of understanding was signed on 21 June 1999 to permit reciprocal enforcement of arbitral awards between Hong Kong and the PRC. Such memorandum of understanding was approved by the People's Court and the Hong Kong legislative council and came into effect on 1 February 2000. Hence, it may be difficult to seek recognition and enforcement of arbitral awards in the PRC if the arbitral awards were awarded by arbitral bodies that are not signatories to the New York Convention, and do not have similar arrangements under the memorandum of understanding between Hong Kong and the PRC.

RISKS RELATING TO THE PLACING

We may experience a material adverse change in our financial results for the year ending 30 June 2013 which is mainly attributable to the expenses incurred in relation to the Listing

Our Directors currently estimate that the total expenses in relation to the Listing will amount to approximately HK$22.1 million. As at 31 December 2012, total listing-related expenses paid and/or payable by our Group amounted to approximately HK$10.2 million. Approximately HK$2.2 million and HK$4.7 million out of such fees has been recognised in our combined statement of comprehensive income for the year ended 30 June 2012 and the six months ended 31 December 2012 respectively, and approximately HK$3.4 million has been recorded as prepaid and deferred professional service fees in our combined balance sheets as at 31 December 2012. Our Directors expect that further listing-related fees of approximately HK$7.8 million and HK$7.4 million will be charged to our combined statement of comprehensive income for the year ending 30 June 2013 and our equity directly upon Listing respectively. The estimated future listing-related expenses to be charged to our combined statement of comprehensive income are subject to adjustments based on changes in variables and assumptions. As such, our Directors expect that we may experience a material adverse change in our financial results for the year ending 30 June 2013, which is mainly attributable to this significant non-recurring item of expenses incurred in relation to the Listing.

Liquidity and possible price volatility of our Shares

Prior to the Placing, there was no public market for our Shares. An active trading market for our Shares may not develop after the Placing and the market price and liquidity of our Shares may be adversely affected. The Placing Price may not be indicative of the price at which Shares will be traded on the Stock Exchange and future sales by our Group or its existing Shareholders of substantial amounts of Shares after the Placing could adversely affect market prices prevailing from time to time. As such, there is no assurance that an active trading market for our Shares will develop, or, if it does develop, that it will sustain after the Listing Date, or that the market price of our Shares will not fall below the Placing Price.

Volatility in the trading price of our Shares may be caused by factors outside our Group's control and may be unrelated or disproportionate to our Group's operating results. Factors affecting the volatility of the trading price of shares may include:

- investors' perception of us and our business plans;
- fluctuations in our Group's operating results;
- changes in pricing policy adopted by us and our competitors;
- changes in our senior management personnel; and
- general economic factors.

Fluctuations in our Group's operating results may affect our Share price

The following are, among others, some factors that may cause significant fluctuations in our operating results:

- changes in demand for our products and services;
- delay in delivery and/or installation of our industrial automation systems and sludge treatment products;
- our effectiveness in managing our manufacturing processes and controlling our costs;
- ability to keep up-to-date with the latest technologies in the industry; and
- our ability to utilise any available manufacturing capacity at our most optimal level.

Our Group's operating results may fluctuate due to the abovementioned factors and other risks discussed in this section, many of which are beyond our control. Therefore, the price of our Share may be volatile and may not always accurately represent the longer-term value of our Group.

Historical dividends are not indicative of future dividends

During the year ended 30 June 2012, we declared and paid approximately HK$12.7 million as dividends. The value of dividends declared and paid in previous year should not be relied on by potential investors as a guide to the future dividend policy of our Group or as a reference or basis to determine the amount of dividends payable in the future. There is no assurance that dividends will be declared or paid in the future, at a similar level or at all. The amount of any dividends to be declared in the future will be subject to, among other factors, our Directors' discretion, having taken into account the substantial capital requirements of our Group in the foreseeable future, the availability of distributable profits, our Group's earnings, working capital, financial position, capital and funding requirements, the applicable laws and other relevant factors.

In any event, there is no assurance that our Company will receive sufficient distribution from our subsidiaries to support any future profit distribution to our Shareholders, or that the amounts of any dividends declared by our Company in the future, if any, will be of a level comparable to dividends declared and paid by us in the past, or by other listed companies in the same industry as our Group.

Dilution of Shareholders' interests in additional equity fund raising

Our Company may raise further funds in the future to finance the expansion of the existing business or to develop new businesses. If the additional fund raising is not done through issuing new equity securities to the existing Shareholders on a pro-rata basis, the interests of the existing Shareholders may be diluted as a result of any new issue of Shares.

Termination of the Underwriting Agreements

Prospective investors of the Placing Shares should note that the Sole Lead Manager (for itself and on behalf of the Underwriters) is entitled to terminate their obligations under the Underwriting Agreement by giving notice in writing to us upon the occurrence of any of the events set out in the paragraph "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events may include, without limitation, any act of God, wars, riots, public disorder, civil commotion, economic sanction, epidemic, fire, flood, explosions, acts of terrorism, earthquakes, strikes or lock-outs. In the event that the Sole Lead Manager (for itself and on behalf of the Underwriters) terminates its obligations under the Underwriting Agreement in accordance with the terms thereof, the Placing shall not proceed and no Placing Shares shall be allotted to any prospective investors.

Investors should not place any reliance on any information contained in press articles or other media regarding our Group and the Placing

There may have been press and media coverage regarding our Group and the Placing, which may contain references to certain events, or information such as financial information, financial projections, and other information about us that do not appear in this prospectus. Potential investors should only rely on the information contained in this prospectus, the application forms, and any formal announcements made by us in Hong Kong when making any investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, the fairness, appropriateness or reliability of any forecasts, or the views or opinions expressed by the press or other media regarding our Shares, the Placing, or our Group. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication by the press or media. To the extent that any such information appearing in publications other than this prospectus is inconsistent with, or conflicts with, the information contained in this prospectus, our Group disclaims it. Accordingly, prospective investors are cautioned against making their investment decisions in reliance on any other information, reports, or publications other than this prospectus.

RISKS RELATING TO THIS PROSPECTUS

Forward-looking statements may prove inaccurate and therefore investors should not place undue reliance or such information

This prospectus contains certain "forward-looking" statements and information and adopts forward-looking terms such as "will", "may", "could", "expect", "believe", "should" or "anticipate". Those statements include, among other things, the discussion of our Group's plans, objectives, expectations and intentions. Investors should be cautious against placing undue reliance on any forward-looking statements as it may involve risks and uncertainties, and the assumptions on which the forward-looking statements are based could turn out to be inaccurate, although our Group is of the belief that the assumptions are reasonable. The uncertainties in this aspect include, but are not limited to, those disclosed in this "Risk factors" section, of which many are not within our control. As such, the inclusion of forward-looking statements in this prospectus that our plans, objectives or estimates will be achieved, should not be regarded as representations by us, and investors should not place undue reliance on such forward-looking statements. We are not obliged to update or revise any forward-looking statements in this prospectus, whether by reason of new information, future events or otherwise.

Undue reliance on industrial statistics derived from various official governmental sources

Certain facts and publicly available statistical information in this prospectus that do not relate directly to our Group's operations, including those relating to the PRC, its economy, the industrial automation system industry and the sludge treatment product industry, have been derived or extracted from various publicly available official governmental sources. Whilst our Directors have taken reasonable care in the selection and reproduction of such information in this prospectus, neither our Company, the Sole Sponsor, the Sole Lead Manager, the Underwriters nor any other parties involved in the Placing has independently verified such information, and it may be inaccurate, incomplete or out-of-date. We make no representation as to the accuracy or completeness of such information and there is no assurance that such information contained in this prospectus is prepared to the same standard or level of accuracy and comparable with similar kind of information available in other publications or jurisdictions. Therefore, prospective investors should not place undue reliance on the information obtained from various official governmental sources contained in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading. All opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE PLACING

This prospectus is published solely in connection with the Placing.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus, on the terms and subject to the conditions set out herein. No person in connection with the Placing is authorised to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, and any of their respective directors, agents, employees or advisers or any other person involved in the Placing.

FULLY UNDERWRITTEN

The Listing is sponsored by the Sole Sponsor. 68,000,000 Placing Shares are offered by our Company by way of the Placing, which is managed by the Sole Lead Manager and is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement). Further information about the Underwriters and the underwriting arrangements is contained in the section headed "Underwriting" in this prospectus.

PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

Each person acquiring the Placing Shares will be required, and is deemed by his acquisition of the Placing Shares, to confirm that he is aware of the restrictions on offer of the Placing Shares described in this prospectus and that he is not acquiring, and has not been offered, any Placing Shares in circumstances that contravene any such restrictions.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus. Accordingly this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

Prospective investors for the Placing Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective investors for the Placing Shares should inform themselves as to the relevant legal requirements of applying for the Placing Shares and any applicable exchange control regulations in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING OF OUR SHARES ON GEM

Our Company satisfies the requirements relating to continuity of ownership and control throughout the full financial year immediately preceding the Latest Practicable Date and up until the Listing Date under Rule 11.12A(2) of the GEM Listing Rules.

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and which are to be issued pursuant to the Placing (including any Shares to be issued under the Capitalisation Issue, any Shares to be alloted and issued upon exercise of the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme) on the GEM. Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. A total of 68,000,000 Placing Shares, representing 25% of the enlarged issued share capital of our Company, will be in the hands of the public immediately following completion of the Placing and upon the Listing (without taking into account any new Shares which may fall to be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme). No part of our Company's share capital or loan capital is listed or dealt in on any other stock exchange. As at the Latest Practicable Date, our Company was not seeking or proposing to seek a listing of, or permission to deal in, any part of its share capital or loan capital on any other stock exchange other than the GEM.

Subject to our Articles of Association, our Shares are freely transferable.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any placing of the Placing Shares will be void if permission for the listing of our Shares on the GEM has been refused before the expiration of three weeks from the date of closing of the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

All the Shares will be registered on the branch register of members of our Company in Hong Kong. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on the GEM unless the Stock Exchange otherwise agrees.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in our Shares or exercising their rights thereunder.

STAMP DUTY

Dealings in our Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and their respective directors or employees or any other persons involved in the Placing accepts responsibility for any tax effects on, or liability of, holders of our Shares resulting from the subscription for, holding, purchase, disposal of or dealing in our Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on the GEM and compliance by our Company with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or such other date as HKSCC chooses.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

DEALINGS AND SETTLEMENT

Dealings in our Shares on the GEM are expected to commence on Thursday, 16 May 2013.

Our Shares will be traded in board lots of 4,000 Shares.

The GEM stock code for our Shares is 8276.

Our Company will not issue any temporary document of title.

STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure and conditions of the Placing are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Zhu Gen Rong (朱根榮)	Room 701 No. 8 Fengjiadou Shangcheng District Hangzhou City Zhejiang Province PRC	Chinese
Zhong Xin Gang (鍾新鋼)	Room 202, Unit 8 Tower 4 Liuxiafang Qinqinjiayuan Liangzhu Town Yuhang District Hangzhou City Zhejiang Province PRC	Chinese
Jin Hao (金皓)	Room 502, No. 6 Entrance No. 540 Zhongshanbei Road Xiacheng District Hangzhou City Zhejiang Province PRC	Chinese
Independent non-executive Directors		
Dai Tian Zhu (戴天柱)	Room 702 No. 22 Lane 1227 Changning Road Shanghai City PRC	Chinese
Chen Jin Mei (陳錦梅)	Room 301, Unit 1 Building 18 Dinganyuan Hangzhou City Zhejiang Province PRC	Chinese
Kong Chi Mo (江智武)	Flat 5, 3rd Floor Fuk Wo Mansion No. 43 Tung Chau Street Kowloon Hong Kong	Chinese

PARTIES INVOLVED IN THE PLACING

Sole Sponsor	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Sole Bookrunner and Sole Lead Manager	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Placing Underwriters	Ever-Long Securities Company Limited 18th Floor Dah Sing Life Building 99-105 Des Voeux Road Central Hong Kong Hong Kong International Securities Limited 23rd Floor Arion Commercial Centre 2-12 Queen's Road West Hong Kong
Legal advisers to our Company	*as to Hong Kong law* Stevenson, Wong & Co. 4th and 5th Floor, Central Tower No. 28 Queen's Road Central Hong Kong *as to PRC law* ETR Law Firm 7th Floor, Bank of Guangzhou Square No. 30 Zhujiang Dong Road Zhujiang New City, Guangzhou PRC

as to Cayman Islands law
Conyers Dill & Pearman (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Legal advisers to the Sole Sponsor and the Underwriters

as to Hong Kong law
P. C. Woo & Co.
12th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

as to PRC law
Jurisino Law Group
2nd Floor, Tower B
Global Finance & News Center
No. 1A, Xuanwumenwai Avenue
Xicheng District, Beijing 100025
PRC

Auditor and reporting accountant

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Property valuer

Cushman & Wakefield Valuation Advisory Services (HK) Limited
9th Floor, St George's Building
2 Ice House Street
Hong Kong

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in the PRC	1360 Zhenhua Road, No.2 Industrial Area Tongxiang Economic & Technical Development Zone Tongxiang, Zhejiang Province 314500 PRC
Principal place of business in Hong Kong	Unit No. 5A, 8th Floor Tower 1, South Seas Centre 75 Mody Road Kowloon Hong Kong
Company website	www.hzeg.com *(contents of our Company's website do not form part of this prospectus)*
Compliance adviser	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Company secretary	Mr. So, Alan Wai Shing *(HKICPA)*
Authorised representatives	Mr. Zhu Gen Rong Room 701 No. 8 Fengjiadou Shangcheng District Hangzhou City Zhejiang Province PRC Mr. So, Alan Wai Shing Flat C, 23rd Floor, Block 8 Laguna City 25 Laguna Street Cha Kwo Ling Kowloon Hong Kong

Compliance officer	Mr. Jin Hao
Audit committee	Mr. Kong Chi Mo *(Chairman)* Ms. Chen Jin Mei Mr. Dai Tian Zhu
Remuneration committee	Ms. Chen Jin Mei *(Chairman)* Mr. Kong Chi Mo Mr. Dai Tian Zhu
Nomination committee	Mr. Dai Tian Zhu *(Chairman)* Mr. Kong Chi Mo Ms. Chen Jin Mei Mr. Zhu Gen Rong
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Hong Kong
Cayman Islands share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal bankers	CITIC Bank International Queen's Road West Branch Ground Floor, Sun On Building 488 Queen's Road West Hong Kong China Construction Bank Corporation Tongxiang sub-branch 15 Ching Feng Zhong Road Tongxiang, Jiaxing Zhejiang Province PRC

This section contains certain information which is derived from official government publications and industry sources as well as a report we commissioned from Euromonitor, an Independent Third Party. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from the above sources has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Placing.

The information from official government publications may not be consistent with information available from other sources within or outside the PRC. We, our affiliates or advisers, the Underwriters or their affiliates or advisers, or any party involved in the Placing do not make any representation as to the accuracy, completeness or fairness of such information from official government publications and, accordingly, you should not unduly rely on such information from official government publications.

COMMISSIONED REPORT FROM EUROMONITOR

We commissioned Euromonitor, an Independent Third Party, to conduct a detailed analysis of and produce the Euromonitor's report on, among other things, the PRC's industrial automation system and sludge treatment product market in relation to the paper-making industry for inclusion in this prospectus. The report commissioned has been prepared by Euromonitor independent of our influence. We paid Euromonitor fees of about USD45,400. Established in 1972, Euromonitor has offices around the world, analysts in 80 countries and market research on every key trend and driver, provides strategy research to support corporate strategic reviews, new business planning, product and brand management, competition strategies and inform supplier relationships.

THE INDUSTRIAL AUTOMATION SYSTEM MARKET IN THE PRC'S PAPER-MAKING INDUSTRY

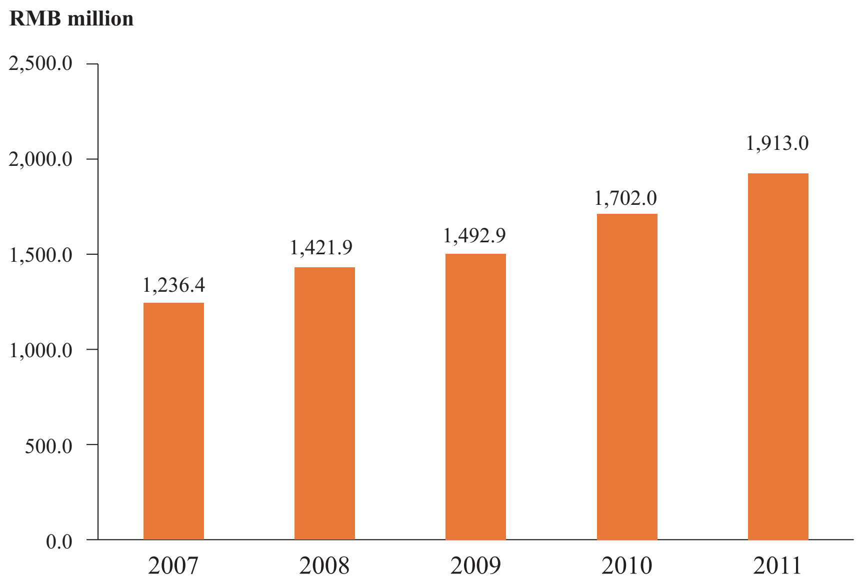
The PRC's industrial automation system market at a glance

Industrial automation systems are widely used in manufacturing industries in the PRC, which include paper-making, chemicals, electricity, petrochemicals, metallurgy and mining. In 2011, the industrial automation system market in the PRC reached RMB92.0 billion in terms of sales revenue and chemical, electricity, petrochemical and metallurgy industries in aggregate accounted for over 50.0% of the market share.

Market status quo of industrial automation system in the paper-making industry

Industrial automation systems for the paper-making industry emerged in the PRC in the 1990s and have been developing rapidly along with the robust economic growth in the PRC over the past 20 years. Although growth of the industrial automation system market experienced some fluctuations due to the 2008 global financial crisis, the PRC economy has rebounded since then and the industrial automation system market for the paper-making industry reached RMB1.9 billion by the end of 2011, which accounted for approximately 2.1% of the entire industrial automation system market in the PRC.

Market size of the industrial automation system market for the PRC's paper-making industry



Source: Euromonitor

The industrial automation system market for the PRC's paper-making industry can be classified into three segments according to the production capacity of the individual paper-making machine, and such classification is widely recognised in the industry. Industrial automation systems catering for paper-making machines with a production capacity of more than 400,000 tonnes of paper products per year fall under the high-end segment; industrial automation systems catering for paper-making machines with a capacity between 300,000 and 400,000 tonnes of paper products per year fall under the middle-end segment; and industrial automation systems catering for paper-making machines with a production capacity of less than 300,000 tonnes of paper products per year fall under the low-end segment. Each paper manufacturer may own several paper-making machines of varying production capacities. The high-end segment accounted for approximately 40.0% to 50.0% in terms of market share for the industrial automation system market. Approximately 40.0% of the high-end segment can be attributed to world-renowned manufacturers, namely the PRC subsidiary of a Swiss company which shares are listed on Stockholm Stock Exchange ("Company A"), the PRC subsidiary of a German-based international technology company ("Company B") and the PRC subsidiary of a global supplier of technology and services for various industries and which shares are listed on NASDAQ OMX Helsinki Limited ("Company C"). With the PRC's largest paper manufacturers, which mainly use industrial automation systems in the high-end segment, as their stable customers, the dominant position of these three companies in the industrial automation system market for the PRC's paper-making industry is apparent. The middle-end segment of the industrial automation system market for the PRC's paper-making industry is dominated by local manufacturers based in the PRC such as Huazhang Technology, which compete for customers based on their technological strengths or competitive pricing and target a large number of medium-sized paper manufacturers which mainly use industrial automation systems in the middle-end segment. Huazhang Technology has the capability to produce middle-end industrial automation systems which cater for paper-making machines with a production capacity between 300,000 and 400,000 tonnes of paper products per year. Our sales of middle-end industrial automation systems accounted for approximately 11.2%, 41.6% and 36.4% of our revenue from sales of industrial automation systems to our paper-making customers for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. The low-end segment is relatively fragmented with scores of small industrial automation companies competing for the smaller and less lucrative parts of the market.

Major types of industrial automation system for the PRC's paper-making industry

In the industrial automation system market, drive control system, distributed control system, quality control system, machine control system and motor control centre are the major product types. Among these products, the drive control system accounted for approximately 50.0% of the overall market in terms of contract value, making it the most important product of the market. The drive control system transmits power and controls the speed of machinery and electrical flow. The distributed control system and machine control system are both automated control systems that incorporate computing and internet technologies, and they control a variety of signals through corresponding platform softwares. The quality control system performs quantitative control, water control, thickness control and scanning in the production process, and is a key factor of quality control in the paper-making process. The motor control centre controls the electricity supply that allows for the operation of all systems used within the production process.

Drivers of the industrial automation system market for the PRC's paper-making industry

The PRC achieved a GDP growth of over 10.0% in the past five years. The growing economy propelled the demand for paper products, which in turn accelerated the development of industrial automation systems for the paper-making industry.

During the 10th (2001-2005) and 11th Five-Year Plan (2006-2010) periods, the PRC government issued a plan for a national forestry-paper integrated project, which encouraged further developments and technological innovations in the paper-making industry, and consequently leading to the growth of the industrial automation system market.

The PRC's current annual consumption of paper is only approximately one-third to half of that in developed countries. It is expected that the demand for a variety of paper types including packaging paper, stationary paper and household paper will continue to increase as a result of economic growth and urbanisation in the PRC.

Competitive landscape

The top five companies in the industrial automation system market for the PRC's paper-making industry accounted for approximately 59.7% of the total market share in 2011. All of them possess mature technologies, stable customer bases and relatively large market shares. Please refer to the paragraph headed "Competitive strengths of our Group" under the section headed "Business" in this prospectus for further details about the competitive strengths of our Group.

The following table sets out the companies which are believed to have a major presence/market share in the industrial automation product market for the PRC's paper making industry by sales volume and market share in 2011:

Rank	**Company Name**	**Sales Value** *(approximately RMB Million)*	**Market Share** *(%)*
1	Company A	402.0	21.0%
2	Company B	390.0	20.4%
3	Company C	139.9	7.3%
4	Huazhang Technology	108.1	5.7%
5	Company D	101.0	5.3%
	Others	772.0	40.3%
	Total	1,913.0	100.0%

Source: Euromonitor

The table below sets out the background information and the principal business of companies which are believed to have major presence/market share in the industrial automation system market for the PRC's paper-making industry in 2011:

Name of company	Background information
Company A	Company A, headquartered in Zurich, Switzerland, is a Fortune 500 company and a leading manufacturer in power and automation technologies that enable power, utility and industrial customers to improve their performance while mitigating their environmental impact. Company A operates in more than 100 countries and has approximately 130,000 employees.
Company B	Company B, headquartered in Munich, Germany, is one of the world's largest electronics and electrical engineering companies. Company B has a complete line of businesses is operating in China, including information and telecommunication, automation and control, power, transport, medical, lighting and home appliance. Company B has approximately 460,800 employees in 190 countries and regions around the world.
Company C	Company C, headquartered in Finland, is one of the world's leading engineering and technology companies. Company C has around 28,000 professional employees in more than 100 countries and regions around the world to offer a full range of products and solutions to customers in construction, energy, mining, pulp and paper industries.
Company D	Company D is a diversified technology and manufacturing company, and its businesses include aerospace products and services, buildings and construction, household and industrial process controls, automotive, turbo charger and specialty materials. Company D is headquartered in Morris County, New Jersey, USA.

Market entry barriers

The industrial automation system market is relatively mature and thus there are fewer opportunities for new entrants as many of the large paper manufacturers have already been equipped with industrial automation systems procured from world-renowned companies. It is also relatively difficult for new entrants to break through cost barriers due to intense price competition in the low-end market. Medium-sized paper manufacturers usually purchase products from leading domestic suppliers as they are able to provide products of stable quality. World-renowned companies have dominated the high-end segment since they enjoy the advantages of early entry into the market, high production capacities and possess advanced technologies.

Raw material cost

The major parts and components used in industrial automation systems include inverters, low voltage components and modules. Each of the above parts and components has a wide range of prices depending on their specification and each industrial automation system requires a variety of each type of the above parts and components depending on a number of factors such as the output level required for the related machinery and budget of the users. The market prices of each of the above parts and components with the same specifications remained relatively steady in the past.

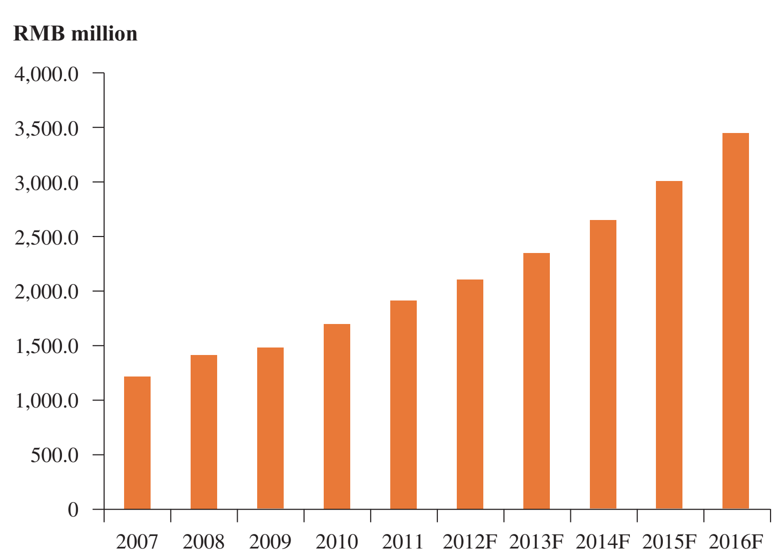
Gross profit of industrial automation systems

The low-end market is characterised by constant price wars between smaller companies, which leads to a lower gross profit rate of around 20.0%. Due to narrow profit margins, companies in the low-end market find it difficult to expand. The overall gross profit rate in the middle-end market is likely to remain steady at approximately 30.0% to 40.0%. The market shares of PRC companies have increased due to competitive pricing and technological upgrades. The overall gross profit rate for the high-end market is approximately 50.0% due to relatively mature technologies and strong research capabilities.

Market outlook

The size of the industrial automation system market is predicted to reach approximately RMB3.5 billion by 2016, approximately 1.8 times higher than that in 2011.

Prediction on market size of the industrial automation system market for the PRC's paper-making industry



Source: Euromonitor

Growth rate of the high-end, middle-end and low-end segments

The growth rate for the low-end market is predicted to be around 5.0%. In the high-end market, demand for large-scale paper machines is expected to be relatively low with an estimated growth rate of approximately 5.0% to 10.0%. While expanding into the low-end segment, large-and-medium sized local manufacturers based in the PRC in the middle-end market are expected to venture into the high-end segment and compete directly with high-end segment companies. Market players in the middle-end market are likely to increase their market share in the industrial automation system market for the PRC's paper-making industry, and the growth rate is estimated to be around 15.0%, the highest among the three segments.

Future market competition

As the industrial automation system market is relatively mature, competition in the future will focus on the capability in research and development of new technologies and the provision of after-sales services. New technologies focusing on better integration and coordination of the entire system, and after-sales services such as on-site technical support and the level of responsiveness will be the determining factors to the success of a company.

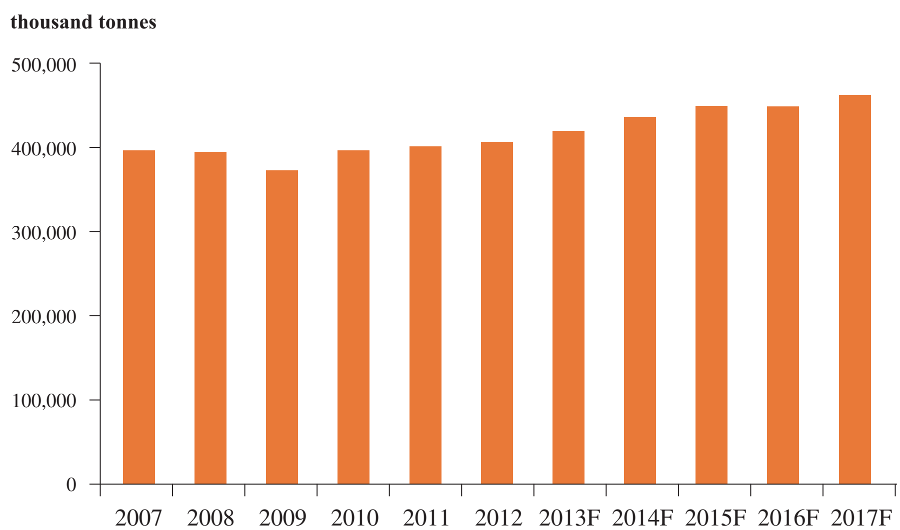
New technologies

Integrated automation is the concept of constructing a single system that combines all the functions that can be found in various systems, thus simplifying the overall structure of a system and reducing the use of interface units. It provides a unified technical environment for all automation applications, such as unified data management, communication, configuration, and editing software. In addition, systems in the future will utilise various control modes including self-adaptation, self-diagnosis, optimisation, and other advanced technologies in their software design and enhance the reliability of those systems.

OVERVIEW OF THE GLOBAL PAPER-MAKING INDUSTRY

The global paper-making industry has grown in the recent years, and its total output reached approximately 399.0 million tonnes for the year 2011, representing a growth of approximately 1.2% as compared to the year 2010. There are several types of paper products, including but not limited to newsprint paper, printing paper, and packaging paper. Although the rise of information technology has led to an increased use of the internet, email and digital devices for reading books and newspapers etc., and the global output of newsprint paper as a percentage of the global total output of paper has reduced from approximately 8.3% for the year 2010 to approximately 7.9% for the year 2011, the growth of the world's total output of paper and paperboard products was not significantly affected as newsprint paper only accounted for approximately 8.0% of the world's total output in both 2010 and 2011. In 2011, corrugated paper and printing paper which accounted for approximately 35.6% and 27.7% of the world's total output of paper and paperboard products, had experienced a growth of approximately 3.0% and a slight decrease of approximately 0.8% respectively as compared to year 2010. The chart below sets out the historic and forecast global consumption levels for paper and paperboard products:

Global consumption levels of paper and paperboard



Source: RISI

Currently, the per capita consumption of paper for the year 2011 in developed countries such as the U.S. (approximately 230.0 kg), Japan (approximately 219.0 kg) and Germany (approximately 260.0 kg) is significantly higher than that in developing countries such as China (approximately 70.0 kg), Brazil (approximately 52.0 kg) and India (approximately 10.0 kg). The total consumption of paper in developing countries has grown steadily over the past few years, in particular the Asia region which accounted for approximately 43.0% of the world's total output of paper and paperboard products in 2011 and achieved a growth of approximately 5.0% in year 2011 as compared to year 2010. As such, the world's overall consumption of paper and paperboard products still managed to maintain an overall growth as the growth in total consumption of paper and paperboard products in the Asia region was larger than the slight decrease in the total consumption of paper and paperboard products of developed countries in the European and North America regions.

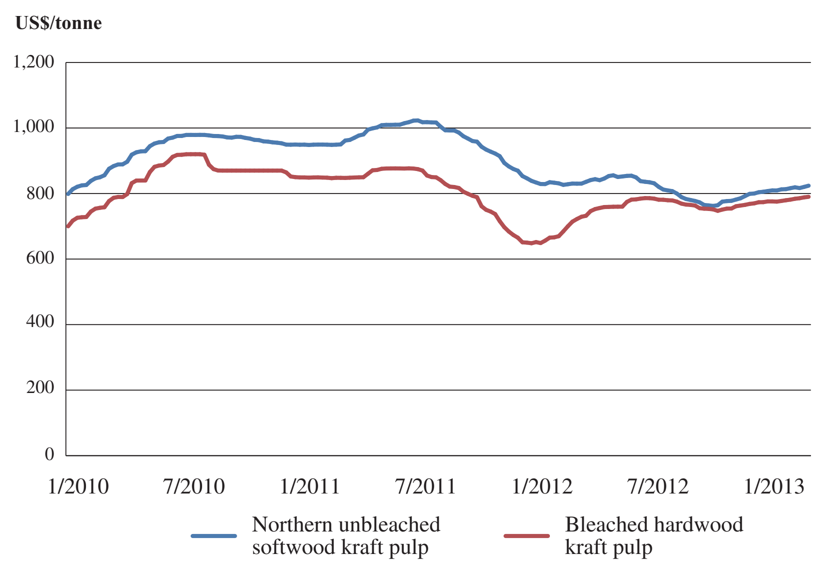
Impact of the global paper demand trends on the PRC's paper-making industry

The global output of paper and paperboard products has increased steadily in the recent years, despite the slight decrease in the global output for newsprint paper. Although China is one of the countries with the highest output of paper and paperboard products, the amount of paper and paperboard products for export purposes only constituted less than 5.0% of the PRC's total paper and paperboard products output in 2012. As such, the PRC's paper-making industry was not significantly affected by the global demand for paper and paperboard products given the relatively low level of exports.

Market price trend of paper pulp

Paper pulp is the main raw material for all paper and paperboard products. Therefore the global price trend of paper pulp would indirectly affect the global price trends of the various types of paper and paperboard products. Due to the global financial crisis and the economy downturn in the past few years, manufacturers of paper pulp have attempted to sell paper pulp at lower prices in order to increase their sales, resulting in relatively low prices for paper pulp in the year 2012 as compared to previous years. It is expected that such a trend will continue into the year 2013 and the prices of paper pulp will only gradually increase as the economy recovers.

The chart below sets out the market price trend of paper pulp delivered at European ports:

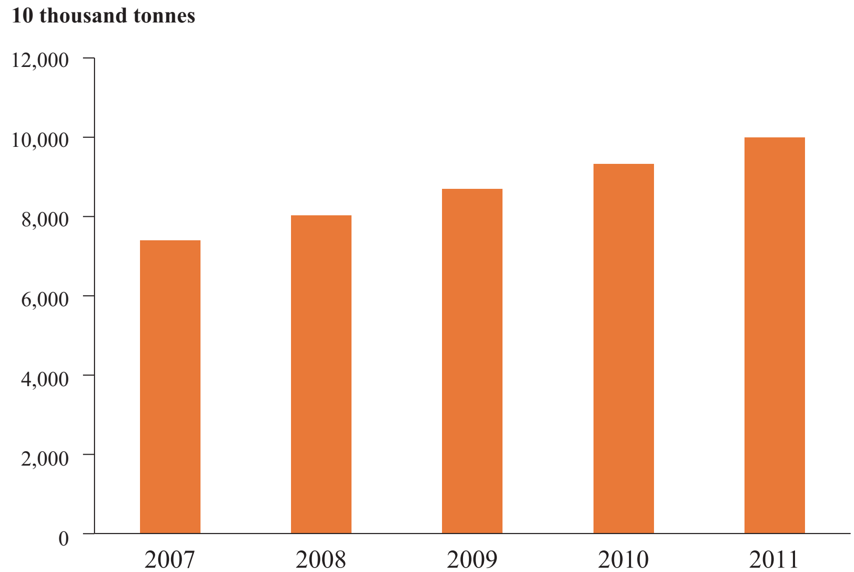


Source: Bloomberg

OVERVIEW OF THE PRC'S PAPER-MAKING INDUSTRY

The development of the industrial automation systems is closely linked to the growth of the PRC's paper-making industry, which has achieved rapid growth consistent with the PRC's GDP growth over the past five years. The PRC's total production output and consumption of paper and paperboard products ranked first in the world in 2011.

Output of paper and paperboard in the PRC



Source: Annual report of the PRC's Paper-Making industry, 2007-2011

According to the *2011 Annual Report of the PRC's Paper-Making Industry,* the PRC's aggregate production output of paper and paperboard reached 99.3 million tonnes in 2011, up by 7.1% compared to 2010 and 35.1% compared to 2007, representing a CAGR of 7.8% from 2007 to 2011 and outpacing the world-average rate of 2%. However, the PRC's per capita consumption of paper and paperboard was only approximately 73.0 kilograms in 2011 and despite an increase of approximately 5.0 kilograms over 2010, this figure lags behind the average per-capita consumption level of developed economies. For example, per capita consumption of paper and paperboard was about 240.0 and 220.0 kilograms in the US and Japan in 2011 respectively. As such, the PRC's paper-making industry harbours enormous potential.

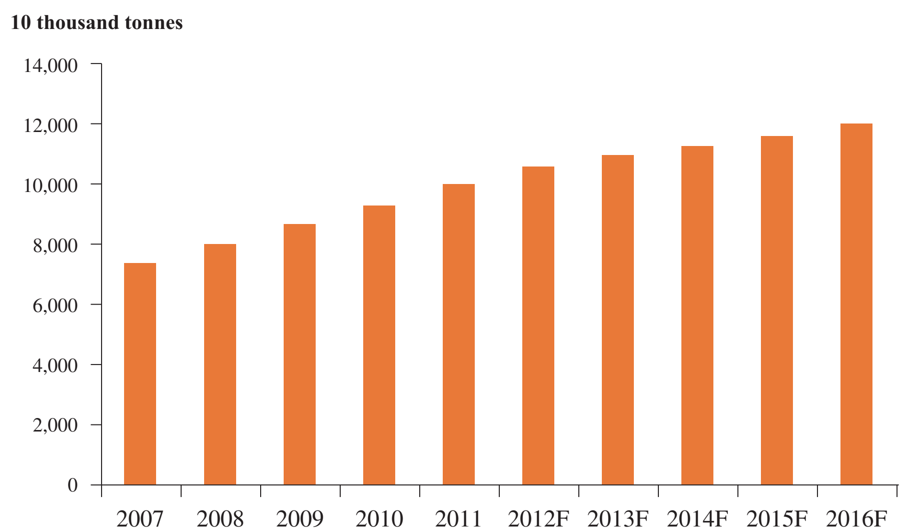
There were around 10 paper-making companies in the PRC that had an annual capacity of over one million tonne each by the end of 2010, and their combined output accounted for around 30.0% of the PRC's total output. The aggregate production output of the 30 largest companies accounted for approximately 43.0% of the PRC's overall output, indicating that the PRC's paper-making industry is relatively concentrated. The mergers and acquisitions of leading companies together with their respective expansion of capacity will further increase the concentration of the industry. By 2011 there were around 11 companies that had a capacity of one million tonne each.

Few PRC paper-making companies have the ability to compete on an international level. Most of the paper-making companies are small in size and low in efficiency. By the end of 2011, there were approximately 2,620 paper-making companies with an annual income of at least RMB5.0 million in the PRC, of which approximately 35 were considered large enterprises (i.e. with more than 1,000 employees and an annual total income of more than RMB400.0 million) and accounted for merely around 1.3% of the total. Approximately 400 companies were considered to be medium-sized (with more than 300 employees and an annual income of more than RMB20 million), accounting for approximately 15.3% of the market. There were also approximately 2,185 small-sized companies (with more than 20 employees and an annual income of more than RMB5 million), which accounted for about 83.4% of the market.

FORECASTS FOR THE PRC'S PAPER-MAKING INDUSTRY

The PRC has become the largest paper-making country in the world, and the paper-making industry is expected to grow as demand continues to grow. It is anticipated that the production volume of paper and paper board in the PRC will reach approximately 119 million tonnes by 2016.

Output of paper and paperboard in the PRC



Source: Euromonitor

Euromonitor estimated that by 2016 the total production output of paper and paperboards will reach approximately 119 million tonnes, up by 19.8% compared with 2011, with a CAGR of 3.2% from 2012 to 2016 which is considerably lower than the CAGR of 7.8% from 2007 to 2011.

It is expected that the expansion of domestic consumption and increasing per capita income during the 12th Five-Year Plan period, the growth of certain paper types that are closely related to consumption, such as packaging paper and tissue paper, will outpace the GDP growth for the corresponding period. As downstream industries develop, namely industries that process the output of other raw material producing industries into a finished or different product, the PRC is expected to become the largest producer and consumer market of corrugated paper and box paperboard in the world.

Currently, the PRC lacks self-initiated innovation in the field of paper and pulp making machines and depends largely on imported production equipment. The 12th Five-Year Plan period will see the PRC's paper-making industry rely more on domestic paper machines and step up the research and development in this area with the goal of increasing self-sufficiency from approximately 30% to 50%. This encompasses increasing the speed and functionality of paper machines while cutting down energy consumption level. The new generation of domestic paper machines will be highly-automated and provide a complete solution for paper-making.

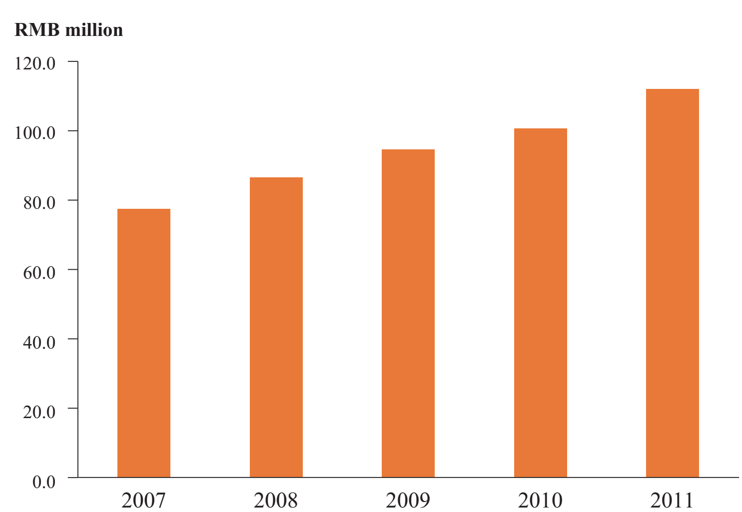
During the 12th Five-Year Plan period, the NDRC will support qualified paper manufacturers to apply for listing in the PRC and overseas stock markets, and encourage listed paper manufacturers to recapitalise through private placement or issuing convertible bonds. Incentives in various forms will also be given to environmental-friendly and ecological enterprises.

THE SLUDGE TREATMENT PRODUCT MARKET IN THE PRC'S PAPER-MAKING INDUSTRY

Introduction of sludge treatment products

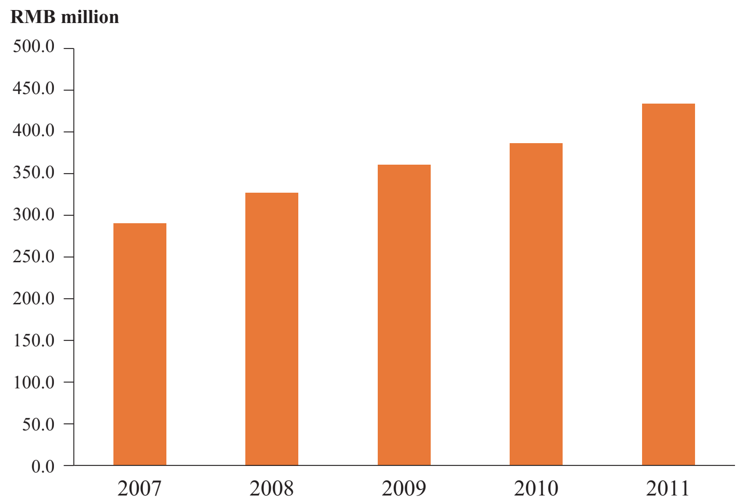
Sludge treatment products for the paper-making industry commonly used in the PRC are the belt filter press and filter press. Belt filter presses are widely used in food processing and other manufacturing industries. Filter presses have been used in chemical, pharmaceutical and other manufacturing industries. Both the belt filter press and filter press are used for the separation of solid from liquid in the handling of industrial waste in order to reduce sludge disposal costs and are widely used in paper-making industry. The following charts show the market size and growth rate of the markets of belt filter press and filter for the PRC's paper-making industry respectively.

Market size of the belt filter press market for the PRC's paper-making industry



Source: Euromonitor

Market size of the filter press market for the PRC's paper-making industry



Source: Euromonitor

From 2007 to 2011, the PRC's paper sludge treatment product market has been growing in size under the support of the PRC government's environmental protection policies. The 2008 global financial crisis caused many paper-making enterprises to halt their environmental-protection projects due to funding reasons. However, the paper-making industry rebounded quickly in 2011 due to increased demand and favourable governmental policies. In 2011, the market sizes for belt filter press and filter press reached approximately RMB111.3 million and RMB430.8 million respectively.

Major types of sludge treatment products

Filter presses have clear advantages over ordinary belt filter presses, such as higher capacity and higher dehydrating rates. The steel-belt filter press is a new product which is used for semi-drying and dewatering large quantities of sludge generated from the paper-making, printing and dyeing, publication and coal washing industries, producing Filter Cakes with a water content of approximately 35.0% to 50.0%. Rubber tape vacuum filters are a kind of highly efficient solid and liquid separating product that uses Filter Cloth as a medium and functions by means of gravity and vacuum suction. The water content of the Filter Cakes after the dewatering process is approximately 50.0% to 60.0%.

Market entry barriers

Due to various market entry barriers, new entrants find it difficult to enter the PRC's sludge treatment product market. Firstly, as there are varying requirements by customers for filter presses, it is necessary for sludge treatment product manufacturers to have a technical team and adequate research and development capabilities to cater for such varying requirements, thus creating technological barriers for the sludge treatment product market. Secondly, most of the leading sludge treatment product manufacturers own patents to their self-developed technologies and have increased awareness of the patent protections available to them, thus making it more difficult for new entrants to utilise the same technologies. Thirdly, as the belt filter press and filter press markets are highly concentrated, only widely recognised manufacturers have the ability to compete for a share of the market. Most users of sludge treatment products are inclined to build long-term relationships with designated suppliers as constant change of suppliers would incur higher costs and risks for them.

Competitive landscape

Belt filter press market

In 2011, the market size for the belt filter press in terms of sales value was approximately RMB111.3 million. There are currently around 100 enterprises supplying belt filter presses for dewatering paper sludge, and they are mainly located in Zhejiang Province, Jiangsu Province, Foshan of Guangdong Province, Shanghai and Dezhou of Shandong Province. The five largest companies in the belt filter press market for the PRC's paper-making industry accounted for a total of approximately 63.4% of the overall market share in terms of sales volume in 2011, and their competition mainly lies in large and middle-sized belt filter press and services. As production of larger products require manufacturers to have greater capital strength and more advanced techniques, a very limited number of companies have access to this segment. The five largest companies compete for a larger market share through pricing, technological research and development, better integration services, wider range of applications and a larger sales network. Our Group generated a small amount of revenue from the sales of steel-belt filter press in 2011 as we only received the first order for our steel-belt filter press, which was one of the product types of belt filter press, in March 2010 and first recognised revenue from sales of such product in December 2010. Our Group had a market share of approximately 2.6% of the belt filter market in 2011 based on our sales for the same year. The following table sets out the companies which are believed to have a major presence/market share in the belt filter press market for the PRC's paper-making industry by sales volume and market share in 2011:

Ranking	Company name	Sales value *(approximately RMB million)*	Market share *(%)*
1	Company E	37.5	33.7
2	Company F	10.5	9.4
3	Company G	10.0	9.0
4	Company H	9.0	8.1
5	Company I	3.6	3.2
	Others	40.7	36.6
	Total	111.3	100.0

Source: Euromonitor

The table below sets out the background information and the principal business of companies which are believed to have major presence/market share in the belt filter press market for the PRC's paper-making industry in 2011:

Name of company	Background information
Company E	Company E, whose production base is situate at Foshan's Chancheng West Industrial Zone and Sanshui Leping Industrial Zone, is a foreign-invested subsidiary wholly owned by its holding company in Austria. Company E supplies machinery products and technologies for pulp and paper, environmental, animal and aquatic feed, iron and steel, water, electricity and chemical industries, as well as industrial automation control systems, components and related services. Its main products include the spiral belt filter press. Company E has set up offices in Beijing, Shanghai, Hangzhou and other cities with more than 800 employees in the PRC.
Company F	Company F specialises in design and production of environmental-protection products, and has its production facilities based in Binhai Economic-Technological Development Zone, a national development zone, in Weifang, Shandong Province. Company F produces spiral sludge dehydrators, multi-round-plate sludge dehydrators and other environmental protection products, which are mainly used in the environmental-protection and food processing industries.
Company G	Company G was founded in 1867 and is a family business from Europe. It operates in more than 50 countries in the world and has approximately 40,000 employees globally. Company G's main products include the spiral belt filter presses. Company G's technologies and products are widely used in every aspect of the paper industry, such as newsprint, tissues, etc.
Company H	Company H is a comprehensive supplier of filters, hybrid system automation systems and solutions. Company H's main products include the belt filter press. Its products are used in pharmaceutical, sugar-refining, ceramics, fishing boats, paper, printing, chemicals, environmental-protection, and sewage treatment industries.

Name of company	Background information
Company I	Company I is a machine manufacturer and supplier of liquid/solid separation products. Company I's main products include various types of belt filter presses, filter presses and accessory product. Its products are widely used in industrial wastewater and sewage treatment of many industries such as chemical, oil refining, pharmaceuticals, metallurgy, food, sugar, and ceramics.

Filter press market

In 2011, the market size for the filter press in terms of sales value was approximately RMB430.8 million. There are currently approximately 200 filter press manufacturers supplying the PRC's paper-making industry, and they are mainly located in Hangzhou of Zhejiang Province, Wuxi of Jiangsu Province, Shanghai, Dezhou of Shandong Province, Hengshui of Hebei Province, and Yuzhou of Henan Province. The five largest companies in the filter press market for the PRC's paper-making industry accounted for a total of approximately 54.6% of the overall market share in terms of sales volume in 2011. The following table sets out the companies which are believed to have a major presence/market share in the filter press market for the PRC's paper-making industry by sales volume and market share in 2011:

Ranking	Company name	Sales value *(approximately RMB million)*	Market share *(%)*
1	Company J	85.0	19.7
2	Company K	70.0	16.2
3	Company L	52.5	12.2
4	Company M	15.0	3.5
5	Huazhang Technology	12.8	3.0
	Others	195.5	45.4
	Total	430.8	100

Source: Euromonitor

The table below sets out the background information and principal business of the companies which are believed to have major presence/market share in the PRC's filter press market for the PRC's paper-making industry in 2011:

Name of company	Background information
Company J	Company J specialises in research and development, manufacturing, sales and services of filter presses. Company J has set up more than 150 offices around the country and has more than 1,000 distributors and dealers. Company J has also set up overseas offices in the US, Europe and Australia. Company J has developed eight series of products with nearly 200 different specifications tailored to market demands. Its products are widely used for liquid/solid separation in textile, oil, chemical, metallurgy, mining, pharmaceutical, food, starch, environmental-protection and wastewater treatment industries.
Company K	Company K is a manufacturer, distributor and service provider of filter presses. Company K has a team of more than 500 sales and technical specialists. It also has around 45 dealers and service providers overseas. Its products are exported to around 123 countries and regions including Europe, US, Russia, Japan, Brazil, South Africa and Australia. Company K's main products include the high-pressure membrane filter press which is used in sludge treatment by the paper industry.
Company L	Company L's products include various types of filter presses and filters, which are widely used in mining, electricity, oil exploitation and refining, chemical, metallurgy, pharmaceuticals, and food and beverage industries. Its products are distributed around China and exported to some 20 countries and regions including Russia, Japan, South Korea, Thailand, South Africa, India, Indonesia, Germany and the Philippines.
Company M	Company M, founded in 1992, is a supplier of professional filters, integrated systems and services driven by technological innovation. The company was listed on the Shenzhen Stock Exchange's Growth Enterprises Market board in September of 2011. Company M offers a full range of filter products, solutions and services, including: model selection, installation, testing, training, technical support and after-sales services. Company M's filters are widely used in environmental-protection, chemical, metallurgy, oil, printing, ceramics, food, pharmaceutical, construction material and non-ferrous metal industries. Its products are widely distributed in the PRC and overseas to more than 40 countries and regions.

Please refer to the paragraph headed "Competitive strengths of our Group" under the section headed "Business" in this prospectus for further details about the competitive strengths of our Group.

DRIVERS OF THE SLUDGE TREATMENT PRODUCT INDUSTRY

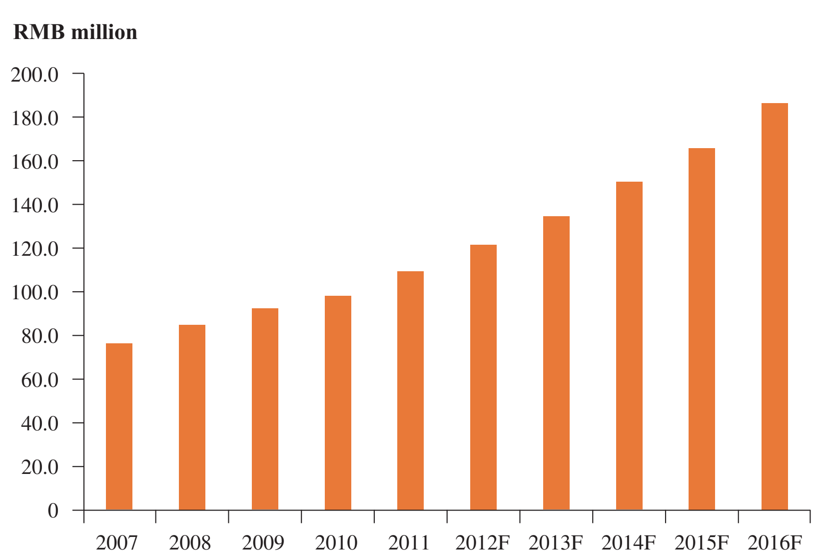
The PRC has maintained rapid economic growth in recent years, which provided sound conditions for the development of the paper-making industry and environmental-protection product industry. Paper-making enterprises are now willing to invest more in environmental-protection facilities and as such there is potential for growth of the sludge treatment product industry.

The PRC government has also paid more attention to environmental issues in recent years by introducing a series of policies and plans which have set forth new requirements and guidances for the paper-making industry to reduce pollution and energy-consumption levels, which will in turn encourage paper manufacturers to utilise sludge treatment products.

FORECASTS FOR THE SLUDGE TREATMENT PRODUCT INDUSTRY

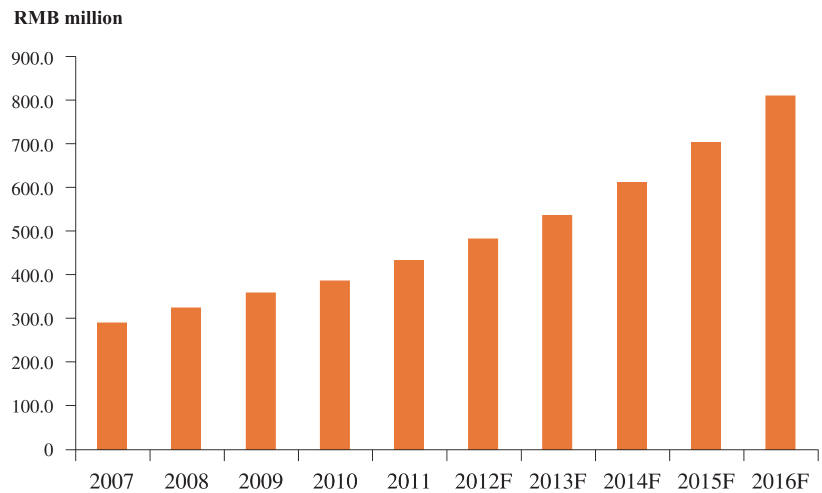
Given the steady growth of the PRC paper-making industry, the sludge treatment product industry is expected to continue to grow for the years 2012 to 2016. The following charts show prediction of the market size and growth rate of the belt filter press and filter press for the PRC's paper-making industry.

Market size of the belt filter press market for the PRC's paper-making industry



Source: Euromonitor

Market size of the filter press market
for the PRC's paper-making industry



Source: Euromonitor

As the PRC government continues to raise the standards of environmental protection and as the belt filter press industry continues to develop new products, the competitive strengths of new belt filter press products are being brought to light. New products will be valued more by large paper-making manufacturers and the high-end market. It is predicted that the belt filter press industry for paper-making companies will keep growing at a double-digit CAGR over the next 5 years.

For the filter press industry, new products like the membrane filter press and the frame filter presses have gradually replaced ordinary filter presses. Market competition in the future will focus on the research and development of technology, sales of integrated systems, large projects and brand building. The filter press industry is predicted to grow faster than the belt filter press and its market size will approach approximately RMB800.0 million by 2016.

Demand for high quality and technologically advanced products

The PRC government encourages large and middle-sized paper manufacturers to invest more in environmental protection facilities. This has facilitated the growth in demand for efficient, high quality and technologically advanced belt filter presses and filter presses for the paper-making industry even though the growth rate of paper output is decreasing.

As the 12th Five-Year Plan urges the paper-making industry to increase its market concentration, the sludge treatment product industry is also likely to increase its market concentration. High-end paper-making enterprises will continue to purchase from high-end product suppliers with guaranteed quality products and complete services. The lower-end market will be characterised by constant price wars amongst smaller sludge treatment product manufacturers. New areas of the market, such as dredging sludge and dewatering sludge of tap water, will also face increasing competition in the future.

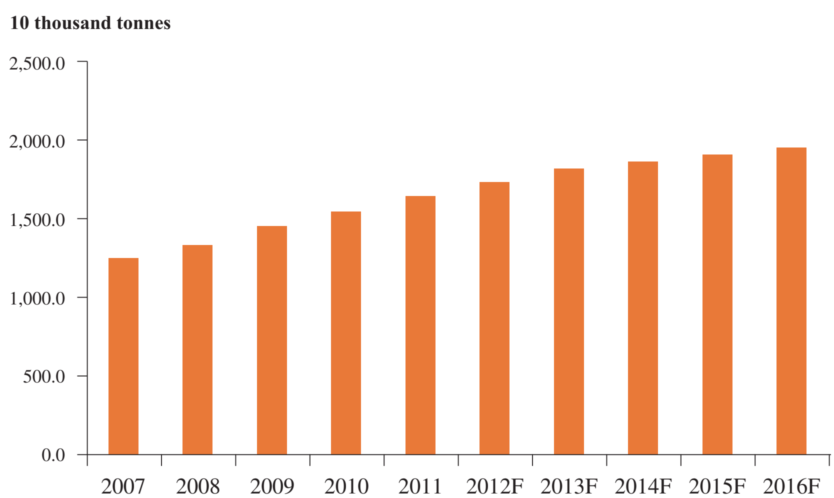
THE PRC'S PAPER-MAKING SLUDGE TREATMENT PRODUCT MARKET

During the 11th Five-Year Plan, the PRC's sludge treatment product market grew quickly in terms of capacity and efficiency while the total amount of sludge kept increasing. According to the *Report on Sludge Treatment and Disposal Market in the PRC (2011),* about 80.0% of the sludge was not treated and disposed of properly.

Apart from cities and towns, the PRC has thousands of industry specialty development zones and their output of industry sludge was not strictly treated and disposed as well. In the 12th Five-Year Plan, the government indicated that the requirements for sludge treatment will be higher and regulations will be more strictly enforced.

As paper sludge is the outcome of wastewater disposal in the paper-making industry, the production output of paper sludge is closely linked to the volume of the industry's wastewater emissions, which is determined by the overall development of the paper-making industry and the authorities' requirements and standards in terms of environmental protection.

Total output of paper sludge produced by the PRC's paper-making industry



Source: Euromonitor

The PRC's paper-making industry produced a total of approximately 16.4 million tonnes of sludge in 2011 representing a year-on-year growth of 6.7%. It is predicted that the total output of paper sludge produced by the PRC's paper-making industry will grow at a CAGR of 3.4% between 2011 and 2016 and will be influenced by the following factors over the next five years:

- according to the 12th Five-Year Plan of the PRC's paper-making industry, the total production output of the industry is to be controlled, while more emphasis will be placed on environmental protection such as recycling, emission reduction and disposal of waste pollutants. Therefore the output of paper and paperboards is unlikely to grow substantially, and study results have proven that the PRC's total output of paper products has been decelerating, leading to reduced generation of paper sludge; and

- standards for Pollutant Emissions of Pulp and the Paper-Making Industry (GB3544-2008), revised on 1 August 2008, raised the limits of various waste emissions, increasing the disposal rate and depth of wastewater in the PRC's pulp and paper-making industry. Additionally, paper-making enterprises have reinforced their commitment to wastewater and sludge recycling and the application of recycling solutions in order to meet the new elevated standards and to reduce the cost of waste treatment. Thus, the growth of paper sludge production has been slowing down yearly.

From 2007 to 2011, the amount of sludge produced per tonne of paper and paperboards in the PRC's paper-making industry reduced annually, and this trend is likely to continue over the next five years, given the PRC government's move to foster more environmental-friendly production in the paper-making industry. The 12th Five-Year Plan has clearly set the goal for leading enterprises towards clean production, energy saving and emission reduction, and has put in place policies to give incentives for environmentally conscious enterprises such as simplified approval procedures for construction projects. Incentive policies also encourage paper manufacturers to recycle and reuse paper wastes like black liquor pulp, sludge, ashes, and concentrated wastewater for purposes like producing biomass energy. If these paper manufacturers are to take measures to reduce waste as encouraged, the amount of sludge produced per tonne of paper and paperboards will decrease on a yearly basis.

Euromonitor's report focuses on industrial automation system and sludge treatment product market in the paper-making industry in the PRC. Primary research involved qualitative and quantitative based trade interviews not identified by numbers of survey samples, but by the assessment of the quality of answers received, and the intelligent and transparent analysis of that data. Euromonitor conducted trade interviews with multiple organisations such as: paper manufacturers, sewage treatment factories, industrial automation system and sludge treatment product manufacturers and distributors for the paper-making industry. A data set and conclusions are reached by independently building segment consensus. Secondary research involved top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of the industrial automation system and sludge treatment product market in the paper-making industry in the PRC.

Euromonitor used multiple secondary and primary sources to validate any data or information collected with no reliance on any single-source. Furthermore, a test of each respondent's information and views against those of others is applied to ensure reliability and to eliminate bias from various sources. Specifically for ensuring forecasting accuracy, Euromonitor adopted its standard practice of both quantitative as well as qualitative forecasting in terms of the market size, growth trends, on the basis of a comprehensive and in-depth review of the market development history, and a cross check with established government and industry figures, trade interviews, and statistical analysis tools where possible.

PRC REGULATORY OVERVIEW

We are principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products by our Company's subsidiary in the PRC. This section sets out summaries of certain aspects of the laws, rules, regulations, government and industry policies and requirements, which are relevant to our Group's operations and business in the PRC.

1. FOREIGN INVESTMENT

The major Chinese government policy concerning foreign investment in the PRC is outlined in *the Guidance Catalogue of Industries for Foreign Investment* (《外商投資產業指導目錄》) (the "Catalogue") (Amended in 2011) jointly issued by NDRC and MOFCOM on 24 December 2011 and became effective on 30 January 2012, which classifies investment projects into encouraged, permitted, restricted and prohibited categories. Foreign-invested enterprises in encouraged industries are often permitted to establish wholly foreign-owned enterprises. Parts of industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese partner as the majority shareholder. Restricted-category projects are also subject to higher-level government approvals. Industries in the prohibited section are closed to foreign investment. Industries for foreign investment that do not fall within the categories of encouraged, restricted or prohibited industries are permitted industries for foreign investment. Permitted industries for foreign investment are not listed in the Catalogue. According to the latest Catalogue, development and manufacture of industry automation products falls into the scope of permitted categories, and development and manufacture of sewage sludge dryer falls into the scope of encouraged categories.

Foreign investment enterprises ("FIEs") can take many forms such as WFOE, EJV, co-operative joint venture or foreign invested partnership enterprise. WFOEs are governed by *the Wholly Foreign-owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 and amended on 31 October 2000, and *the Implementation Regulation of the Wholly Foreign-owned Enterprise Law* (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990 and amended on 12 April 2001 (together the "Foreign Enterprises Law").

WFOEs are also governed by the *Company Law of the PRC* (《中華人民共和國公司法》) (the "Company Law"), which was promulgated in 29 December 1993 and amended in 25 December 1999, 28 August 2004 and 27 October 2005. The most recent amendment came into effect on 1 January 2006. Based on the rule that special laws prevail over common laws, if there is any conflict, the Foreign Enterprises Laws will prevail.

The establishment of a WFOE will have to be approved by the MOFCOM (or its delegated authorities). After obtaining approval from the MOFCOM, a WFOE must also obtain a business license from the SAIC (or its delegated authorities) before it can commence business.

The Company Law provides that after payment of taxes, any PRC company including a WFOE must make contributions to a statutory reserve fund on a rate of 10% of the after tax profits. If the cumulative total of allocated statutory reserve funds reaches 50% of a company's registered capital, the company will not be required to make any additional contribution. The statutory reserve fund may be used by a company to make up its losses, where the statutory reserve fund is not sufficient to cover the company's loss from the previous year; the current year profit shall be used to cover such loss before allocation is made to the statutory reserve fund.

Any PRC company including a WFOE is prohibited from distributing dividends before making up the losses (if any) of previous years and allocating the statutory reserve fund, otherwise, the shareholder(s) of the company shall return the profit so distributed to the company.

2. MERGERS AND ACQUISITIONS OF DOMESTIC ENTERPRISES

On 8 August 2006, the MOFCOM, the SAFE and other four ministries jointly adopted the *Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於外國投資併購境內企業的規定》) (the "M&A Rules"), which came into effect on 8 September 2006 and amended on 22 June 2009.

Under the M&A Rules, mergers and acquisitions of domestic enterprises by foreign investors" refers to (a) a foreign investor purchases the stock right of a shareholder of a non-foreign-invested enterprise in the PRC (domestic company or capital increase of a domestic company so as to convert and re-establish a domestic company as a foreign-invested enterprise (equity merger and acquisition); or (b) a foreign investor establishes a foreign-invested enterprise and purchases and operates the assets of a domestic enterprise by the agreement of that enterprise; or (c) a foreign investor purchases the assets of a domestic enterprise by agreement and uses this asset investment to establish a foreign-invested enterprise and operate the assets.

Mergers and acquisitions of domestic enterprises by foreign investors shall subject to the approval of the MOFCOM or provincial commercial authority. In the event any domestic company, enterprises or natural person merge or acquire a domestic company which has affiliated relationship with them through a overseas company legally established or controlled by such company, enterprise or natural person, the mergers and acquisitions application shall be submitted to the MOFCOM for approval and no means including domestic re-investment of a FIE shall be adopted to circumvent the foregoing requirements.

The M&A Rules also provide that an offshore special purpose vehicle established for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the China Securities Regulatory Commission (中國證券監督管理委員會) prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On 22 June 2009, the MOFCOM issued the *Amendments to Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於修改<關於外國投資併購境內企業的規定>的決定》), revising the provisions on the anti-monopoly review for mergers and acquisitions of domestic enterprises by foreign investors.

As confirmed by our PRC Legal Advisers, since Huazhang Technology, the wholly-owned subsidiary of our Company, has been a wholly foreign-owned enterprise since its incorporation and was never involved in any merger and acquisition regulated under the M&A Rules, the M&A Rules are not applicable to Huazhang Technology and therefore our Group is not required to obtain any approvals or permits from CSRC and/or any other governmental authorities for the Listing.

3. ENVIRONMENTAL PROTECTION

The MEP is responsible for, among other things, (i) the supervision of the PRC environmental affairs; (ii) maintaining environmental quality and controlling the discharge of pollutants; and (iii) the supervision of the environmental governance system. Environmental protection bureaus at county level or above are responsible for environmental protection within their jurisdictions.

Pursuant to the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) (the "Environmental Law"), which became effective on 26 December 1989, entities with production facilities that may cause pollution or produce toxic materials are required to take measures to protect the environment and to establish environmental governance system. This includes adopting measures to effectively prevent and control exhaust gas, sewage, waste residues, dust or other waste materials. Entities are required to register with the relevant environmental protection authorities with respect to their discharged pollutants.

Pursuant to the Environmental Law and the *Administrative Regulations on Environmental Protection for Construction Project* (《建設項目環境保護管理條例》), which became effective on 29 November 1998, if the construction of new facilities or expansion and alteration of the existing facilities may have material impact on the environment, a report on the impact shall be submitted to the relevant environmental protection authority. The new facilities to be built have to fulfill all relevant environmental protection standards before commencement of operation.

The MEP is responsible for, among other things, formulating the standards on pollutants emission in accordance with the national environmental standards, economic and technological conditions. For items not specified in the national environmental standards, respective provincial governments, self-administrative regions and municipalities may formulate their own local standards on the pollutants emission. These local standards may be more stringent than the national standards.

Pursuant to the requirements under the amended *Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) which became effective on 1 June 2008, *Law of the PRC on the Prevention and Control of Air Pollution* (《中華人民共和國大氣污染防治法》) which became effective on 1 September 2000 and *Administrative Regulations on Levy and Utilization of Sewage Charge* (《排污費徵收使用管理條例》) and *Administrative Measures on Levy and Utilization of Sewage Charge* (《排污費徵收標準管理辦法》) which became effective on 1 July 2003, enterprises which discharge water or air pollutants shall pay levies depending on the type and volume of pollutants emission. The levies are calculated by local environmental protection authorities, which will monitor the level of pollutants emission. Notices on levies payable are issued after the types and volume of pollutants fees have been determined and verified.

In accordance with the *Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes* (《中華人民共和國固體廢物污染環境防治法》), which became effective on 1 April 1996, entities and individuals who collect, store, transport, utilise, or dispose of solid wastes shall take precautions against the spread, loss, and leakage of such solid wastes or adopt measures to prevent such solid wastes from polluting the environment.

The penalties for any breach of the environmental protection laws vary from warnings and fines to administrative sanctions, depending on the degree of harm and damage. An entity whose construction works fail to satisfy pollution prevention requirements may be ordered to suspend its production or operation and will be fined. The responsible person of such entity may be subject to criminal liabilities for serious breaches resulting in significant harm and damage to private or public property or personal death or injury.

4. TAXATION

EIT

All enterprises in the PRC shall pay EIT on income derived from production and business operations. For period prior to 1 January 2008, the principal PRC taxation law applicable to enterprises with foreign investment was *the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises* (the "Income Tax Law for Foreign Enterprises") (《中華人民共和國外商投資企業和外國企業所得稅法》) promulgated by the NPC on 9 April 1991 effective between 1 July 1991 and 31 December 2007. Under the Income Tax Law for Foreign Enterprises and the relevant implementation rules, foreign-invested enterprises (engaging in the production of goods/services with an expected business life of over 10 years) were entitled full exemption from income tax for two years from the year of achieving profitability, and thereafter a 50% immediate refund on income tax in the following three years, that is the third to fifth year from the year of achieving profitability.

According to Tax Law, income tax rates applicable to both domestic and foreign-invested enterprises have been unified at 25% from 1 January 2008. Enterprises which have been enjoying income tax rates lower than the standard rate of 33% will have a five-year transitional period, gradually being subject to the unified tax rate of 25%. For enterprises which have been subject to income tax rate of 15% will be subject to an increasing enterprise income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and eventually 25% in 2012. Enterprises enjoying the two-year full exemption and the three-year 50% immediate refund on income tax are allowed to continue such exemption and reduction until the exemptions expire.

VAT

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (《中華人民共和國增值稅暫行條例》) promulgated by the State Council came into effect on 1 January 1994, which was amended on 5 November 2008. Under these regulations and its Implementing Rules, VAT is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

VAT payable is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of VAT included in the price or charges, and less any deductible VAT already paid by the taxpayer on purchase of goods and services in the same financial year. The VAT rate for those engaging export of goods save for otherwise provided by the State Council is zero.

Tax on dividends from PRC enterprise with foreign investment

According to Tax Law, the dividends received by a foreign investor of an FIE are subject to a withholding tax of up to 10%, depending on whether there is a mutual tax treaty or arrangement between PRC and the foreign country or legislative region where the foreign investor comes from. Pursuant to the *Notice concerning Tax Rates for Dividends Declared* (《關於下發協議股息稅率情況一覽表的通知》) issued by the SAT on 28 January 2008, a lower rate of 5% withholding tax is applicable to dividends payable from an FIE to its Hong Kong investors, provided that the Hong Kong investors hold 25% or more of the entire equity interest in such FIE, and to the extent that such dividends have their source within the PRC.

Preferential tax treatment

According to Article 28 of the EIT, the applicable tax rate of enterprise income tax on high-tech enterprises supported by the PRC government can be reduced from 25% to 15%.

As our subsidiary in the PRC has been granted a certificate of high-tech enterprises with a validity period from January 2008 to December 2010 and from January 2011 to December 2013 respectively according to *Measures for the Administration of the Recognition of Hi-tech Enterprises* (《高新技術企業認定管理方法》), which was promulgated by the MST, Ministry of Finance of the PRC (中華人民共和國財政部) and SAT on 14 April 2008 and retrospectively came into force from 1 January 2008, therefore, our subsidiary in the PRC shall enjoy a preferential tax rate of 15% on enterprise income tax during the foregoing period.

5. FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

The principal regulation governing foreign exchange in the PRC is *the Foreign Exchange Administration Rules* of the PRC (《中華人民共和國外匯管理條例》) which was issued by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008. Under these rules, the current account incomes of foreign exchanges can be retained or sold to financial authorities which manage exchange settlement and sale-purchase of foreign exchange. However, approval from the SAFE is required for the relevant capital account transactions of the foreign-invested enterprises, such as the capital increase and decrease. Foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the SAFE for trade and service related foreign exchange transactions by providing documents evidencing such transactions. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from the SAFE.

Pursuant to *Interim Measures of the Foreign Exchange Registration of Foreign-Invested Enterprises* (《外商投資企業外匯登記管理暫行辦法》) promulgated by the SAFE on 28 June 1996 and became effective on 1 July 1996, foreign-invested enterprises shall apply for foreign exchange registration within 30 days since the collection of the business license.

According to the *Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises* (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) issued by the SAFE on 29 August 2008 and became effective on the same date, prior to applying to any bank designated by the SAFE for settlement of foreign currency capital, an FIE shall engage with an accounting firm for capital verification. The accounting firm so engaged shall issue a capital verification report to the FIE after going through the confirmation request formalities for capital verification at the SAFE or its branches. No bank shall settle any foreign currency capital for the FIE who has not completed the capital verification formalities, and the accumulative amount of capital settled by the bank for a FIE shall not exceed the accumulative amount of verified capital of the said FIE. The settled capital in RMB shall be used within the approved business scope and shall not be used for domestic equity investment unless otherwise stipulated.

Pursuant to *Circular on Issues Concerning Outward Remittance of Profit, Stock Dividends and Stock Bonuses Processed by Designated Foreign Exchange Banks* (《關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知》) issued by the SAFE on 22 September 1998 and *Circular on Amending "Circular on Issues Concerning Outward Remittance of Profit, Stock Dividends and Stock Bonuses Processed by Designated Foreign Exchange Banks* (《關於修改<關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知>的通知》) issued by the SAFE on 14 September 1999 and became effective from 1 October 1999, foreign investors of foreign-invested enterprises shall remit profits, dividends or stock bonuses abroad at designated foreign exchange banks with the documents including but not limited to the following:

(1) tax payment certificate and taxation declaration form (for enterprises enjoying tax reduction or exemption, certificate of tax reduction or exemption issued by domiciled taxation administration shall be provided) indicating payment or exemption of taxes;

(2) auditing report of the current year issued by certified public accountants indicating losses (if any) of previous years have been made up;

(3) resolution of the board of directors on the distribution of profits or dividends;

(4) foreign exchange registration card (which is issued by the SAFE for companies to transact foreign exchange related affairs); and

(5) capital verification report issued by certified public accountants to verify that the FIE's registered capital has been fully paid-in.

Further, no foreign invested enterprises whose registered capital have not been fully paid up as provided under the articles of contract are allowed to remit any foreign exchange profits or stock bonuses abroad. If the delay in fully paying up the registered capital as provided under the articles of contract is caused by special reasons, such foreign invested enterprise may apply for remittance of part of the foreign exchange profits or stock bonuses computed by the proportion of paid-up capital abroad with the SAFE by submitting the approval of the former inspection and approval institutions which allow the delay in paying the registered capital.

6. EMPLOYMENT AND SOCIAL SECURITY

Employment

Labor Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated by the Standing Committee on 5 July 1994 and came into force on 1 January 2005 and the Employment Contract Law promulgated by the Standing Committee on 29 June 2007 establishes the provisions of the conclusion, performance, amendment, termination or ending of employment contracts.

An employer's employment relationship with an employee is established on the date it starts using the employee. If an employer fails to conclude a written employment contract with an employee more than a month but less than a year after the date on which the employer starts using the employee, it shall pay the employee twice his or her wages each month from the second month of his or her employment term. However, the ceiling for such payment is eleven (11) months.

An employer and an employee may conclude a fixed-term employment contract or an open-ended employment contract or an employment contract to expire upon completion of a certain job in the event that both parties reach a negotiated consensus. However, an open-ended employment contract shall be concluded under certain circumstance prescribed by the Employment Contract Law. Where the employment contract is a fixed-term contract that ends due to expiration, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same as or better than those stipulated in the current employment contract, or where the employer fails to pay social insurance premiums for the employee in accordance with the law, or where any other circumstances formulated by the Employment Contracts Law occurs, the employee shall be paid severance pay based on the number of years worked with the employer at the rate of the average monthly wage for the last twelve (12) months for each full year worked.

Social security

The Chinese social security system basically comprises five major types of social insurances, namely maternity insurance, endowment insurance, medical insurance, unemployment insurance and work injury insurance, and each company in China is required to contribute social insurance covering the above for its employees.

Prior to the effectiveness of *the Law of Social Insurance of the PRC* (《中華人民共和國社會保險法》) (the "Social Security Law") on 1 July 2011, each type of social insurance is governed by particular regulations as follows:

(1) *Maternity insurance: Provisional Measures for the Maternity Insurance for Enterprise Employees* (《企業職工生育保險試行辦法》), which came into force from 1 January 1995;

(2) *Endowment Insurance Decision of the State Council on Establishing a Unified Basic Endowment Insurance System for Enterprises Employees* (《關於建立統一的企業職工養老保險的決定》), which came into force from 16 July 1997;

(3) *Medical Insurance Decision of the State Council on Establishing a Basic Medical Insurance System for Urban Employees* (《國務院關於建立城鎮職工基本醫療保險制度的決定》), which came into force 14 December 1998;

(4) *Unemployment Insurance Regulations on Unemployment Insurance* (《失業保險條例》), which came into force from 22 January 1999; and

(5) *Injury Insurance: Regulations on Work Injury Insurance* (《工傷保險條例》), which came into force from 1 January 2004 and was amended on 20 December 2010.

And there are several major regulations governing the administration of social insurance collection and payment as well as the liabilities on any non-compliance of social insurance regulations as follows:

(1) *Provisional Regulations on Collection and Payment of Social Insurance Contributions* (《社會保險費徵繳暫行條例》) which came into force from 22 January 1999;

(2) *Provisional Measures for Administration of the Declaration and Payment of Social Insurance Contributions* (《社會保險費申報繳納管理暫行辦法》) which came into force from 19 March 1999; and

(3) *Auditing Measures for Social Insurance* (《社會保險稽核辦法》) which came into force from 1 April 2003.

The Social Security Law has combined the substantial contents of the above regulations into a single enactment without significantly changing the existing social security system of the PRC. Being a law formulated by Standing Committee, the Social Security Law has higher hierarchy than all of the foregoing regulations; further, it has adopted more severe measures to supervise the payment of social insurance.

Under Article 63 of the Social Security Law, in the event any company fails to fully pay up the social insurance premiums, relevant administration on social insurance premiums collection (the "Administration on Collection") shall order such company to fully pay up the outstanding social insurance premiums within a time limit; if the company fails to do so, Administration on Collection is entitled to check the deposit account with banks or other financial institutions, and inform the opening bank of the company or other financial institutions in writing to appropriate the social insurance premiums payable from the company's bank account subject to the decision of relevant administrative department on or above county level on appropriating social insurance premiums. If the balance of the company's deposit account is lower than the amount of the social insurance premiums payable, Administration on Collection is entitled to require the company to provide guarantee and enter into an agreement on late payment of social insurance premiums. In the event that the company fails to fully pay up the social insurance premiums and has not provided any guarantee, Administration on Collection is entitled to apply with the People's Court to distrain, seal up and auction the company's property amounting to the social insurance premiums payable, and the income from the auction will be appropriated by Administration on Collection to pay up the outstanding social insurance premiums.

Housing provident fund

According to the *Regulation Concerning the Administration of Housing Provident Fund* (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999 and amended on 24 March 2002, any enterprise in the PRC must register with the Housing Fund Management Center of the Central Government (中央國家機關住房資金管理中心). Enterprises will then need to open housing provident fund accounts with specified banks for their employees and contribute to the housing provident fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.

7. INTELLECTUAL PROPERTIES

In China, major laws and regulations in respect of intellectual property rights include as follows:

(1) *Patent Law of the PRC* (《中華人民共和國專利法》) promulgated on 1 April 1985 and amended on 27 December 2008, and its Implementation Rules promulgated on 1 July 2001 (collectively the "Patent Law");

(2) *Copyright Law of the PRC* (《中華人民共和國著作權法》) promulgated on 1 June 1991 and amended on 26 February 2010, and its Implementation Regulations promulgated on 15 September 2002 (collectively the "Copyright Law"); and

(3) *Trademark Law of the PRC* (《中華人民共和國商標法》) which came into force from 1 March 1983 and amended on 27 October 2001 and its Implementation Regulations promulgated on 3 August 2002 (collectively the "Trademark Law").

Pursuant to the Patent Law, in the circumstance that a service invention-creation is made by an employee in execution of his/her work tasks assigned by the employer or mainly by utilising the material conditions of the employer, the right to apply for a patent on this service invention-creation shall vest in the employer, who will be the patent right holder upon the completion of patent registration application, and "Service invention-creation made by an employee in execution of his/her work tasks assigned by the employer" refers to: (a) any service invention-creation made in the course of performing his/her own working duty; (b) any service invention-creation made in execution of any working task assigned by the employer other than his/her own working duty; (c) any service invention-creation made within one year after his/her resignation, retirement or position change that relates to his/her own work duty or any other work task assigned to him/her by his/her former employer.

Further, according to Copyright Law, any work created by a citizen in the course of fulfilling the work task assigned to him/her by a legal entity or other organisation shall be deemed as "a work created in the course of employment". Save for the situations mentioned below, the copyright in such work shall be enjoyed by the author while the legal entity or other organisation shall have a priority right to utilise the work within their business scopes:

(1) any drawings of engineering design and product design, maps, computer softwares and other works created in the course of employment which are made mainly based on the material conditions and technical resources of the legal entity or other organisation and any liabilities involved in the foregoing works shall be borne by the legal entity and other organisations; or

(2) any works created in the course of employment where the copyright shall, in accordance with laws, administrative regulations or contracts, be enjoyed by the legal entity or other organisation.

During two years after the completion of the work, the author shall not, without the consent of the legal entity or other organisation, authorise any third party to utilise the work in the same way as the legal entity or other organisation does.

In light of the Trademark Law, the validity period of a registered trademark is ten years commencing from the date the registration is approved. A trademark holder may apply for a renewal within six months prior to the expiry date of the trademark, failing to so within the specified time limit, an extension period of six months may be granted to the trademark holder; in the event the trademark holder fails to make the said application within the extension period, the registered trademark shall be revoked. The duration of each successful renewal is ten years.

A trademark holder may license any other party to use its registered trademark(s) by entering into a trademark licensing contract which shall be submitted to relevant trademark bureau for filing. The trademark holder shall supervise the quality of the commodities bearing its trademark(s) while the licensee shall guarantee the quality of the said commodities. The licensee shall indicate the name of the trademark holder and the place of production of the commodities.

8. PRODUCT QUALITY AND CONSUMER PROTECTION

Product quality

The principal legal provisions governing product liability are set out in *the Product Quality Law of the PRC* (《中華人民共和國產品質量法》) (the "Product Quality Law") which was promulgated by the Standing Committee on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to the production and sale of any product within the PRC, and producers and sellers shall be liable for any failure of their products to meet the quality standards in accordance with the Product Quality Law. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations, or its business license will be revoked and criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling the compensation has the right to recover such compensation from the producer and vice versa.

Consumer protection

The Law of the PRC on Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) (the "Consumer Law") was issued by the Standing Committee on 31 October 1993 and came into effect on 1 January 1994. According to the Consumer Law, the rights and interests of consumers who buy or use commodities for the purpose of consumption or those who receive services are protected, and all manufacturers and distributors are required to ensure that their products and services will not cause personal or property damage.

9. PRODUCTION SAFETY LAW

Pursuant to the PRC Production Safety Law which became effective on 1 November 2002 and as amended on 27 August 2009, 國家安全生產監督管理總局 (the State Administration of Work Safety) is responsible for the overall administration of production safety. The Safety Production Law provides that an entity engaging in manufacturing activities must meet national or industry standards regarding safety production and provide relevant working conditions as required by the laws, administrative rules and the national or industry standards. An entity engaging in manufacturing activities must install prominent warning signs at or on relevant dangerous operation sites, facilities and equipment. The design, production, installment, use, test, repair, upgrade and disposal of safety equipment must comply with national or industry standards.

As a catalogued special-purpose tobacco machinery manufacturer, our Group shall comply with relevant stipulations in the PRC Production Safety Law, provide safe production conditions according to the law, and shall provide education and training on work safety to employees.

10. BIDDING

The major laws and regulations governing bidding activities are the Bidding Law of the PRC (《中華人民共和國招標投標法》) came into force from 1 January 2000 and its Implementation Rules (《中華人民共和國招標投標法實施條例》) became effective from 1 February 2012 (collectively the "Bidding Law").

According to the Bidding Law, the following construction projects in the territory of the PRC including their survey, design, construction, supervision of the project and the procurement of the important equipment, materials relevant to the construction such projects are required to be carried on by bidding:

(a) any large-scale project of infrastructure facility or public utility involved in social public interest and the safety of the general public;

(b) any project entirely or partially using state-owned funds or loans by the state; and

(c) any project using loans of international organisations and foreign governments and aid funds.

The bidding activities under the Bidding Law are classified into public bidding and selected bidding. For public bidding, it refers to that the biddee invites unspecified legal persons or other institutions to bid through binding announcement which shall be published on newspapers, information networks or other mass media. For selected bidding, it refers to that the biddee invites specified legal persons or other institutions to bid through invitation for bids, which shall be sent to no less than three specified legal persons or other institutions that are capable of handling bidding operations and in good credit standing. Both the binding announcement and the invitation for bids shall clearly set forth the title and address of the biddee, the nature, quantity, place and time for execution of the bidding project, ways of obtaining bid-invitation documents, etc.

Bidding activities shall be carried on on an openness, fairness, justice, honesty and credit-worthiness basis. The biddee is not allowed to restrain or “squeeze out” potential bidders by imposing unreasonable conditions, and the bidding documents shall not set forth any specific producer or supplier or other contents favoring or excluding potential bidders. During the process of bidding, the biddee shall not disclose to any other person the title, quantity of the potential bidders that have obtained bid-invitation documents or any other information that may affect fair competition. Where there is a minimum bid, the biddee shall keep it confidential.

The opening of the bid shall be carried out publicly at the time of the deadline for submission of bidding documents as mentioned in the bid-invitation documents. The place for opening bids shall be the place specified in the bid-invitation documents. If there are less than three bidders, the biddee shall make a new invitation to bid in accordance with the Bidding Law. The bid opening shall be presided by the biddee with the participation of all bidders. A legally established bid evaluation committee shall be responsible for bid evaluation.

The winning candidate shall meet at least one condition as mentioned below:

(a) the bidder is able to maximally satisfy the bid evaluation criteria as specified in each clause of the bid-invitation documents; and

(b) the bidder is able to satisfy the substantial requirements, while providing the lowest bid (excluding under-cost bids).

After the determination of the bid winner, the biddee shall issue a bid winning notice to the winner, and at the same time inform all the other bidders of the result. The bid-winning notice shall have legal binding force against the biddee and bid winner. If the biddee changes the result of bid winning or the bid winner rejects the bid project after the notice has been sent out, the biddee or bidder shall be liable for this.

A written contract shall be concluded between the biddee and bid winner within 30 days after the issuance of the bid-winning notice according to the invitation to bid and bidding documents. The biddee and bid winner shall not conclude other agreements deviating from any substantial provision of the contract. Where the bid-invitation documents require the bid winner to pay a contract performance bond, the bid winner shall make such payments which shall not exceed 10% of the total contractual amount.

HISTORY AND DEVELOPMENT

Business development

The origin of our Group can be traced back to 2001 when Huazhang Technology, our principal operating subsidiary, was established in the PRC and commenced the construction of our Group's production plant in Tongxiang, Jiaxing City, Zhejiang Province, the PRC in 2002.

Early work experience of Mr. Zhu

Our Group was founded by Mr. Zhu, one of our Controlling Shareholders and an executive Director. Prior to founding our Group, from July 1984 to December 1993, Mr. Zhu worked at the Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業杭州機電設計研究院), a state-owned enterprise jointly established by the MST and the Ministry of Light Industry of the PRC and approved by the State Council of the PRC in 1982, which principally engaged in the business of, among others, the researches in the technology for wood pulp, paper-making, household chemicals, plastic equipment industries and the automation of electric instruments. Mr. Zhu later worked at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司) from December 1993 to December 1996, a company established by a state-owned enterprise principally engaged in the business of manufacturing of mixed integrated circuit and electrical ballast, accepting tenders for projects of industrial automation system, and the purchasing of materials and equipment for industrial automation systems. Except for his three years employment, Mr. Zhu had no relationship with Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司) which was subsequently deregistered in July 2005.

Mr. Zhu's experience on establishing companies prior to founding our Group

Mr. Zhu founded Hangzhou Yiyi Consultation (formerly known as Hangzhou Huazhang Electric Engineering Company Limited (杭州華章電氣工程有限公司)) in December 1996 with Mr. Wang, Mr. Liu, Ms. Zhu, our Controlling Shareholders, Mr. Jin Hao, our executive Director, and four Independent Third Parties. Hangzhou Yiyi Consultation was a private company principally engaged in the business of acting as the contractor for projects of industrial automation system, wholesale and retail sale of industrial automation equipment and components, hydraulic components, computer equipment and components and other electric machinery and equipment. Hangzhou Yiyi Consultation later became the authorised distributor of the Branded Industrial Automation Products in the region of Shandong Province, the PRC.

Hangzhou Rongtai Electric, an EJV, was established in December 1998 by Hangzhou Yiyi Consultation and Huazhang Electric, a private company then owned as to 65% by Mr. Zhu in June 1998. Hangzhou Rongtai Electric was principally engaged in the business of research and development of transformers, automation control system and electrical components. In order to further extend the distribution businesses of the Branded Industrial Automation Products, Hangzhou Rongtai Electric entered into an agreement with a subsidiary of the brand owner of the Branded Industrial Automation Products and became the authorised distributor of the Branded Industrial Automation Products in the provinces of Zhejiang, Hunan, Hubei and Yunnan, the PRC in October 2005 and up to late 2006.

In May 1999, Mr. Zhu also founded Shanghai Yunjie Consultation (formerly known as Shanghai Huazhang Electric Control Engineering Company Limited (上海華章電氣控制工程有限公司)) with two Independent Third Parties, a private company principally engaged in the business of acting as the contractor for projects of industrial automation system, wholesale of engineering machinery, sale of electric products, pneumatic and hydraulic components, programmable controls, electric drive, low voltage electrics and components, technical services for industrial automation engineering and rental of own factory. It later became an authorised distributor of the Branded Industrial Automation Products in the region of Shanghai, the PRC.

In order to attain a more efficient resources allocation among the entities controlled by Mr. Zhu, Huazhang Overseas established Huazhang Automation (Hong Kong) in June 2006, which in turn established Huazhang Automation (Zhejiang) in September 2006, and the distribution businesses of Hangzhou Yiyi Consultation, Hangzhou Rongtai Electric and Shanghai Yunjie Consultation were transferred to Huazhang Automation (Zhejiang) in November 2006. As a condition of the said transfers, Huazhang Automation (Zhejiang) replaced the above three companies to become an authorised distributor of the Branded Industrial Automation Products in the regions of Shandong Province, Zhejiang Province, Hunan Province, Hubei Province, Yunnan Province and Shanghai Province in anticipation of the subsequent disposal of 51.0% and 19.0% interests in Huazhang Automation (Hong Kong), the then wholly-owned subsidiary of Huazhang Overseas, to French Business Partner, an Independent Third Party, in March 2007 and August 2009 respectively. At the time of negotiations between French Business Partner and Huazhang Overseas in relation to the potential acquisition of interests in Huazhang Automation (Hong Kong), it was agreed that the potential transfer of interests in Huazhang Automation (Hong Kong) was to take place under separate tranches as the acquisition prices were determined by, among others, the financial performance of Huazhang Automation (Hong Kong) at different period of time. Pursuant to the HAHK 2007 S&P Agreement, 51.0% interests in Huazhang Automation (Hong Kong) was acquired by French Business Partner in March 2007 and the HAHK First Call Option was granted to French Business Partner. The consideration paid by French Business Partner for the said acquisition of 51.0% interests in Huazhang Automation (Hong Kong) was approximately RMB100.3 million, which was determined based on a multiple of the operating results of Huazhang Automation (Hong Kong) for the year ended 31 December 2007. As a result of the exercise of the HAHK First Call Option by French Business Partner, an additional 19% interests in Huazhang Automation (Hong Kong) was transferred to French Business Partner in August 2009 at a consideration of approximately RMB34.6 million, which was determined based on a multiple of the operating results of Huazhang Automation (Hong Kong) for the year ended 31 December 2008.

Pursuant to the HAHK 2007 S&P Agreement (as supplemented by an agreement dated 30 June 2009), French Business Partner was granted the HAHK Second Call Option for acquiring all outstanding interests in Huazhang Automation (Hong Kong). The HAHK Second Call Option is exercisable by French Business Partner within three months following the issue of the audited consolidated financial statements of Huazhang Automation (Hong Kong) for the financial year ending 31 December 2013, which is expected to be available by no later than 31

March 2014, and shall lapse within three months following the issue of such financial statements. As at the Latest Practicable Date, as confirmed by the directors of Huazhang Overseas, Huazhang Overseas had not received any notice from French Business Partner on whether and when French Business Partner will exercise the HAHK Second Call Option.

French Business Partner is a wholly-owned subsidiary of French Listed Company, a company whose shares are listed on the NYSE Euronext Paris and the principal business of French Listed Company is the distribution of low and ultra-low voltage electrical products to profession customers, and has operation in Europe, North America and Asia-Pacific through its subsidiaries. French Business Partner is a simplified joint stock company governed by the laws of France and centralises the functional and operating management teams of its subsidiaries. French Business Partner provides services including management, strategic planning, finance, human resources, information technology, telecoms and legal to the subsidiaries of French Listed Company.

Prior to the acquisitions of interests in Huazhang Automation (Hong Kong) by French Business Partner, French Listed Company, through its subsidiaries, had been an authorised distributor of the Branded Industrial Automation Products in the US and other jurisdictions other than the PRC. In view of consolidating its distribution network of the Branded Industrial Automation Products, French Listed Company contacted Mr. Zhu in mid 2006 to discuss the possibility of acquiring the distribution rights of the Branded Industrial Automation Products in the PRC. Having considered that: (i) the disposals were able to provide Huazhang Overseas an opportunity to realise part of its investment in Huazhang Automation (Hong Kong) and generate immediate cash flow; (ii) the consideration for the disposals offered by French Business Partner was considered favourable; and (iii) there would be other alternative suppliers available in the market in the event that Huazhang Automation (Zhejiang) were to terminate its supply of the Branded Industrial Automation Products to us, the directors of Huazhang Overseas considered that the disposals were beneficial to Huazhang Overseas and its shareholders and therefore decided to proceed with the disposals. The proceeds from the disposal of the interests in Huazhang Automation (Hong Kong) had been applied by Huazhang Overseas for further investment purposes, including the increase in registered capital of Huazhang Technology in April 2008. During the Track Record Period and up to the Latest Practicable Date, there was no agreement between our Controlling Shareholders and French Business Partner requiring our Group to purchase the Branded Industrial Automation Products only from Huazhang Automation (Zhejiang). However, our Group has been participating in the “Solution Partner” programme launched by the brand owner of the Branded Industrial Automation Products, and under such programme our Group agreed to, among others, follow the distribution policy for the Branded Industrial Automation Products as instructed, Throughout the Track Record Period and up to the Latest Practicable Date, Huazhang Automation (Zhejiang) was the authorised distributor of the brand owner of the Branded Industrial Automation Products designated for the supply to our Group. For further details of the arrangement between our Group and Huazhang automation (Zhejiang), please refer to the paragraphs headed “Supply arrangement with Huazhang Automation (Zhejiang)” under the section headed “Business” in this prospectus.

Establishment of Huazhang Technology, our PRC operating subsidiary

Through accumulating experiences in the industrial automation systems industry during operating Hangzhou Yiyi Consultation, Hangzhou Rongtai Electric and Shanghai Yunjie Consultation, Mr. Zhu was able to familiarise himself with the industrial automation systems industry in the PRC and, through Huazhang Electric, further established Huazhang Technology in July 2001. Huazhang Technology has been focusing in the manufacture and sale of industrial automation systems for the paper-making industry in the PRC. In mid-2010, Huazhang Technology started the production of sludge treatment products for the paper-making industry in the PRC. Since then, our Group has been principally engaged in the research and development, assembly, manufacture and sale of both industrial automation systems and sludge treatment products.

Business milestones

The following sets out the important milestones of our Group's business:

2001	Huazhang Technology (formerly known as Huazhang Electric (Tongxiang) Company Limited (華章電氣(桐鄉)有限公司) was incorporated in the PRC.
2002	The construction of the production plant in Tongxiang, Jiaxing City, Zhejiang Province, the PRC was commenced.
2004	The research and development division of Huazhang Technology was established.
2006	Huazhang Technology was recognised as "Zhejiang Province Technology-based Small-Medium Enterprise (浙江省科技型中小企業)".
2007	The motor control centre developed by Huazhang Technology passed the PRC National Compulsory Products Recognition (3C Recognition) (中國國家強制性產品認證(3C認證).
	Huazhang Technology was recognised as "Zhejiang Province Centre of Technology for Small-Medium Enterprise (浙江省省級中小企業技術中心)".
2008	Huazhang Technology was recognised as High Technology Enterprise (高新技術企業).
2009	Huazhang Technology was admitted to the China Paper Industry Chamber of Commerce (中華全國工商業聯合會紙業商會) as a corporate vice-president (副會長單位).

2010 Huazhang Technology was named as Zhejiang Province Innovative Pilot Enterprise (浙江省創新型試點企業), Technological Innovation Excellence Enterprise (科技創新優勝企業) and Zhejiang Province Patent Model Enterprise (浙江省專利示範企業). Huazhang Technology was admitted to the Environmental Protection Association of Jiaxing City (嘉興市環保產業協會) as an executive member (理事單位).

AC 3700, one of the models of the drive control system developed by Huazhang Technology, was recognised as one of the "National key projects of new products (國家重點新產品計劃)".

2011 Huazhang Technology was named as Zhejiang Province Provincial Level Research and Development Centre for Advanced and Innovative Technology (浙江省省級高新技術企業研發中心).

Huazhang Technology was awarded the Tongxiang Top Ten Technological Progress Enterprise of 2010 (二零一零年度桐鄉十佳科技進步企業).

The sludge dewatering machine was named as the "2011 National Major New Product (二零一一年國家重點新產品)" and was awarded "Jiaxing Municipal Technological Progress Award (Class 2) (嘉興市科技進步二等獎)".

2012 Huazhang Technology was recognised as "Outstanding Growing Enterprise of 2011 (二零一一年度優秀成長型企業)".

Corporate history

As at the Latest Practicable Date, our Group comprised our Company, Likwin, Huazhang Electric and Huazhang Technology. Prior to the Reorganisation, Huazhang Electric and Huazhang Technology were the wholly-owned subsidiaries of Huazhang Overseas, a private company which was held as to approximately 77.90% in aggregate by our Controlling Shareholders, of which approximately 41.90% was held by Mr. Zhu, 16.16% by Mr. Wang, 13.98% by Mr. Liu and 5.86% by Ms. Zhu, and the remaining 22.10% by United Offshore as at the Latest Practicable Date. Prior to the disposals of 51.0% and 19.0% interests in Huazhang Automation (Hong Kong) by Huazhang Overseas in March 2007 and August 2009, respectively, Huazhang Automation (Hong Kong) was a wholly-owned subsidiary of Huazhang Overseas. As a result of the disposals, Huazhang Automation (Hong Kong) was owned as to 30.0% by Huazhang Overseas and 70.0% by French Business Partner, an Independent Third Party. Immediately after the Reorganisation and as at the Latest Practicable Date, Huazhang Automation (Hong Kong) remained to be held as to 30.0% by Huazhang Overseas as such 30.0% interest was not included in our Group for the purpose of our Reorganisation.

Huazhang Overseas

Huazhang Overseas was incorporated under the laws of the Cayman Islands with limited liability on 25 March 2003. On the date of its incorporation, Huazhang Overseas was owned as to approximately 73.24% in aggregate by our Controlling Shareholders, of which approximately 34.74% was held by Mr. Zhu, 16.00% by Mr. Wang, 16.00% by Mr. Liu and 6.50% by Ms. Zhu, and approximately 21.76% of the share capital of Huazhang Overseas was held by United Offshore and 5.00% by InduSolutions Co. Ltd.. InduSolutions Co. Ltd. is a company wholly-owned by Mr. Jeffrey, Xiao-hu Yin, an Independent Third Party. Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu are regarded as persons acting in concert in relation to Huazhang Overseas under the Takeovers Code regarding the consolidation of the control of Huazhang Overseas and our Group, as they have agreed to vote unanimously for all decisions in relation to Huazhang Overseas and our Group, including the acquisition of Huazhang Electric by Huazhang Overseas and the Reorganisation. Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu have been acting as the directors of Huazhang Overseas since its incorporation and throughout the Track Record Period. Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu have been working in the industrial automation system industry in the PRC since early 1990s, and Mr. Zhu, Mr. Wang and Mr. Liu acquainted with each other through working in Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業杭州機電設計研究院) in late 1980s, whereas Ms. Zhu acquainted with Mr. Zhu when she was working in Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司) in 1993. Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu later established Hangzhou Yiyi Consultation together with Mr. Jin Hao, one of our executive Directors, and four other Independent Third Parties in December 1996.

United Offshore, one of the founding shareholders of Huazhang Overseas, was incorporated on 30 January 2003 with 47 shareholders, all of whom were the employees of Huazhang Technology. The purpose of setting up United Offshore was for these 47 employees of Huazhang Technology to participate in the investment in Huazhang Technology together with Mr. Zhu and the other shareholders of Huazhang Overseas through the acquisition of the entire interest in Huazhang Electric in November 2004. The number of shareholders of United Offshore increased to 67 as at 30 June 2012, and all of these 67 shareholders of United Offshore were employees of Huazhang Technology, of which 66 individual shareholders of United Offshore were residents of the PRC as at the Latest Practicable Date.

On 3 November 2004, Huazhang Overseas acquired 100% beneficial interests in Huazhang Electric at a consideration of HK$3,000,000 based on the par value of the shares transferred. Such transfer was properly and legally completed and settled. As a result of the acquisition, Huazhang Technology became an indirect wholly-owned subsidiary of Huazhang Overseas.

On 23 February 2009, Huazhang Overseas repurchased certain number of its own shares from Mr. Zhu, Mr. Wang, Mr. Liu, Ms. Zhu and InduSolutions Co. Ltd. and allotted its shares to United Offshore. Immediately after these share repurchase and allotment, Huazhang Overseas was owned as to approximately 32.391% by Mr. Zhu, 14.482% by Mr. Wang, 13.980% by Mr. Liu, 5.860% by Ms. Zhu, 28.265% by United Offshore and 5.022% by InduSolutions Co. Ltd..

On 30 June 2012, InduSolutions Co. Ltd. and United Offshore transferred approximately 5.022% and 4.49% interests in Huazhang Overseas respectively to Mr. Zhu, at a consideration of RMB2.40 million (equivalent to approximately HK$2.98 million) and RMB2.14 million (equivalent to approximately HK$2.66 million) respectively. United Offshore also transferred approximately 1.67% interests in Huazhang Overseas to Mr. Wang, at a consideration of RMB0.80 million (equivalent to approximately HK$0.99 million). The considerations of the above transfers were mutually agreed after taking into account (i) the average investment cost of approximately HK$1.79 million paid by InduSolutions Co. Ltd. in respect of the transfer of the 5.022% interests in Huazhang Overseas and the average investment cost of approximately HK$1.60 million and HK$0.59 million paid by United Offshore in respect of the transfer of the 4.49% interests and 1.67% interests in Huazhang Overseas respectively; (ii) the unaudited net asset value of Huazhang Technology as at 30 June 2012 of approximately RMB77.9 million (equivalent to approximately HK$96.7 million); and (iii) the unaudited net asset value of the 30% interest in Huazhang Automation (Zhejiang) as at 30 June 2012 of approximately RMB9.6 million (equivalent to approximately HK$11.9 million). All of the above transfers were properly and legally completed and settled and all the transferees had settled the consideration to the respective transferors. Since the completion of these transfers and up to the Latest Practicable Date, Huazhang Overseas was held as to approximately 77.9% in aggregate by our Controlling Shareholders, of which 41.9% was held by Mr. Zhu, 16.16% by Mr. Wang, 13.98% by Mr. Liu and 5.86% by Ms. Zhu, and the remaining 22.10% by United Offshore. Upon completion of the above transfer, InduSolutions Co. Ltd. ceased to be a shareholder of Huazhang Overseas.

Huazhang Overseas is an investment holding company. Huazhang Overseas' principal business was the holding of (i) the entire share capital of Huazhang Technology through Huazhang Electric; and (ii) the 30.0% indirect interest in Huazhang Automation (Zhejiang) during the Track Record Period and immediately before the completion of the Reorganisation. Upon the completion of the Reorganisation and as at the Latest Practicable Date, save for the 30% interest in Huazhang Automation (Hong Kong), it did not hold any other assets or business.

Huazhang Electric

Huazhang Electric was principally engaged in the business of investment holding as at the Latest Practicable Date. On 25 March 1993, Huazhang Electric was incorporated in Hong Kong with limited liability with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1.00 each, with two ordinary shares issued and fully paid and each of these two shares was held by an Independent Third Party.

On 28 July 1995, the issued share capital of Huazhang Electric was increased to 100 ordinary shares, and Huazhang Electric was held as to 35%, 35% and 30% by three Independent Third Parties respectively. On 24 June 1998, Mr. Zhu acquired an aggregate of 65% interests in Huazhang Electric from two of these Independent Third Parties at a consideration of HK$65.00 based on the par value of the shares transferred. Such acquisition was properly and legally completed and settled.

The authorised share capital of Huazhang Electric was increased to HK$3,000,000 divided into 3,000,000 ordinary shares of HK$1.00 each on 29 March 2000, with 3,000,000 ordinary shares issued and fully paid, of which 75% was held by Mr. Zhu, 15% by an Independent Third Party and the remaining 10% by another Independent Third Party.

On 3 November 2004, Huazhang Overseas acquired the entire beneficial interest of Huazhang Electric at a consideration of HK$3,000,000 based on the par value of the shares transferred. Such transfer was properly and legally completed and settled. Since the completion of the transfer and prior to the Reorganisation, Huazhang Electric was a direct wholly-owned subsidiary of Huazhang Overseas.

On 30 June 2012, the authorised share capital of Huazhang Electric was further increased to HK$5,000,000 divided into 5,000,000 ordinary shares of HK$1.00 each, and one share of Huazhang Electric was allotted to Huazhang Overseas on the same day for the purpose of capitalising the loan owed to Huazhang Overseas amounting to approximately HK$35.2 million. On 31 December 2012, one additional share of Huazhang Electric was allotted to Huazhang Overseas for the purpose of capitalising the loan owed to Huazhang Overseas amounting to approximately HK$5.2 million. As a result of the aforesaid allotments, 3,000,002 ordinary shares of Huazhang Electric were beneficially owned by Huazhang Overseas.

Huazhang Technology

Huazhang Technology, our principal operating subsidiary, was established in the PRC as a WFOE with limited liability on 19 July 2001 with a registered capital of US$3,300,000 which was fully paid up by Huazhang Electric by way of cash. The registered capital of Huazhang Technology was increased to US$5,300,000 on 29 April 2008 and was fully paid up by Huazhang Electric by way of cash. For details of Huazhang Technology's business history and development, please refer to the paragraph headed "Business development" in this section.

Disposal of interests in Tongxiang Baimadun and Tongxiang Modern Eco-Agriculture

During the Track Record Period and up to 10 April 2012, Huazhang Electric held 94.55% interest in Tongxiang Baimadun and the entire interest in Tongxiang Modern Eco-Agriculture.

Tongxiang Baimadun was an EJV incorporated in the PRC with limited liability on 30 December 2004 and was principally engaged in the business of development and management of tourism attraction (without providing tourism services), operation of large-scale restaurant (providing Chinese and cold dishes) and provision of services in relation to fishing. Tongxiang Baimadun was, since its incorporation and up to 10 April 2012, owned as to 94.55% by Huazhang Electric and 5.45% by an Independent Third Party. The audited net loss of Tongxiang Baimadun was approximately RMB2.99 million and RMB0.41 million for the years ended 31 December 2010 and 2011 respectively, and its unaudited net loss was RMB52,100 for the six months ended 30 June 2012.

Tongxiang Modern Eco-Agriculture was a WFOE incorporated in the PRC by Huazhang Electric with limited liability on 19 December 2001 and was principally engaged in the business of production of merchantable fruit plants, vegetables and flower plants, research of the relevant planting technology and farming and growing of watery products. The audited net loss of Tongxiang Modern Eco-Agriculture was approximately RMB0.09 million and RMB0.40 million for the years ended 31 December 2010 and 2011 respectively, and its unaudited net profit was RMB0.28 million for the six months ended 30 June 2012.

As the businesses which Tongxiang Baimadun and Tongxiang Modern Eco-Agriculture were operating were different from the principal business of our Group, our Group entered into two equity transfer agreements in relation to the interest held by Huazhang Electric in Tongxiang Baimadun and Tongxiang Modern Eco-Agriculture on 23 March 2012 and 22 March 2012 respectively with an Independent Third Party pursuant to which Huazhang Electric would dispose of 94.55% equity in Tongxiang Baimadun and the entire interest in Tongxiang Modern Eco-Agriculture to that Independent Third Party at the consideration of US$1.04 million and US$6.0 million respectively. The considerations were determined with reference to the registered and fully paid-up capital of Tongxiang Baimadun of US$1.1 million and that of Tongxiang Modern Eco-Agriculture of US$6 million on the date of the relevant transfer agreements. The said disposals were completed on 10 April 2012, and the payment of the said considerations were fully settled and received by Huazhang Electric in June 2012.

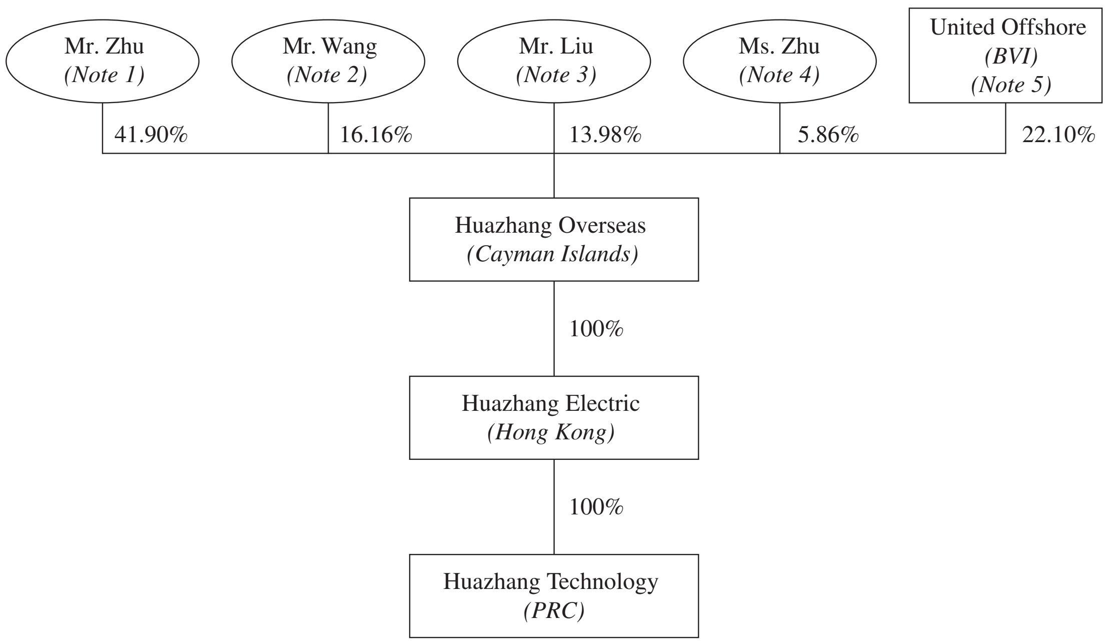
Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang)

Huazhang Automation (Hong Kong) was a wholly-owned subsidiary of Huazhang Overseas immediately prior to the disposals of 51% interests in Huazhang Automation (Hong Kong) by Huazhang Overseas in March 2007 to French Business Partner, an Independent Third Party. Huazhang overseas further disposed of its 19% interests in Huazhang Automation (Hong Kong) in August 2009 to French Business Partner. Immediately after the Reorganisation, Huazhang Automation (Hong Kong) was remained to be held as to 30% by Huazhang Overseas as such 30% interest was not included in our Group for the purpose of our Reorganisation, and Huazhang Automation (Zhejiang) was a wholly-owned subsidiary of Huazhang Automation (Hong Kong). Huazhang Automation (Zhejiang) is principally engaged in the business of trading, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems. Huazhang Overseas' interest in Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) was excluded from our Group for the purpose of our Reorganisation.

For further details of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) and their relationship with our Controlling Shareholders and our Group, please refer to the paragraph headed "Customers" under the section headed "Business" and the paragraph headed "Excluded business" under the section headed "Relationship with Controlling Shareholders" in this prospectus.

CORPORATE REORGANISATION

The following chart sets out the structure of our Group immediately before the completion of the Reorganisation:



Notes:

1. Mr. Zhu is the founder of our Group. He is also one of our Controlling Shareholders and an executive Director.

2. Mr. Wang is a director of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) and a general manager of Huazhang Automation (Zhejiang). Mr. Wang was a director of Huazhang Technology until he resigned on 10 October 2012. Mr. Wang is one of our Controlling Shareholders as he is one of the parties acting in concert with Mr. Zhu.

3. Mr. Liu is one of the senior management members of our Group and is one of our Controlling Shareholders as he is one of the parties acting in concert with Mr. Zhu.

4. Ms. Zhu was a director of Huazhang Technology until she resigned on 10 October 2012. Ms. Zhu resigned from the position due to her health problem. Ms. Zhu is one of our Controlling Shareholders as she is one of the parties acting in concert with Mr. Zhu.

5. United Offshore was owned by 67 individuals as at the Latest Practicable Date, and save for Mr. Jin Hao, an executive Director who held approximately 12.50% interests in United Offshore, Mr. Tang Zhi Chao, a member of the senior management of our Group who held approximately 15.76% interests in United Offshore, Mr. Zhu Genyi and Mr. Zhu Genbiao who are brothers of Mr. Zhu and held approximately 2.46% and 1.90% interests in United Offshore respectively, all of these individuals were Independent Third Parties. None of the shareholder held more than 16% interest in United Offshore.

Our Group underwent the Reorganisation in preparation for the Listing which involved the following major steps:

Incorporation of Qunyu, Lian Shun and Florescent Holdings

Qunyu

Qunyu was incorporated under the laws of the BVI with limited liability on 10 April 2012 and is an investment holding company. At the time of its incorporation and as at the Latest Practicable Date, it was owned by 67 individuals. The shareholders of Qunyu and those of United Offshore were identical, and save for Mr. Jin Hao, an executive Director who held approximately 12.50% interests in Qunyu, Mr. Tang Zhi Chao, a member of the senior management of our Group who held approximately 15.76% interests in Qunyu, Mr. Zhu Genyi and Mr. Zhu Genbiao who are brothers of Mr. Zhu held approximately 2.46% and 1.90% interests in Qunyu respectively, the remaining 63 individuals were Independent Third Parties, and none of the 67 individuals held more than 16% of the issued share capital of Qunyu.

As at the Latest Practicable Date, Qunyu held approximately 22.1% interests in Florescent Holdings, one of our Controlling Shareholders.

Lian Shun

Lian Shun was incorporated under the laws of the BVI with limited liability on 25 May 2012 and is an investment holding company. At the time of its incorporation and as at the Latest Practicable Date, it was owned as to 53.79% by Mr. Zhu, 20.74% by Mr. Wang, 17.95% by Mr. Liu and 7.52% by Ms. Zhu, all of them were our Controlling Shareholders.

As at the Latest Practicable Date, Lian Shun held approximately 77.9% interests in Florescent Holdings, one of our Controlling Shareholders.

Florescent Holdings

Florescent Holdings was incorporated under the laws of the BVI with limited liability on 8 June 2012 and is an investment holding company. At the time of its incorporation, it was wholly-owned by Mr. Zhu.

After completion of the Capitalisation Issue and the Placing, Florescent Holdings will become our Controlling Shareholder and will hold 75% interests in our Company.

Incorporation of our Company

Our Company was incorporated under the laws of the Cayman Islands with limited liability on 26 June 2012 and was wholly-owned by Mr. Zhu upon its incorporation. On 13 July 2012, as one of the steps of the Reorganisation, one ordinary share, representing the entire issued share capital of our Company, was transferred from Mr. Zhu to Florescent Holdings for a consideration of HK$0.01. As a result of the said transfer, our Company became a wholly-owned subsidiary of Florescent Holdings.

Please refer to the paragraph headed "Further information about our Company and its subsidiaries – Changes in share capital" in Appendix VI to this prospectus for further details of changes in the share capital of our Company.

Incorporation of Likwin

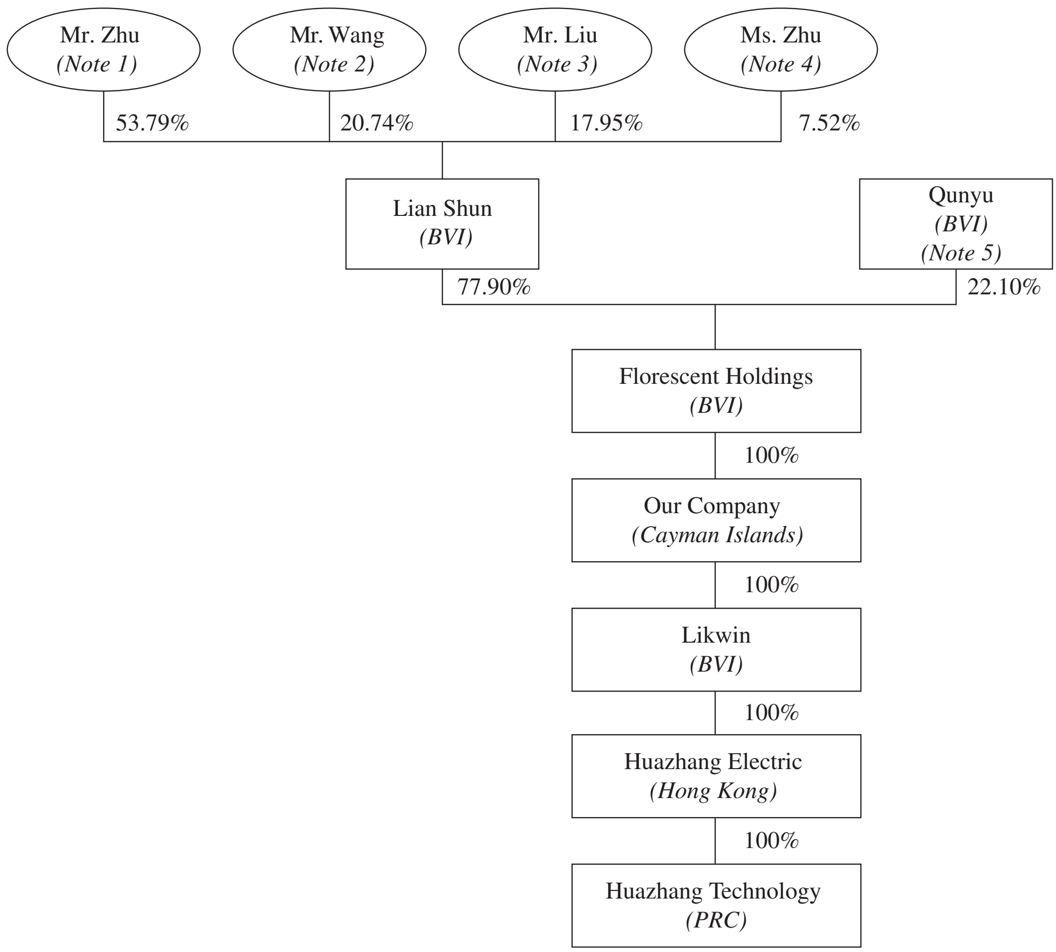
Likwin was incorporated under the laws of the BVI with limited liability on 8 June 2012 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.00. On 13 July 2012, one fully paid share was allotted and issued to our Company and Likwin became a direct wholly-owned subsidiary of our Company. Likwin is an investment holding company.

Acquisition of Huazhang Electric

On 3 May 2013, Huazhang Overseas transferred all its interests in Huazhang Electric to Likwin in consideration of the allotment and issue of shares by Florescent Holdings to Lian Shun and Qunyu, all credited as fully paid. Such transfer was properly and legally completed and settled. As a result of the issue of shares, Florescent Holdings was owned as to 77.9% by Lian Shun, and 22.1% by Qunyu. As Mr. Zhu, Mr. Wang, Mr. Liu and Mr. Zhu held an aggregate of approximately 77.9% interests in Huazhang Overseas, and the shareholders of United Offshore were identical to those of Qunyu, there was no change as to both the ultimate beneficial owners of Huazhang Electric and their respective effective interest in Huazhang Electric before and after the said acquisition.

Upon the completion of the Reorganisation, our Company became the holding company of our Group. Please refer to the paragraph headed "Further information about our Company and its subsidiaries – Corporate reorganisation" in Appendix V to this prospectus for details of the Reorganisation.

The following chart sets out the structure of our Group immediately after the completion of the Reorganisation but prior to the Placing:



Notes:

1. Mr. Zhu is the founder of our Group. He is also one of our Controlling Shareholders and an executive Director.

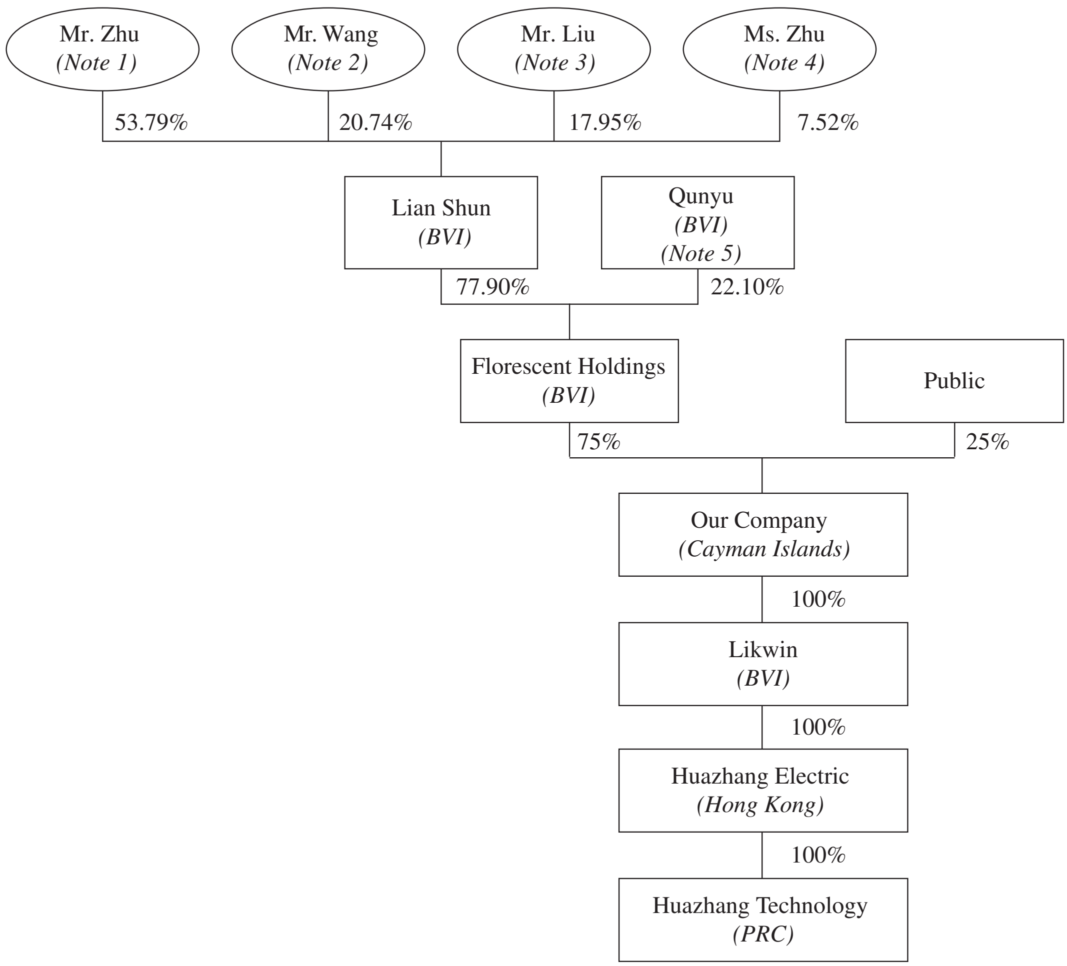
2. Mr. Wang is a director of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) and a general manager of Huazhang Automation (Zhejiang). Mr. Wang was a director of Huazhang Technology until he resigned from the position on 10 October 2012. Mr. Wang is one of our Controlling Shareholders as he is one of the parties acting in concert with Mr. Zhu.

3. Mr. Liu is one of the senior management members of our Group and is one of our Controlling Shareholders as he is one of the parties acting in concert with Mr. Zhu.

4. Ms. Zhu was a director of Huazhang Technology until she resigned from the position on 10 October 2012. Ms. Zhu resigned from the position due to her health problem. Ms. Zhu is one of our Controlling Shareholders as she is one of the parties acting in concert with Mr. Zhu.

5. Qunyu was owned by 67 individuals as at the Latest Practicable Date, and save for Mr. Jin Hao, an executive Director who held approximately 12.50% interests in Qunyu, Mr. Tang Zhi Chao, a member of the senior management of our Group who held approximately 15.76% interests in Qunyu, Mr. Zhu Genyi and Mr. Zhu Genbiao who are brothers of Mr. Zhu and held approximately 2.46% and 1.90% interests in Qunyu respectively, all of these individuals were Independent Third Parties. None of the shareholder of Qunyu held more than 16% interest in Qunyu. The shareholders and the shareholding structure of Qunyu and those of United Offshore are identical.

The following chart sets out the structure of our Group immediately after the Capitalisation Issue and the Placing (taking no account of any Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme):



Notes:

1. Mr. Zhu is the founder of our Group. He is also one of our Controlling Shareholders and an executive Director.

2. Mr. Wang is a director of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) and a general manager of Huazhang Automation (Zhejiang). Mr. Wang was a director of Huazhang Technology until he resigned from the position on 10 October 2012. Mr. Wang is one of our Controlling Shareholders as he is one of the parties acting in concert with Mr. Zhu.

3. Mr. Liu is one of the senior management members of our Group and is one of our Controlling Shareholders as he is one of the parties acting in concert with Mr. Zhu.

4. Ms. Zhu was a director of Huazhang Technology until she resigned from the position on 10 October 2012. Ms. Zhu resigned from the position due to her health problem. Ms. Zhu is one of our Controlling Shareholders as she is one of the parties acting in concert with Mr. Zhu.

5. Qunyu was owned by 67 individuals as at the Latest Practicable Date, and save for Mr. Jin Hao, an executive Director who held approximately 12.50% interests in Qunyu, Mr. Tang Zhi Chao, a member of the senior management of our Group who held approximately 15.76% interests in Qunyu, Mr. Zhu Genyi and Mr. Zhu Genbiao who are brothers of Mr. Zhu and held approximately 2.46% and 1.90% interests in Qunyu respectively, all of these individuals were Independent Third Parties. None of the shareholder of Qunyu held more than 16% interest in Qunyu. The shareholders and the shareholding structure of Qunyu and those of United Offshore are identical.

PRC LEGAL COMPLIANCE

According to the Circular No.75, if a PRC resident wants to use an overseas special purpose vehicle (i.e. the overseas enterprise directly established or indirectly controlled by the PRC resident for the purpose of overseas stock financing for the assets or interests held by him in the PRC enterprise) to conduct return investment in the PRC, i.e. direct investment in the PRC, the PRC resident shall submit the prescriptive documents to the local branch of the SAFE for foreign exchange registration in respect of his overseas investments. Mr. Zhu, Mr. Wang, Mr. Liu, Ms. Zhu and 66 individual shareholders of United Offshore and Qunyu are residents of the PRC and are subject to the requirements under the Circular No.75. The PRC Legal Advisers confirmed that all the necessary foreign exchange registration with local foreign exchange authority under the SAFE Circular No.75 was completed on 10 September 2012.

The PRC Legal Advisers further confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation have been obtained, and the Reorganisation has complied with all applicable laws and regulations of the PRC.

OVERVIEW

We are principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products for the paper-making industry and other industries such as metallurgy and electricity in the PRC. Our industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers and are mainly sold to customers in the paper-making industry in the PRC. According to Euromonitor, in 2011, our Group had a market share of approximately 5.7% of the industrial automation system market for the paper-making industry in the PRC and a market share of approximately 0.1% of the entire industrial automation system market in the PRC in the same year. We are also engaged in the provision of after-sales services to our existing customers.

Majority of our industrial automation systems are made from our self-developed software and hardware sourced from our suppliers, and are used in industrial production applications to improve production line efficiency by controlling the production process. In addition, we also provide industrial automation systems which do not contain our self-developed software. Our industrial automation systems mainly comprise the following four types:

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

Our sludge treatment products are dewatering systems which are also made from our self-developed software and hardware sourced from our suppliers and 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. Depending on the specific needs of our customers, we also sell the hardware of our sludge treatment products separately. Our sludge treatment products comprise two categories, namely, filter press and steel-belt filter press. Our Group started production of our sludge treatment products in 2010.

Revenue from sales of our industrial automation systems accounted for approximately 85.5%, 87.5% and 58.0% of our total revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, while revenue from sales of our sludge treatment products accounted for approximately 2.4%, 6.3% and 35.0% of our total revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Majority of the revenue from sales of our industrial automation systems and sludge treatment products was generated from customers in the paper-making industry in the PRC during the Track Record Period. Our customers in the paper-making industry accounted for approximately 84.2%, 93.0% and 77.6% of the revenue from sales of our industrial automation systems, and approximately 79.8%, 95.1% and 87.1% of the revenue from sales of our sludge treatment products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively.

Industrial automation systems and sludge treatment products are made-to-order according to customers' specifications and requirements.

We also provide after-sales services to customers of our industrial automation systems and sludge treatment products. Depending on the requirements of our customers, our after-sales services include the provision of on-site engineering and maintenance services and/or the repair and replacement of spare parts and components. Revenue generated from the provision of our after-sales services accounted for about 12.1%, 6.2% and 7.0% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. We believe that our after-sales services will allow us to utilise our technical and engineering expertise, and enable us to retain our customers and better understand their needs.

Please refer to the paragraph headed "Our products and services" in this section for further information relating to our industrial automation systems, sludge treatment products and after-sales services.

COMPETITIVE STRENGTHS OF OUR GROUP

Our Directors consider that we possess the following competitive strengths.

Experienced in providing industrial automation systems for the paper-making industry

We are one of the providers of industrial automation systems to the paper-making industry in the PRC and our business has developed and expanded since year 2001. The rapid expansion of our business was attributable to several factors, namely: (i) the technological and technical advancement and developments in the paper-making industry; (ii) the increasing scale of paper-making projects; (iii) our expertise in providing industrial automation systems to the paper-making industry which was gained by serving various paper-making companies in the PRC; (iv) the applicability of industrial automation systems supplied by us for the development of the paper-making industry in the PRC; and (v) our team of experienced technical engineers.

Our Directors believe that the long term commitment from and our support to our customers are pivotal to our solid and stable relationships with them. According to Euromonitor, there were approximately 2,620 paper-making companies in the PRC by the end of year 2011. Among the top 35 paper-making companies in terms of production volume in 2011, 12 of which were our customers during the Track Record Period.

Technical expertise and comprehensive after-sales services

Our team of engineers are experienced in software applications and industrial automation systems and are familiar with the industry. We continuously improve the functionality of our software products to cater for the changing needs and requirements of customers from time to time. We keep track of the demands of the ever-changing industrial automation system market on a continual basis by providing our employees with on-going training in various aspects. In order to protect our intellectual property rights, we had 73 patents (including 30 invention patents and 43 utility model patents) and three software copyrights registered in the PRC as at the Latest Practicable Date.

We have a dedicated customer service team which is able to provide long-term support and timely response to our customers in the PRC. We also have a warehouse with a comprehensive collection of parts and components, such as inverters, low voltage components and modules, to meet the specific demands and requirements of our customers on a timely basis. These factors allow us to fulfill our promise of "response within four hours, arrival at customer's premises within twenty-four hours" to our customers within the PRC.

We have registered patents for various technologies required by the steel-belt filter press

We have registered patents for various technologies required by our steel-belt filter press. For details in relation to our patents, please refer to the paragraph headed "Intellectual property rights" in this section. Our steel-belt filter press has the ability to carry out high pressure filtration and effective dewatering of sludge continuously. It also possesses a fully automated closed-loop network control system which allows for the simultaneous operation of each pressure zone, real-time correction and the independent control of belt tension.

We have participated in setting the industry standards and technical conditions for the filter press available in the PRC market

Our expertise in the production and the quality of our filter presses and steel-belt filter presses have enabled us to participate in and be responsible for setting the industry standards for these products. We were responsible for setting the industry standard for technical conditions of the filter press, and participated in setting the industry standard for (i) the parameters of the filter press; (ii) the filter plate; and (iii) the filter plate with expression diaphragm. For further details, please refer to the paragraph headed "Product research and development" in this section.

BUSINESS OBJECTIVE AND STRATEGIES

Our business objective is to become one of the leading providers of industrial automation systems and sludge treatment products to the paper-making industry in the PRC. By adopting the business strategies set out below, we plan to strengthen the market position of our existing products and services in the PRC, and to develop new products and/or new markets for both our industrial automation system business segment and sludge treatment business segment.

Expand our production plant

In order to cope with increasing demand from our customers, we intend to (i) build a new production plant of approximately 11,000 sq.m which includes an industrial automation plant of approximately 6,000 sq.m. and a sludge treatment plant of approximately 5,000 sq.m.; (ii) improve the production process by using the high/low voltage power supply systems and addition of new laboratory facilities and testing facilities.

A new production line for cabinets to enhance our efficiency and cost-effectiveness

Cabinet is used for casing the parts and components of our industrial automation systems, and is itself one of the components of our industrial automation systems. We currently source the cabinet from external suppliers. In order to be cost-effective and efficient, we intend to start a new production line to produce our own cabinets for our use in the assembly of industrial automation systems. We will source steel board which is the main raw material for production of cabinets from external suppliers.

Develop new products and newer models of our existing products

We believe that our ability to develop new industrial automation systems and sludge treatment products enables us to satisfy the needs of our customers and the demands of the ever-evolving paper-making industry. It is also our aim to focus on product design and development and to enhance the system integration ability of our products.

RGU is one of the components used in our industrial automation systems and is currently sourced from external suppliers. The RGU has the ability to facilitate power flow between AC and DC. This is done by converting the incoming AC voltage into a regulated DC voltage by controlling the power flow to and from the AC line. If the development of the RGU is successful, it can help reduce energy consumption and hence production costs for our customers as it allows for any excess energy unused by one machine to be channelled to other machines for their consumption instead of being emitted and wasted as heat. Developing our own RGU for use in our industrial automation systems will also lower our production costs as we currently import them from Italy. We currently plan to use our self-developed RGU in our products only and have no plan to sell to our customers on a standalone basis, save for the after-sale services or export the same. We have finalised the design, confirmed the major raw materials to be used for the production, and completed the system solution. Our Group has also produced samples of the newly developed RGU, which has been subject to internal testing by our Group's laboratories to ensure that it is in compliance with our internal technical specifications. The newly developed RGU is currently undergoing trial tests by some of our customers in the paper-making industry.

We also have plans to further develop newer models of the distributed control system, the drive control system as well as the motor control centre; and complete the corresponding software registrations. We intend to implement this plan after Listing.

In respect of our sludge treatment business, we intend to develop various new products to cater for customers from other industries such as municipal sludge treatment, coal and gas, nonferrous metals and chemical treatment. The new sludge treatment products are expected to be launched in September 2013. For further details on the use of net proceeds from the Placing for development of new products and newer models of our existing products, please refer to the paragraph headed "Implementation plans" under the section headed "Future plans and use of proceeds from the Placing" in this prospectus.

In order to enhance our development capabilities, we intend to employ more engineers and allocate more human and financial resources towards project design and development. Additionally, other than Zhejiang University, our Group may also collaborate with other research institutions and colleges/ universities to co-develop new products. For further details, please refer to the paragraph headed "Product research and development" in this section.

Enhance our presence among existing and potential customers

We aim to increase the market awareness of our Group and this encompasses the use of various advertising and marketing methods, for instance, placing advertisements for our Group's products in magazines for the paper-making industry, participating in various industry exhibitions in major cities like Beijing and Shanghai in the PRC and distributing marketing materials such as corporate and product brochures, and corporate videos to both potential and existing customers in the PRC.

We also aim to increase our sales and market share in the PRC through various means, including organising seminars and product launches to introduce our products and services to both existing and potential customers especially those from the paper-making industry such as manufacturers of paper-making machines and paper-making enterprises. Through these marketing means, we seek to widen our network as well as establish close business relationships with both existing and potential customers, so as to gain access to market information to cater for the demands and specific needs of our customers in a timely manner.

Improve our current ERP system

Presently, although all our production information is managed by the ERP system, which assists in the dissemination of information to the various departments, the ERP system cannot be linked to our financial data software and production systems, and therefore certain types of data need to be manually processed. As such, we intend to upgrade our current ERP system so as to allow for the synchronisation and simultaneous operation of the various systems, thus allowing for timely dissemination of important data throughout our Group.

Expand our business into new industries

In addition to the paper-making industry, we plan to expand our business by supplying drive control systems and distributed control systems to customers in other industries. We will set up a project team for implementation of industrial automation projects for customers from the electricity and metallurgy sectors. Besides, leveraging on the solid relationship established with our existing customers from our industrial automation business, we believe we are able to capture more opportunities to further develop our sludge treatment products market as we can cross-sell our sludge treatment products to our existing customers which are using our industrial automation systems. We plan to increase our current market share in respect of both our industrial automation systems as well as our sludge treatment products in the new industries such as municipal sludge treatment, coal and gas, nonferrous metals and chemical treatment. As mentioned in the paragraph headed "Develop new products and newer models of our existing products" above, we intend to develop certain new sludge treatment products to expand our presence into these new industries. We also plan to hire more technicians with related expertise to assist us in the expansion to these new industries.

We may also consider making investment in and/or acquiring technologies, projects or businesses that complement our existing business. As at the Latest Practicable Date, we had not identified any specific acquisition or investment target, nor had we entered into any legally binding agreement or arrangement relating to the same. Selection of such acquisition or investment target will depend on factors such as: (i) whether the target is carrying on a business which is complementary to our business; (ii) the target's reputation in the industry; and (iii) the prospects of expanding our market share as a result of the acquisition or investment. Any future acquisitions and/or investments will be funded by our internal resources and/or debt or equity financing or a combination of any of them.

More comprehensive customer service

Customer service is also one of the areas that we intend to focus on in the future. As at the Latest Practicable Date, we had approximately 117 on-going industrial automation contracts and approximately 33 on-going sludge treatment contracts. Most of our customers are from the paper-making industry and should there be any disruptions in the paper-making process due to machine faults, our customers may incur substantial losses. As such, we aim to attend to product-related issues encountered by our customers within 24 hours. We also need to ensure that we have adequate stock of parts and components for rendering of maintenance services, as well as sufficient manpower for handling our customers' needs. Furthermore, in line with the growth of our business, we intend to continue expanding our after-sales services team to cater to our customers' needs. The provision of after-sales services is not only a source of revenue for our Group, it also allows us to better serve our customers and thereby maintain good business relationships with them.

BUSINESS MODEL

We conduct our business on a project basis and all of our products are custom-made to meet the needs of our customers. We generate our revenue primarily from sales of our industrial automation systems to customers in paper-making industry in the PRC. Revenue from sales of our industrial automation systems accounted for approximately 85.5%, 87.5% and 58.0% of our total revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively.

We identify most of our potential projects through business discussions, although a few of them are identified through competitive bidding in open tenders marketed by tendering companies. Our customers can usually choose the method of identifying suppliers at their discretion, unless they are required under the PRC laws to carry out competitive bidding.

The table below sets out the number of industrial automation contracts obtained via competitive bidding or business discussions and the corresponding total contract values:

	Year ended 30 June						Six months ended 31 December		
	2011			2012			2012		
	Number of contracts	Total contract value *(HK$ million)*	%	Number of contracts	Total contract value *(HK$ million)*	%	Number of contracts	Total contract value *(HK$ million)*	%
Business discussions	161	151.6	94.4	151	187.9	96.2	103	51.4	100.0
Competitive bidding	3	9.0	5.6	1	7.3	3.8	–	–	–
Total	164	160.6	100.0	152	195.2	100.0	103	51.4	100.0

During the Track Record Period, our sludge treatment contracts were obtained via business discussion with our customers.

As our industrial automation systems and sludge treatment products are highly customised, our sales and marketing personnel as well as our technical personnel undertake initial discussions with the potential customers to understand their specific requirements for the project. After taking into consideration the different factors in a potential project, which may include but are not limited to project costs, technical requirements, our production capacity and expertise, our management will determine whether to pursue such project. If we decide to pursue a project, we would commence further discussions with the potential customers or submit a tender to the tendering companies if it is a competitive bidding process.

If the potential customer is satisfied with our custom-made technical design for the project and decides to select us as its supplier, we will enter into a sales contract with the potential customer. Our technical personnel are responsible for the project design based on the specifications and requirements of the potential customers whilst our sales and marketing personnel will be responsible for negotiating the terms and conditions of the contracts. A technical document setting out the technical specifications and requirements of the project will also be attached to the sales contract.

Salient terms of a typical sales contract entered into during the Track Record Period

A sales contract entered into during the Track Record Period for projects in relation to our Group's industrial automation systems or sludge treatment products typically contained the following salient terms:

- ***payment*** – the customer is normally required to make payment in the following stages: (i) a down payment of approximately 10% to 30% of the contract value either upon signing of the contract or within 30 days from the date of the contract; (ii) up to approximately 90% to 95% of the contract value upon delivery; and (iii) 5% to 10% of the remaining contract value upon expiry of the warranty period (which is usually for a period of either 18 months from the date of delivery or 12 months after completion of on-site testing, whichever is earlier);

- ***credit terms*** – no credit terms are stipulated in the sales contracts with customers. Our Directors confirm that our Group does not grant any additional or concessionary credit period to its customers. However, based on the subsequent settlement of the instalments payable upon delivery by our customers up to 31 March 2013, we experienced an average of 30 days and 13 days delay by customers of our industrial automation systems and sludge treatment products respectively in settling the instalment that is payable upon delivery. As at 30 June 2011, 30 June 2012 and 31 December 2012, our other trade receivables amounted to approximately HK$10.7 million, HK$11.8 million and HK$19.4 million respectively. As at 31 December 2012, our Group had approximately HK$10.0 million of trade receivables, net of provisions, that were overdue by more than three months. Up to 31 March 2013, approximately HK$2.1 million of these overdue trade receivables had been settled. As such, the average number of days of delay did not take into account the outstanding overdue amount of approximately HK$7.9 million which had not been settled as at 31 March 2013. The unsettled overdue amount represents approximately 4.1% of the aggregate value of the sales contracts to which such unsettled overdue amount relates. For further details of our Group's trade receivables, please refer to the paragraph headed "trade receivables" under the section headed "Financial information" of this prospectus;

- ***delivery*** – we are usually required to deliver the industrial automation systems and sludge treatment products to our customer's site at a delivery date as specified in the contract;

- ***packaging/transportation*** – our industrial automation systems are required to be packaged in accordance with the agreed packaging standard and appropriate for long distance transport. Any costs incurred for packaging and/or transportation are borne by our Group;

- ***installation/testing*** – we are responsible for providing installation guidance and both our customers and ourselves will conduct the on-site testing together;

- ***quality assurance and warranty period*** – if during the warranty period, there are any quality issues with our industrial automation systems due to our fault, we shall repair or replace the industrial automation systems free-of-charge. Our sales contracts normally stipulate a warranty period of either 18 months from the date of delivery, or 12 months after completion of on-site testing, whichever is earlier; and

- ***dispute resolution*** – any disputes between the parties would usually require the contracting parties to first attempt negotiation. It is only upon the failure to come to a settlement via negotiation that the parties are allowed to resort to arbitration or litigation proceedings.

During the Track Record Period, our Group had entered into 291 sales contracts, requiring payment of up to approximately 90% to 95% of the contract value upon delivery, for projects in relation to our industrial automation systems or sludge treatment products, and the aggregate value of these sales contracts represented approximately 79.0% of the aggregate value of all of the sales contracts entered into by our Group for projects in relation to our industrial automation systems or sludge treatment products during the same period.

The table below sets out an analysis of the 291 sales contracts, requiring payment of up to approximately 90% to 95% of the contract value upon delivery, obtained by our Group during the Track Record Period by aggregate contract value:

	For the year ended 30 June				For the six months ended 31 December	
	2011		2012		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
RMB1 million or below	34,012,514	22.1	24,659,961	13.0	9,752,834	20.3
Over RMB1 million but less than RMB5 million	87,597,738	57.0	79,380,037	41.7	30,393,745	63.3
RMB5 million or more	32,091,220	20.9	86,246,501	45.3	7,884,355	16.4
	153,701,472	100.0	190,286,499	100.0	48,030,934	100.0

Customers of our industrial automation systems and sludge treatment products generally settle payments for our products by bank remittance or bank acceptance bills. The sales contracts do not contain any price adjustment clause for increases in raw material costs, since all raw material costs would have been factored into the contract value. Although the timeframe for delivery is generally stipulated in the sales contracts, some of the contracts explicitly provide that the timeframe for delivery can be amended by the parties with prior notice. Customers may request us to postpone our product delivery due to (i) delay in the completion of the required preparatory work by their other contractors or suppliers at their premises for machinery installation; or (ii) their postponement in the construction schedule of their production facilities. Approximately 82.7%, 59.7% and 61.5% of the total value of our contracts obtained during the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively, was attributable to both industrial automation contracts and sludge treatment contracts for which our customers had amended the timeframe for product delivery. Our Group accepted customers' requests for amendment of the timeframe for product delivery so as to maintain good business relationships with our customers, after having considered that customers of our industrial automation systems and sludge treatment products are usually required to pay us a substantial amount of the contract sum of the relevant sales contracts upon product delivery.

Sales contracts with our major customers generally provided that we are liable to pay either a daily penalty constituting (i) approximately 5.0% of the contract value; or (ii) approximately 5.0% of the value of the products and/or parts and components for which delivery has been delayed, depending on the terms of the sales contract. If the products and/or parts and components are not delivered within a period of generally one month after the stipulated timeframe for delivery, our customers are entitled to terminate the relevant sales contracts and we may be liable to compensate our customers for any economic losses incurred in addition to the penalty mentioned above. Our Directors confirmed that our Group had not experienced any failure on product delivery within the agreed timeframe and no compensation had been paid by our Group or our customers which requested for delay in product delivery within the agreed timeframe during the Track Record Period.

There was generally no agreed timeframe for completion of on-site installation and testing for contracts entered into during the Track Record Period.

Historical pattern of revenue recognition

As we generally recognise our revenue upon receipt of our customers' testing certificates confirming successful completion of on-site testing and acceptance of our products requiring on-site installation, testing and debugging, the long process of on-site installation and testing of our products has an impact on the timing of our revenue recognition such that part of the revenue to be recognised during a financial year may be related to sales contracts signed in the financial years preceding the financial year when the revenue is recognised.

The table below sets out an analysis of revenue of our Group during the Track Record Period in relation to sales contracts obtained in each of the four years ended 30 June 2009, 2010, 2011, 2012 and the six months ended 31 December 2012:

	For the year ended 30 June				**For the six months ended 31 December**	
	2011		**2012**		**2012**	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Amount of revenue related to sales contracts signed in the year ended 30 June 2009	10.6	10.7	0.4	0.2	–	–
Amount of revenue related to sales contracts signed in the year ended 30 June 2010	36.4	36.7	34.9	15.2	14.6	12.2
Amount of revenue related to sales contracts signed in the year ended 30 June 2011	52.1	52.6	108.5	47.3	29.5	24.6
Amount of revenue related to sales contracts signed in the year ended 30 June 2012	–	–	85.7	37.3	51.6	43.1
Amount of revenue related to sales contracts signed in the six months ended 31 December 2012	–	–	–	–	24.0	20.1
Revenue	99.1	100.0	229.5	100.0	119.7	100.0

As indicated in the table above, approximately 89.3% of the revenue of our Group in the year ended 30 June 2011 was related to sales contracts obtained in the two years ended 30 June 2010 and 2011, approximately 84.6% of the revenue of our Group in the year ended 30 June 2012 was related to sales contracts obtained in the two years ended 30 June 2011 and 2012, and approximately 87.8% of the revenue of our Group in the six months ended 31 December 2012 was related to sales contracts obtained in the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

The table below sets out an analysis of sales contracts obtained by our Group during the Track Record Period by the aggregate value of sales contracts:

	For the year ended 30 June				For the six months ended 31 December	
	2011		2012		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
RMB1 million or below	54,842,036	27.2	47,433,503	18.5	24,735,818	32.6
Over RMB1 million but less than RMB5 million	93,984,958	46.7	91,789,921	35.9	43,360,880	57.0
RMB5 million or more	52,636,022	26.1	116,804,896	45.6	7,884,355	10.4
	201,463,016	100.0	256,028,320	100.0	75,981,053	100.0

The sales contracts obtained by our Group during the Track Record Period included sales contracts for projects in relation to our industrial automation systems and sludge treatment products, and for the provision of our after-sales services. The aggregate value of sales contracts obtained by our Group during the two years ended 30 June 2012 was on an increasing trend. The aggregate value of sales contracts obtained by our Group increased by approximately 53.4% from approximately HK$131 million in the year ended 30 June 2010 to approximately HK$201.5 million in the year ended 30 June 2011 and then by approximately 27.4% to HK$256.0 million in the year ended 30 June 2012. Our Group further obtained sales contracts with an aggregate value of approximately HK$76.0 million in the six months ended 31 December 2012.

The aggregate value of sales contracts received by our Group amounted to approximately HK$85.3 million in the six months ended 31 December 2011 and HK$170.7 million in the six months ended 30 June 2012. The aggregate value of sales contracts of approximately HK$76.0 million received by our Group in the six months ended 31 December 2012 therefore represented a decrease by HK$9.3 million or approximately 10.9% when compared to that in the six months ended 31 December 2011. Our Directors confirmed that such decrease was primarily due to a drop in the number of sales contracts with value over HK$5.0 million obtained by our Group by four as compared to that in the six months ended 31 December 2011 as certain customers of our Group reduced their capital investment in production facilities during the six months ended 31 December 2012.

For illustrative purpose, the aggregate value of sales contracts of approximately HK$76.0 million received by our Group in the six months ended 31 December 2012, if on an annualised basis, would have been represented a decrease by HK$104.0 million or approximately 40.6% when compared to the aggregate value of sales contracts of approximately HK$256.0 million received by our Group for the year ended 30 June 2012.

As at the Latest Practicable Date, our Group's sales contracts on hand amounted to approximately HK$197.9 million. Our Directors further confirmed that the amount of sales contracts obtained by our Group is not subject to any seasonality fluctuation.

Given the historical timing of revenue recognition during the Track Record Period and the measures we have put in place to mitigate the risk relating to the long period of on-site testing and possible fluctuations in our financial results caused by delay in revenue recognition in the future, our Directors consider that such risk would be minimised.

The table below sets out the breakdown of sales contracts obtained by our Group during the Track Record Period and the revenue contribution by new and repeated customers:

	For the year ended 30 June								For the six months ended 31 December			
	2011				2012				2012			
	Number of contracts	%	*HK$*	%	Number of contracts	%	*HK$*	%	Number of contracts	%	*HK$*	%
Repeated customers *(Note 1)*	421	91.1	181,206,257	89.9	417	87.4	156,427,266	61.1	228	77.6	36,925,036	48.6
New customers *(Note 2)*	41	8.9	20,256,759	10.1	60	12.6	99,601,053	38.9	66	22.4	39,056,017	51.4
	462	100.0	201,463,016	100.0	477	100.0	256,028,319	100.0	294	100.0	75,981,053	100.0

Notes:

1. Repeated customers refer to customers which had a business relationship of more than one year with our Group at the time of entering into the sales contracts during the relevant financial year/period.

2. New customers refer to customers which had a business relationship of less than one year with our Group at the time of entering into the sales contracts during the relevant financial year/period.

Timing of our operating cash inflows and outflows and risk of significant cashflow mismatch

Although our cash flow mismatch between cash receipt from our customers and cash payment to our suppliers during the Track Record Period was not significant on the basis that advances from our customers as at 30 June 2011, 30 June 2012 and 31 December 2012 represented approximately 111.9%, 100.9% and 95.2% of our inventory balance (excluding spare parts and components) as at the respective date, and purchases during the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 represented approximately 71.6%, 60.1% and 66.4% of the advances received from our customers during the respective year/period, the timing difference between the payment and credit terms given by us to our customers and the payment and credit terms given to us by our suppliers may adversely affect our cash flow and our ability to meet our working capital requirements in the future. Please refer to the paragraph headed "Any delay in delivery and/or installation of our industrial automation systems and sludge treatment projects may affect our cash flow position and results of our operation, and may cause material fluctuations in our revenue in the future" under the section headed "Risk factors" in this prospectus for details of risk relating to significant cash flow mismatch and associated risks. Please also refer to the paragraph headed "Internal control measures adopted to mitigate the risk of significant cashflow mismatch" in this section for details of mitigating measures of relevant risk.

Pricing policy and fluctuations in costs of raw materials

Our industrial automation systems and sludge treatment products are provided to customers under fixed-price contracts that fix an all-inclusive lump sum price for a project. Hence, most of our revenue was derived from fixed-price contracts during the Track Record Period and up to the Latest Practicable Date. We normally fix the price of our projects after taking into account various factors including but not limited to costs of engineering, raw materials and labour, our target gross profit margin and the risk of fluctuations in costs of raw materials. However, as most of our sales contracts entered into during the Track Record Period and up to the Latest Practicable Date were fixed-price in nature and procurement arrangements with our suppliers of raw materials were entered into after signing of relevant sale contracts, our Group would not be able to pass on any increase in cost of raw materials to our customers if our Group experienced an unexpected increase in cost of raw materials during the period from signing of a sale contract to placing the relevant purchase order. The actual costs may also differ from our estimation due to unanticipated technical problems and other unforeseeable reasons which may require us to incur additional costs that we cannot recoup. Therefore, we are subject to the risk of cost overruns as we execute our projects or perform our services at a fixed price. Please refer to the paragraphs headed "If we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price contracts, our results of operations would be adversely affected" and "Any price and supply fluctuations of raw materials, in particular, the inverters, the low voltage components and the modules used in our production processes, may increase our production costs and affect our Group's results of operations" under the section headed "Risk factors" in this prospectus for details of risk relating to price and supply fluctuations of our raw materials and cost overruns. Please also refer to the paragraph headed "Internal control measures adopted to mitigate the risk of cost overruns" in this section for details of mitigating measures of the relevant risk.

Substantial inventory balance

Our inventory comprises raw materials, work in progress and finished goods. The value of inventory accounted for approximately 47.3%, 44.4% and 49.2% of our total assets as at 30 June 2011, 30 June 2012 and 31 December 2012, respectively. The significant inventory balance was primarily due to our relatively long production, on-site installation and testing cycle as all of our delivered products which required on-site installation and testing had been recorded as finished goods as part of our inventory if these products had not yet passed the final testing and inspection at the customers' sites. The value of our finished goods at 30 June 2011, 30 June 2012 and 31 December 2012 respectively, represented approximately 37.0%, 30.5% and 42.5% of our inventory balance as at the respective date.

As at 30 June 2011 and 2012 and 31 December 2012, a batch of raw materials with cost of approximately HK$8.5 million, HK$3.3 million and HK$2.0 million respectively, was considered obsolete. If our spare parts and components become obsolete due to reasons such as technological advancement of industrial automation systems and sludge treatment products, improper maintenance of them or their market prices falling below their costs in the future, we would have to record impairment losses for them which would adversely affect our results of operations. Please refer to the paragraph headed "If there is substantial inventory balance, our spare parts and components become obsolete or their market prices fall below their costs in the future, our results of operations may be adversely affected" in the section headed "Risk factors" of this prospectus for more details. Please also refer to the paragraph headed "Internal control measures adopted to mitigate risk of substantial inventory balance" in this section for details of mitigating measures of the relevant risk.

INTERNAL CONTROLS

In order to mitigate the significant risks inherent to our business model, we have adopted and implemented certain policies and internal controls. Our Directors are responsible for monitoring our internal control system and reviewing its effectiveness.

Internal control measures adopted to mitigate the risk of delays in completion of on-site testing and acceptance of our products, and to ensure timely revenue recognition

To facilitate a smooth on-site installation process by our customers, we will send our technicians to the customers' sites upon delivery of our products to provide guidance for on-site installation of our products. After installation, our technicians will visit the customers' sites on a regular basis to assess when the on-site testing and inspection can be carried out in accordance with the parameters and standards agreed between our customers and us. In the event that our technicians detect that the customers are ready to carry out but intentionally delay the on-site testing and inspection process, or that the customers are satisfied with the on-site testing and inspection results but have not issued the testing certificates in a timely manner, our technicians will report to our management immediately who will then liaise with the customers' senior management directly to resolve the issue.

To further ensure our sales and the corresponding costs of sales are recorded in a timely manner after passing the on-site testing and inspection of our products, we have also adopted the following internal control measures:

- we have a policy to request all technicians to return testing certificates to the accounting and finance department for record keeping within 10 days after issuance of the certificates by our customers;

- our accounting and finance department will perform a monthly review of the status of outstanding projects with the engineering department to ensure all testing certificates for projects that have passed customers' inspection have been obtained;

- our accounting and finance department will compare the summary of testing certificates obtained during a month with the sales summary for the same month to ensure all revenue has been recorded upon receipt of the testing certificates;

- our accounting and finance department will review the accounting vouchers regularly to ensure all revenue and corresponding costs of sales have been properly recorded; and

- our accounting staff will be responsible for recording the time schedule of the on-site testing and inspection before our technicians visit the customers' site so as to ensure they can receive all testing certificates by the end of each month.

Internal control measures adopted to mitigate the risk of significant cash flow mismatch

In order to mitigate the potential risk of significant cash flow mismatch in the future, we have implemented several internal control measures, including but not limited to: (i) holding quarterly meetings to analyse our financial conditions and operational results; (ii) preparing monthly reports by our accounting and finance department to monitor the actual costs incurred for our projects; and (iii) preparing monthly cash flow plans for our projects. Our accounting and finance department will collect from our customers or make payments to our suppliers based on the cash flow plan to ensure that we have adequate cash flows to fulfil the funding requirements of our projects.

Internal control measures adopted to mitigate the risk of cost overruns

In order to mitigate the risk of cost overruns, we have implemented internal control measures, including but are not limited to: (i) budgeting procurement costs and expenses in accordance with the specific needs of each project in order to control the project cost; (ii) checking the latest costs of raw materials before we fix the contract price with our customers; (iii) analysing price trends of raw materials on a quarterly basis; (iv) entering into fixed price agreements with suppliers of raw materials; (v) monitoring closely market prices and paying close attention to market forecasts and market condition analysis; (vi) placing orders for our raw materials in a timely manner; and (vii) making deposits, advance payments and progress payments to the relevant suppliers in a timely manner.

Internal control measures adopted to mitigate risk of substantial inventory balance

We have put in place different inventory management procedures to monitor our inventories, such as conducting inventory inspections at our warehouse on a regular basis and identifying obsolete goods during stock takes by physically assessing the conditions of parts and components in stock and through ageing analysis. Please refer to the paragraph headed "Inventory control" in the section headed "Business" in this prospectus for further details of our inventory control measures.

Our Directors are of the view that the above measures can strengthen our control environment at various stages of our project operation cycle and our business operations, and are therefore of the view that the internal control measures adopted by our Group are adequate and effective in reducing the risks of: (i) delays in completion of on-site testing and acceptance of our products; (ii) delays in revenue recognition; (iii) significant cash flow mismatch; (iv) cost overruns; and (v) substantial inventory balance.

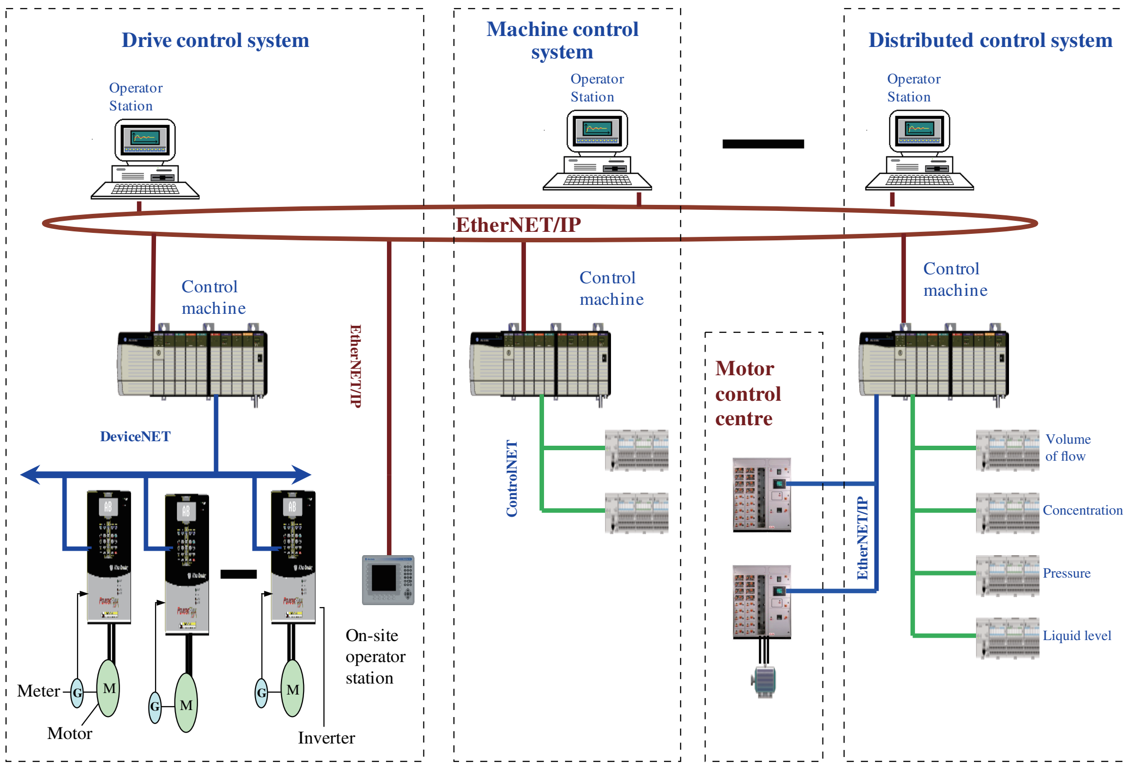
OUR PRODUCTS AND SERVICES

Our main business segments include: (i) the manufacture and sale of industrial automation systems and sludge treatment products; and (ii) the provision of after-sales services.

Industrial automation systems

Our industrial automation systems are tailor-made in accordance with the specifications and requirements provided by our customers and are mainly sold to customers in the paper-making industry, as well as customers in other industries such as electricity and metallurgy. In recent years, we have also sold our industrial automation systems to companies based in the PRC that are established by reputable international companies from various countries such as Korea, Japan, and the US.

Our industrial automation systems mainly comprise the (i) drive control system; (ii) distributed control system; (iii) machine control system; and (iv) motor control centre, all of which are illustrated in the diagram below:



Our industrial automation systems illustrated above have their own distinct functions. The drive control system is a core system that is required by paper-making machines. The drive control system utilises the DeviceNet to control the overall transmission of information for all machines used in the production process. The distributed control system also uses the DeviceNet to monitor the pressure, volume of flow, concentration and liquid level of pulp used in the paper-making process, but it is an optional system not required by all paper-making machines. The machine control system is highly compatible with the drive control system and can only function properly if it is connected to the drive control system. It serves to control and manage the various components within the paper-making machines using information received over the EtherNet/IP. The motor control centre controls the electricity supply for all machines used in the production process via information received over DeviceNet.

The main functions of our four types industrial automation systems are to:

- increase degree of precision in operations;
- lower requirement for human operators in dangerous environments, hence improving the overall level of workplace safety;
- reduce operation time and work-handling time; and
- reduce reliance on manpower, thereby allowing for better allocation of resources to other tasks that are manpower-intensive.

The table below sets out the main features and the applications of our four main types of industrial automation systems:

Product		Applications
Drive control system Model: • AC3700		Paper-making, electricity and metallurgy

Main features

- utilises DeviceNet to control the overall transmission of information, such as machine speed, for all the machines used in the production process
- allows for high-precision controlled monitoring and operation of the production machines

Product		Applications
Distributed control system Model: • DCS5000		Paper-making

Main features

- controls the operation of paper-making machines in terms of the pressure, volume of flow, concentration and liquid level of pulp for production of paper with different thickness levels
- allows for continuous upgrading according to the practical needs of the user

Product		Applications
Machine control system		Paper-making

Main features

- assists in the overall supervision, control and management of the various components of paper-making machines such as rollers, and possesses failure diagnosis, alert system, as well as recording abilities, which increase its overall safety and controllability levels, hence reducing the possibility of machine downtime
- detects at an early stage any abnormalities in the paper-making machines, allowing for timely repairs and hence reducing operational losses due to machine downtime
- allowing for enhanced productivity and quality

Product		Applications
Motor control centre Model: • V-PAK		Paper-making

Main features

- controls the electricity supply required for the operation of all systems used within the production process
- utilises the DeviceNet communication network to receive control signals over the network, thus enabling the motor to carry out preventive maintenance, which means the detection and correction of incipient failures before they occur or before they develop into major defects

Sludge treatment products

Our sludge treatment products include filter presses and steel-belt filter presses. These products have been designed to provide our customers with a low cost filtration option to reach higher solid dryness. Our sludge treatment products are tailor-made based on the specifications and requirements provided by our customers.

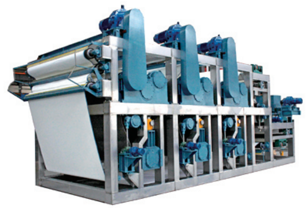
The table below sets out the main features and the applications of each of our two types of sludge treatment products:

Product		Applications
Filter press Model: • XZZQG/800-U, Model 800 • XZZQG/1000-U, Model 1000 • XZZQG/1250-U, Model 1250 • XZZQG/1500-U, Model 1500		Paper-making, environmental protection and chemical engineering

Main features

- designed to achieve higher dryness in the Filter Cake as a result of the squeezing procedure
- uses filter plates *(Note)* for the filtration process
- applies patented technology on filter plates to avoid superincumbent effect, averaging level of concealment and prevent the leakage of slurry
- components are purchased from our suppliers, and possesses good sealing performance, high safety levels, low-energy consumption, low noise emission, separation of the hydraulic section and electricity section, possess a protective cover and is corrosion resistant
- steel frame structure has the ability to expand and contract freely, hence avoiding any unnecessary strain on the machine and increasing its overall stability

Note: The filter plate can sustain high temperatures and press pressures. It is impermeable and serves to compress the Filter Cake within the Filter Chamber, thereby achieving greater compression power. There are three types of filter plates, namely, ordinary filter plates, filter plate with expression diaphragm and ultra-high temperature filter plates.

Product		Applications
Steel-belt filter press Model: • GDY2500, Model 2500		Paper-making

Main features

- has the ability to carry out high pressure filtration and effective dewatering of sludge continuously, thus making it suitable for various types of sludge treatment
- the filtration process is primarily carried out by passing a pair of Filter Cloths and belts through a system of rollers with various changing array
- the sludge to be dewatered is introduced from a sieve between two Filter Cloths (supported by perforated belts). As the belts are fed through the rollers, water is squeezed out of the sludge
- fully automated closed-loop network control system allowing for the simultaneous operation of each pressure zone, real-time correction, and the independent control of belt tension of up to 3,000 N/cm
- the belt increases the surface area, thus enabling a better, safer and stable dewatering process

We estimate that the average replacement cycle shall be around 12 years for our industrial automation systems and around seven years for our sludge treatment products respectively, provided that regular inspections and maintenance of machinery are performed by our customers during such period to ensure the normal operation. For information about the impact of the long replacement cycle of our industrial automation systems and sludge treatment products, please refer to the risk factor headed “Our industrial automation systems and sludge treatment products have a long useful life which may lead to a long average replacement cycle” in the section headed “Risk factors” in this prospectus.

After-sales services

We provide after-sales services to customers of our industrial automation systems or sludge treatment products. We usually aim to attend to product-related issues encountered by our customers within 24 hours. Depending on the requirements of our customers, the after-sales services provided by us include on-site engineering and maintenance services and/or the repair and replacement of spare parts and components. These services are provided to our customers free of charge if it is within the scope of the warranty period and we would charge them if our customers require such services after the expiry of the warranty period (which is usually for a period of either 18 months from the date of delivery or 12 months after on-site testing, whichever is earlier) as specified in our sales contracts. Payments for our after-sales services are mostly settled before or seven days after such services are rendered. Revenue generated from the provision of after-sales services accounted for about 12.1%, 6.2% and 7.0% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. We believe that our after-sales services will allow us to utilise our technical and engineering expertise and enable us to retain our customers and better understand their needs.

PROJECT OPERATION PROCESS

Overall flow for the project operation process of our industrial automation systems and sludge treatment products

The following table sets out different stages of the project operation process for our industrial automation systems and sludge treatment products:

Stage	Actual average time required for industrial automation systems	Actual average time required for sludge treatment products	Accumulated amount (in percentage of contract value) received upon completion of the relevant stage
Commencement of sales contract	On the signing date of the contract or upon settlement of the down payment, which may take place either upon signing of the contract or within 30 days from the contract date	On the signing date of the contract or upon settlement of the down payment, which may take place either upon signing of the contract or within 30 days from the contract date	10% to 30%

Stage	Actual average time required for industrial automation systems	Actual average time required for sludge treatment products	Accumulated amount (in percentage of contract value) received upon completion of the relevant stage
Project design, development and evaluation	84 days	33 days	–
Procurement and receipt of raw materials from suppliers	36 days	61 days	–
Assembly/production of industrial automation systems/sludge treatment products, in-house inspection packaging and product delivery	45 days	128 days	Up to 90% to 95% upon product delivery
On-site testing and inspection, issue of testing certificates and product acceptance by customers	133 days	285 days	–
Warranty period	Either 18 months from the date of delivery, or 12 months after completion of on-site testing, whichever is earlier	Either 18 months from the date of delivery, or 12 months after completion of on-site testing, whichever is earlier	100%

The average time required for the entire project operation cycle

The cycle for a typical project of our Group includes various stages of operation, and the average time required for completing a project is approximately 298 and 507 days for our industrial automation systems and sludge treatment products respectively. Such prolonged production cycle is primarily attributable to the time required for the process of on-site installation and testing for our industrial automation systems and sludge treatment products.

Signing and commencement of sales contract

We negotiate and finalise the contract terms directly with our customers. In general, a down payment of 10% to 30% of the contract value will be payable either upon the signing of the contract, or within a specified time period, which is usually within 30 days from the date of the contract pursuant to the terms of the sales contract. Commencement date is the date when the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment pursuant to the terms of the relevant sales contract.

Project design, development and evaluation

Once the sales contract is signed, our sales and marketing team, technical team and the production team will form a project implementation team to design and formulate a project implementation plan. An expected timetable setting out, among others, procurement for raw materials, production as well as the expected delivery date will be drawn up. Our technical team will work out the detailed design of the product with reference to the technical specifications and requirements as required by our customers.

Procurement and receipt of raw materials

Once the project design has been completed, the project implementation team will, based on the detailed project design, determine the procurement of the necessary raw materials, set out the production sequence and allocate the necessary personnel. Our procurement team will procure raw materials based on the project implementation plan. Procurement arrangements are entered into with our suppliers for the purchase of the necessary raw materials required for each individual project after we have entered into sales contracts with our customers. This will ensure the timely delivery of raw materials in accordance with the production schedule and avoid any fluctuations in the prices of the raw materials during the course of the project. Our Directors confirm that none of our Group's projects became loss-making as a result of inaccurate cost estimation by our Group during the Track Record Period and up to the Latest Practicable Date. The entire process from project design, development and evaluation, procurement to receipt of raw materials from suppliers usually requires an average of 120 days for our automation industrial systems and an average of 94 days for our sludge treatment products.

Assembly/production, in-house inspection, packaging and delivery of our industrial automation systems and sludge treatment products

Upon the receipt of an order from our customer, the sales and marketing department will notify the design department and one of our engineers will be appointed as a leader in charge of the project. Our production process of our products usually begins shortly after receipt of raw materials from our suppliers. The production process will involve mainly the assembly of our self-developed software and hardware supplied by our suppliers. Upon completion of the assembly process, the final product will be subject to in-house inspection before delivery to our customers. Since our production process mainly involves the assembly of parts and components purchased from our suppliers, the production of our products do not require significant investment in production equipment and a greater reliance is placed on human labour.

The time required for each step of the production process mainly depends on, amongst other factors, the quantity of orders, the intricacies of the specifications and technical requirements provided by our customers, as well as the availability of parts and components required for the assembly of the final product. For the production of our four types of industrial automation systems, it requires an average of 45 days from the commencement of primary processing until such products are available for delivery, whereas for our sludge treatment products, it usually takes an average of 128 days for the final sludge treatment product to be available for delivery to our customers after the commencement of primary processing, depending on the complexity and scale of the individual project. Customers for our industrial automation systems and sludge treatment products are normally required to make payment of up to approximately 90% to 95% of the contract value upon delivery.

On-site testing and inspection, issue of testing certificates and product acceptance by customers

After delivery of our industrial automation systems or sludge treatment products to the customers' sites, the customers have to conduct the on-site installation and testing with us before they can, subject to satisfactory testing results, issue the testing certificates to our Group to acknowledge their acceptance of our products. Although the sales contracts entered into between our Group and its customers during the Track Record Period neither specify the maximum time limit for our customers to acknowledge acceptance of our products, nor an agreed timeframe for completion of the on-site installation and testing of our products, there had been no material dispute with our customers in respect of their acceptance of our products during the Track Record Period and up to the Latest Practicable Date. The value of the sales contracts excluding the VAT in respect of these projects would be recognised as revenue upon the receipt of customer's testing certificates confirming successful completion of on-site testing and acceptance of our products. Our Directors confirm that our Group's revenue recognition policy is in line with the industry norm. During the Track Record Period, the average time taken from commencement of assembly/production of our industrial automation systems and sludge treatment products to revenue recognition is approximately 178 days and 413 days respectively. The on-site installation and testing stage takes place at the customers' sites.

On-site installation, testing and inspection for our industrial automation systems generally requires an average of 133 days to complete. Such average number of days represent approximately 44.6% of the total average number of days required for the entire project operation process. However, during the Track Record Period, the longest on-site installation, testing and inspection period for our industrial automation systems which our Group had experienced was around 12 months as the actual time of completion of the on-site installation, testing and inspection was delayed by our customer's own schedule. The revenue arising from this project was recognised in the year ended 30 June 2011, representing approximately 0.7% of the revenue from sales of industrial automation systems in the same year.

The assembly of a paper-making machine involves a variety of parts and components, including our industrial automation systems as well as parts and components provided by other suppliers. The installation of our industrial automation systems as well as parts and components provided by other suppliers for the assembly of our customers' paper-making machine usually takes place simultaneously and has to be completed before the on-site testing of our customers' paper-making machine can be carried out. As the parts and components other than our industrial automation systems are not provided by our Group, we are unable to control the time required by our customers for the installation of such other parts and components and we are subject to the risk of delay in completion of the on-site testing and acceptance of our products which may adversely affect our results of operations. Please refer to the paragraph headed "Any delay in delivery and/or installation of our industrial automation systems and sludge treatment products may affect our cash flow position and results of our operation, and may cause material fluctuations in our revenue in the future" under the section headed "Risk factors" in this prospectus for details of risk relating to delay in delivery and/or installation of our products. Please also refer to the paragraph headed "Internal control measures adopted to mitigate the risk of delays in completion of on-site testing and acceptance of our products, and to ensure timely revenue recognition" in this section for details of mitigating measures of relevant risk. The on-site testing of our customers' entire paper-making machine cannot commence unless the installation of all such parts and components, including our industrial automation systems has been completed. As such, the actual time required for on-site installation will depend on when all the necessary parts and components, including our Group's industrial automation systems, required for the assembly of our customers' paper-making machine can be fully installed.

The core parts and components of a paper-making machine, other than the industrial automation systems such as those provided by our Group, include the following: (i) refiner for changing the morphology of wood/plant fibres in the preparation of the pulp; (ii) cleaners for eliminating undesirable particles or impurities during the paper manufacturing process; (iii) head box for the output of pulp onto the forming table; (iv) forming table for the formation of the paper sheet; (v) presses with rollers for the removal of water from the paper sheet; and (vi) drying system for the further reduction of moisture content in the paper sheet. The above mentioned core parts and components are necessary for the proper functioning of our customers' paper-making machines. Other than the industrial automation systems supplied by us, we currently do not have the capability or plans to manufacture or procure the other core parts and components for the assembly of our customers' paper-making machines.

On-site installation, testing and inspection for our sludge treatment products generally requires an average of 285 days to complete. Such average number of days represents accounting for approximately 56.2% of the total average number of days required for the entire project operation process. However, during the Track Record Period, the longest on-site installation and testing period for our sludge treatment products which our Group had experienced was around 17 months as the actual time of completion of the on-site installation, testing and inspection was delayed due to delay in customers' own schedule. The revenue for this project was recognised in six months ended 31 December 2012, representing 25.1% of the revenue derived from sales of sludge treatment products in the same period.

To the best of our Directors' understanding and knowledge, other suppliers of parts and components for the assembly of paper-making machines generally experience long on-site installation, testing and inspection time, and therefore our Directors consider that the long on-site installation, testing and inspection time experienced by our Group during the Track Record Period was in line with the industry practice in the assembling of paper-making machines. Save as disclosed above, there were no prolonged failures to obtain customer acceptance during the Track Record Period and up to the Latest Practicable Date.

Warranty period

The sales contracts for our industrial automation systems and sludge treatment products normally stipulate a warranty period of either 18 months from the date of delivery, or 12 months after completion of on-site testing, whichever is earlier. During the warranty period, on-site engineering and maintenance services, and/or the repair and replacement of certain spare parts and components are provided free-of-charge by our engineers. Upon the expiry of the warranty period, our customers will pay us the remaining 5% to 10% of the contract value.

CUSTOMERS

The table below sets out the breakdown of the number of our customers by the type of products and/or services they purchased for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June				Six months ended 31 December	
	2011		2012		2012	
	Number	*%*	*Number*	*%*	*Number*	*%*
Purchased industrial automation systems and used after-sales services	22	18.1	27	18.1	16	15.4
Purchased industrial automation systems only	53	43.8	57	38.3	18	17.5
Used after-sales services only	44	36.4	53	35.6	46	44.7
Purchased sludge treatment products only	2	1.7	12	8.0	22	21.4
Purchased industrial automation systems and sludge treatment products	–	–	–	–	1	1.0
Total	121	100.0	149	100.0	103	100.0

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, a total of 66, 82 and 62 customers used our after-sales services, representing approximately 54.5%, 55.0% and 60.2% of our total number of customers for the corresponding periods respectively.

The customers for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 had maintained business relationships with us for an average period of approximately 3.7 years, 4.4 years and 3.6 years respectively. The table below sets out the years of relationship of our customers during the Track Record Period with our Group:

Number of years of relationships with our Group	**For the year ended 30 June**		**For the six months ended 31 December**
	2011	**2012**	**2012**
	Number of customers		*Number of customers*
Less than two years	15	12	40
Two to five years	70	83	32
More than five years	36	54	31
Total	121	149	103

Our Directors confirm that (i) our Group did not experience any material default of the terms of sales contracts by our customers or any order cancellation by our customers; and (ii) there were no defective goods sold during the Track Record Period and up to the Latest Practicable Date.

The table below sets out the details of our Group's top five customers for the year ended 30 June 2011:

Ranking	**Name of customer**	**Principal business**	**Location (city, province)**	**Paid-in capital** *(million)*	**Approximate number of years of business relationship**	**Revenue generated** *(HK$ million)*	**Approximate percentage of our Group's total revenue** *(%)*
1	Huazhang Automation (Zhejiang)	Wholesale, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems	Hangzhou, Zhejiang	US$1.7	5	10.1	10.2
2	Customer A	Paper manufacturing	Leshan, Sichuan	RMB277.0	2	6.0	6.1
3	Customer B	Paper manufacturing	Dongguan, Guangdong	RMB3.0	4	5.4	5.5
4	Customer C	Paper manufacturing	Dongguan, Guangdong	RMB25.0	8	4.9	5.0
5	Customer D	Supply of power	Daqing, Heilongjiang	RMB20.0	1	4.0	4.0

The table below sets out the details of our Group's top five customers for the year ended 30 June 2012:

Ranking	Name of customer	Principal business	Location (City, Province)	Paid-in capital *(million)*	Approximate number of years of business relationship	Revenue generated *(HK$ million)*	Approximate percentage of our Group's total revenue *(%)*
1	Customer E	Manufacture of paper-making machine	Zibo, Shandong	RMB120.0	10	32.9	14.3
2	Customer F	Paper manufacturing	Hangzhou, Zhejiang	RMB80.0	5	26.3	11.4
3	Customer G	Paper manufacturing	Hangzhou, Zhejiang	RMB60.0	9	19.5	8.5
4	Customer H	Paper manufacturing	Dongguan, Guangdong	HK$800.0	10	18.4	8.0
5	Customer I	Paper manufacturing	Dongguan, Guangdong	RMB240.0	8	13.3	5.8

The table below sets out the details of our Group's top five customers for the six months ended 31 December 2012:

Ranking	Name of customer	Principal business	Location (City, Province)	Paid-in capital *(million)*	Approximate number of years of business relationships	Revenue generated *(HK$ million)*	Approximate percentage of our Group's total revenue *(%)*
1	Customer H	Paper manufacturing	Dongguan, Guangdong	HK$800.0	10	14.0	11.7
2	Customer J	Paper manufacturing	Xiaogan, Hubei	US$38.4	1	12.6	10.5
3	Customer K	Paper manufacturing	Ji'an, Zhejiang	RMB936.0	1	11.1	9.3
4	Customer L	Paper manufacturing	Zhanjiang, Guangdong	RMB1,100.0	2	10.5	8.8
5	Customer M	Paper manufacturing	Quzhou, Zhejiang	RMB116.0	2	8.3	7.0

Revenue from sales of our industrial automation systems accounted for approximately 85.5%, 87.5% and 58.0% of our total revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, while revenue from sales of our sludge treatment products accounted for approximately 2.4%, 6.3% and 35.0% of our total revenue during the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. The majority of our revenue was generated from sales of our industrial automation systems to customers from the paper-making industry in the PRC.

Sales to our five largest customers, in aggregate, amounted to approximately HK$30.4 million, HK$110.3 million and HK$56.5 million in each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, representing approximately 30.7%, 48.1% and 47.2% of our total revenue for the respective period. Sales to our largest customer amounted to approximately HK$10.1 million, HK$32.9 million and HK$14.0 million in each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, representing approximately 10.2%, 14.3% and 11.7% of our total revenue for the respective period. Huazhang Automation (Zhejiang) was our largest customer for the year ended 30 June 2011. Please refer to the paragraph headed "Excluded business" under the section headed "Relationship with Controlling Shareholders" in this prospectus for further information of Huazhang Automation (Zhejiang) and its relationship with our Group. Save for Huazhang Automation (Zhejiang), none of our five largest customers during the Track Record Period was a Connected Person of our Company. Our Group's transactions with Huazhang Automation (Zhejiang) shall continue after the Listing. Please refer to the section headed "Continuing connected transactions" in this prospectus for further details.

To the best of our Directors' knowledge, except for Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu, who are our Controlling Shareholders, none of our Directors or their respective associates, and none of our existing Shareholders who owned more than 5% of our issued share capital, had any interest in any of our five largest customers. Our Directors confirmed that we did not have any outstanding material disputes with our existing customers during the Track Record Period and up to the Latest Practicable Date.

Top five projects in terms of contract value for our industrial automation systems and sludge treatment products for the Track Record Period

Our Directors believe that our involvement in these projects reflects the quality of our products and services as well as our market position. The tables below set out, in order of contract value, details of our Group's top five projects for our industrial automation systems and sludge treatment products completed during the Track Record Period, for which the revenue recognised in aggregate accounted for approximately 16.9% and 2.4% respectively of the total revenue for the year ended 30 June 2011, approximately 32.3% and 6.2% respectively of the total revenue for the year ended 30 June 2012 and approximately 18.1% and 31.6% respectively of the total revenue for the six months ended 31 December 2012.

Top five industrial automation projects in terms of contract value completed during the year ended 30 June 2011

Nature of business of customer	**Location** (province)	**Products sold**	**Quantity**	**Total contract value** *(Note 2)* *(RMB)*	**Contract date**	**Commencement date** *(Note 3)*	**Delivery date**	**Project completion date** *(Note 4)*	**Revenue recognised in the year ended 30 June 2011** *(Note 2)* *(RMB)*
Paper-making	Sichuan	Drive control system	5	4,000,000	09/11/2009	09/11/2009	30/06/2010	16/05/2011	3,418,803
Paper-making	Guangdong	Drive control system	1	3,680,000	30/10/2009	16/11/2009	14/08/2010	23/10/2010	3,145,299
Paper-making	Guangdong	Distributed control system/ Motor control centre	1/1	3,304,000	10/11/2009	20/11/2009	12/04/2010	05/08/2010	2,823,932
Paper-making	Shandong	Machine control system/ Drive control system	1/1	3,200,000	01/09/2008	01/09/2008	18/11/2010	25/06/2011	2,735,043
Paper-making	Zhejiang	Distributed control system/ Drive control system	1/1	2,560,000	24/03/2010	24/03/2010	25/08/2010	30/12/2010	2,188,034

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

Top five industrial automation projects in terms of contract value completed during the year ended 30 June 2012

Nature of business of customer	**Location** (province)	**Products sold**	**Quantity**	**Total contract value** *(Note 2)* *(RMB)*	**Contract date**	**Commencement date** *(Note 3)*	**Delivery date**	**Project completion date** *(Note 4)*	**Revenue recognised in the year ended 30 June 2012** *(Note 2)* *(RMB)*
Paper-making	Shandong	Drive control system	1	8,000,000	07/07/2011	14/07/2011	31/03/2012	14/06/2012	6,837,607
		Distributed control system	1	8,800,000	19/10/2011	24/11/2011	26/05/2012	15/06/2012	7,521,368
		Motor control centre *(Note 5)*	1	13,800,000	22/01/2012	14/02/2012	29/04/2012	15/06/2012	11,794,872
Paper-making	Zhejiang	Drive control system/ Machine control system	1/1	11,900,000	30/03/2010	30/03/2010	23/12/2010	30/08/2011	10,170,940
Paper-making	Guangdong	Drive control system	2	10,280,000	27/01/2011	27/01/2011	8/11/2011	12/06/2012	8,786,325
Paper-making	Guangdong	Drive control system	2	9,990,000	27/01/2011	27/01/2011	13/10/2011	15/03/2012	8,538,462
Paper-making	Zhejiang	Drive control system	1	8,600,000	09/02/2010	09/02/2010	10/03/2011	24/11/2011	7,350,427

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

5. This project consists of three contracts, details of which are stated in the table above.

Top five industrial automation projects in terms of contract value completed during the six months ended 31 December 2012

Nature of business of customer	**Location** (province)	**Products sold**	**Quantity**	**Total contract value** *(Note 2)* *(RMB)*	**Contract date**	**Commencement date** *(Note 3)*	**Delivery date**	**Project completion date** *(Note 4)*	**Revenue recognised in the six months ended 31 December 2012** *(Note 2)* *(RMB)*
Manufacture of metal sheets and mechanical equipment	Jiangsu	Drive control system	1	5,650,000	29/03/2011	11/04/2011	08/12/2012	09/12/2012	4,829,059.83
Paper-making	Hubei	Distributed control system/ Motor control centre	1/1	4,300,000	08/10/2012	23/10/2012	27/11/2012	21/12/2012	3,675,213.68
Paper-making	Guangxi	Drive control system	2	3,900,000	15/04/2010	25/05/2010	09/12/2011	30/10/2012	3,333,333.33
Paper-making	Zhejiang	Drive control system	1	3,420,000	21/10/2011	01/11/2011	03/08/2012	20/09/2012	2,923,076.92
Paper-making	Guangdong	Motor control centre	1	3,380,000	12/04/2012	09/05/2012	04/09/2012	30/11/2012	2,888,888.89

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

Top four sludge treatment projects in terms of contract value completed during the year ended 30 June 2011

Nature of business of customer	Location (province)	Products sold	Quantity	Total contract value *(Note 2)* *(RMB)*	Contract date	Commencement date *(Note 3)*	Delivery date	Project completion date *(Note 4)*	Revenue recognised in the year ended 30 June 2011 *(Note 2)* *(RMB)*
Paper-making	Shandong	Steel-belt filter press	1	1,880,000	08/03/2010	08/03/2010	06/2010	29/12/2010	1,606,838
Supply of dewatering filtration	Yunnan	Filter press	2	213,500	30/05/2011, 09/06/2011 *(Note 6)*	30/05/2011, 09/06/2011	25/06/2011	25/06/2011 *(Note 7)*	182,479
Supply of dewatering filtration	Yunnan	Filter press	1	178,500	29/03/2011	29/03/2011	25/05/2011	25/05/2011 *(Note 7)*	152,564
Supply of dewatering filtration	Yunnan	Filter press	1	83,150	25/03/2011	25/03/2011	29/06/2011	29/06/2011 *(Note 7)*	71,068

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

5. Only four projects have been disclosed as only four projects were completed during the year ended 30 June 2011.

6. This project consists of two contracts for the sale of our sludge treatment product and the ancillary parts and components required for the project, details of which are stated in the table above.

7. These projects involve the sale of standard filter presses which do not require on-site testing, therefore these projects were completed upon product delivery.

Top five sludge treatment projects in terms of contract value completed during the year ended 30 June 2012

Nature of business of customer	Location (province/ city)	Products sold	Quantity	Total contract value (Note 2) (RMB)	Contract date	Commencement date (Note 3)	Delivery date	Project completion date (Note 4)	Revenue recognised in the year ended 30 June 2012 (Note 2) (RMB)
Paper-making	Zhejiang	Steel-belt filter press/ filter press	3/2	8,280,000	25/04/2011	25/04/2011	25/08/2011, 14/09/2011	23/05/2012	7,076,923
Paper-making	Guangdong	Steel-belt filter press/ filter press	2/2	4,950,000	30/06/2010	30/06/2010	08/10/2010	02/08/2011	4,230,769
Sewage treatment	Sichuan	Filter press	2	188,000	15/03/2012	15/03/2012	12/06/2012	12/06/2012 *(Note 5)*	160,684
Sewage treatment	Shanghai	Filter press	1	145,000	19/08/2011	19/08/2011	17/10/2011	17/10/2011 *(Note 5)*	123,932
Sewage treatment	Guangdong	Filter press	1	100,000	12/01/2012	12/01/2012	23/02/2012	23/02/2012 *(Note 5)*	85,470

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

5. These project involve the sale of standard filter presses which do not require on-site testing, therefore these projects were completed upon product delivery.

Top five sludge treatment projects in terms of contract value completed during the six months ended 31 December 2012

Nature of business of customer	**Location** (province)	**Products sold**	**Quantity**	**Total contract value** *(Note 2)* *(RMB)*	**Contract date**	**Commencement date** *(Note 3)*	**Delivery date**	**Project completion date** *(Note 4)*	**Revenue recognised in the six months ended 31 December 2012** *(Note 2)* *(RMB)*
Paper-making	Zhejiang	Steel-belt filter press/ filter press	2/4	10,500,000	11/04/2011	03/05/2011	03/11/2011, 27/09/2011	27/08/2012	8,974,359
Paper-making	Guangdong	Steel-belt filter press	5	9,980,000	21/06/2010	13/07/2010	15/07/2011	11/12/2012	8,529,915
Paper-making	Guangdong	Steel-belt filter press/ filter press	3/3	9,180,000	21/09/2011	12/10/2011	06/04/2012	23/09/2012	7,846,154
Paper-making	Zhejiang	Steel-belt filter press/ filter press	1/1	3,580,000	09/05/2011	07/07/2011	17/12/2011	29/09/2012	3,059,829
Environmental protection	Hubei	Filter press	4	2,700,000	28/11/2011	28/11/2011	20/08/2012	12/12/2012	2,307,692

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

Projects for which contracts had been signed but not yet completed as at 31 December 2012

The table below sets out an analysis of our sales contracts on hand for industrial automation systems and sludge treatment products as at the respective period end indicated:

	As at 30 June				As at 31 December	
	2011		2012		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
Type 1 *(Note 1)*	58,596,206	30.4	48,110,943	21.4	56,905,744	31.4
Type 2 *(Note 2)*	134,299,619	69.6	177,111,576	78.6	124,138,106	68.6
	192,895,825	100.0	225,222,519	100.0	181,043,850	100.0

Notes:

1. Type 1 – projects for which contracts have been signed and goods delivered, but pending installation, testing and inspection.

2. Type 2 – projects for which contracts have been signed, but pending goods delivery, on-site installation, testing and inspection.

The table below sets out the amount of our sales contracts on hand as at 31 December 2012 and the amount of revenue expected to be recognised during the years ended 30 June 2013 and 30 June 2014 for type 1 and type 2 of our sales contracts, and the advances received from the customers in respect of these sales orders as at the Latest Practicable Date:

	As at 31 December	Revenue expected to be recognised during the year ending 30 June		Advances from customers as at the Latest Practicable
	2012	2013	2014	Date
	HK$	*HK$*	*HK$*	*HK$*
Type 1 *(Note 1)*	56,905,744	52,225,628	4,680,116	48,825,278
Type 2 *(Note 2)*	124,138,106	99,450,411	24,687,695	67,153,421
	181,043,850	151,676,039	29,367,811	115,978,699

Notes:

1. Type 1 – projects for which contracts have been signed and goods delivered, but pending installation, testing and inspection.

2. Type 2 – projects for which contracts have been signed, but pending goods delivery, on-site installation, testing and inspection.

The tables below set out our top five projects in terms of contract value for which contracts had been signed but not yet completed in relation to industrial automation systems with contract value above RMB5 million, and in relation to sludge treatment products with contract value above RMB1 million as at 31 December 2012:

Top five industrial automation projects for which contracts had been signed but not yet completed as at 31 December 2012

Nature of business of customer	**Location** (province)	**Products sold**	**Quantity**	**Total contract value** *(Note 2)* *(RMB)*	**Contract date**	**Commencement date** *(Note 3)*	**Actual delivery date** *(Note 8)*	**Expected delivery date** *(Note 9)*	**Status** *(Note 4)*	**Revenue expected to be recognised in the financial year ended 30 June**	**Revenue to be recognised** *(Note 2)* *(RMB)*
Paper-making	Jiangsu	Drive control system	1	8,380,000	15/01/2012	22/02/2012	13/10/2012	N/A	Not completed yet *(Note 5)*	2014	7,162,393
Heat/Electricity	Shandong	Drive control system	2	7,660,000	27/11/2011	08/12/2011	N/A	10/2013	Not completed yet *(Note 6)*	2014	6,547,009
Paper-making	Jiangsu	Drive control system	1	7,580,000	13/08/2011	13/08/2011	23/11/2012	N/A	Not completed yet *(Note 7)*	2014	6,478,632
Paper-making	Sichuan	Distributed control system/Machine control centre	1/1	7,200,000	12/04/2012	12/04/2012	11/12/2012	N/A	Completed	2013	6,153,846
Paper-making	Guangdong	Drive control system	1	7,080,000	25/05/2012	06/06/2012	N/A	05/2013	Not completed yet *(Note 7)*	2013	6,051,282

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at approximately 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

5. Based on the project progress, the testing certificate in relation to the on-site testing and inspection of this project is expected to be issued by August 2013.

6. Based on the project progress, the testing certificate in relation to the on-site testing and inspection of this project is expected to be issued by April 2014.

7. Based on the individual project progress, the testing certificates in relation to the on-site testing and inspection of these projects are expected to be issued by July 2013.

8. Actual delivery date means the date on which the product is delivered to the customer and refers to projects for which products have been delivered.

9. Expected delivery date means the date on which the product is expected to be delivered to the customer and refers to projects for which products have not been delivered.

Top five sludge treatment projects for which contracts had been signed but not yet completed as at 31 December 2012

Nature of business of customer	Location (province)	Products sold	Quantity	Total contract value *(Note 2)* *(RMB)*	Contract date	Commencement date *(Note 3)*	Actual delivery date *(Note 9)*	Expected delivery date *(Note 10)*	Status *(Note 4)*	Revenue expected to be recognised in the financial year ended 30 June	Revenue to be recognised *(Note 2)* *(RMB)*
Paper-making	Shandong	Steel-belt filter press	6	11,980,000	22/03/2012	22/03/2012	10/04/2013	N/A	Not completed yet *(Note 5)*	2013	10,239,316
Paper-making	Jiangsu	Steel-belt filter press/ filter press	1/2	4,838,000	29/09/2012	25/10/2012	25/01/2013 *(Note 11)*	N/A	Not completed yet *(Note 6)*	2013	4,135,043
Paper-making	Sichuan	Filter press	3	4,665,700	13/03/2012	13/03/2012	27/07/2012	N/A	Not completed yet *(Note 7)*	2013	3,987,778
Environmental protection	Hubei	Filter press	13	1,830,000	07/12/2012	07/12/2012	N/A	06/2013	Not completed yet *(Note 7)*	2013	1,564,103
Paper-making	Guangdong	Filter press	2	1,597,000	23/10/2012	23/10/2012	N/A	05/2013	Not completed yet *(Note 8)*	2013	1,364,957

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the Track Record Period" in this section.

2. The difference between the total contract value and the revenue to be recognised is due to tax chargeable at approximately 17.0% of the contract sum.

3. Commencement date means the date on which the contract becomes effective, which normally occurs either on the contract date, or upon settlement of the down payment depending on the terms of the relevant sales contract.

4. Project completion date means the date on which the entire contract sum is recognised as revenue, i.e. generally upon the receipt of customer's confirmation of successful completion of on-site testing.

5. Based on the project progress, the testing certificate in relation to the on-site testing and inspection of this project is expected to be issued by June 2013.

6. Based on the project progress, the testing certificate in relation to the on-site testing and inspection of this project is expected to be issued by June 2013.

7. Based on the individual project progress, the testing certificates in relation to the on-site testing and inspection of these projects are expected to be issued by May 2013.

8. Based on the project progress, the testing certificate in relation to the on-site testing and inspection of this project is expected to be issued by June 2013.

9. Actual delivery date means the date on which the product is delivered to the customer and refers to projects for which products have been delivered.

10. Expected delivery date means the date on which the product is expected to be delivered to the customer and refers to projects for which products have not been delivered.

11. The two filter presses for this project have been delivered on 25 January 2013. The steel-belt filter press is expected to be delivered in May 2013.

Contracts on hand but not yet completed as at the Latest Practicable Date

As at the Latest Practicable Date, we had a total of 150 contracts on hand but not yet completed, 117 of which were related to projects for industrial automation systems and 33 were related to projects for sludge treatment products. The aggregate value for these contracts amounted to approximately HK$197.9 million, approximately 36.1% of which were signed contracts for which goods have been delivered but pending for completion of on-site installation, testing and inspection. Our Directors confirm that our Group's contracts on hand as at the Latest Practicable Date are legally binding contracts.

Pricing policy

Our management is responsible for setting and monitoring the pricing policy of our industrial automation systems and sludge treatment products. Our management may, taking into account a number of factors such as the prevailing market conditions, competition, level of sales orders and fluctuation in raw material prices, determine whether the selling price of our products should be increased in response to these factors. In determining the price of our products and services, we will have regard to a number of factors, including the cost of production, our target gross profit margin, risks in relation to the warranty, and the related bank charges. We have an approval system in place whereby the contracts have to be formally approved by either one of our sales general managers, or one of our Directors, depending on the contract values. The following sets out the approvals required for the various contract values:

Contract values	**Approving party**
Less than RMB5.0 million	One of our sales general managers
RMB5.0 million or more	One of our Directors

In respect of our after-sales service provided after the expiry of the warranty period, our fees would depend on the scope of services to be provided, the specifications and requirements of the customers as well as the complexity of the project. The service fee for provision of after-sales services is dependent on a number of factors such as the quantity of spare parts and components supplied, number of staff involved, level of technical expertise required, installation, transportation and insurance costs incurred, the then market conditions and our business relationship with the relevant customer. Our after-sales services are usually provided through the following modes: (i) provision of engineering and maintenance services together with the supply of spare parts and components as an integral part of the after-sales services; (ii) supply of spare parts and components only; or (iii) provision of engineering and maintenance services only to our existing customers for repair and replacement after the expiry of our warranty services. We usually charge a fee on a cost-plus basis if our after-sales service involves provision of spare parts and components only. However, we generally charge our customers a higher mark-up for our after-sales services based on the estimated number of staff and level of technical expertise involved if engineering and maintenance services are provided in addition to the supply of spare parts and components.

We have two sales general managers who are responsible for approving contracts with a contract value of RMB5.0 million and below. One of our sales general managers has had more than 15 years of experience in the industrial automation system industry and the other sales general manager has participated in the environmental protection industry for more than 19 years. For contracts with a contract value of more than RMB5.0 million, only our Directors have the authority to give approval. For details of our Directors, please refer to the section headed "Directors, senior management and staff" in this prospectus.

We aim to maintain our gross profit margin for each product by controlling our costs. We consider that we have maintained a relatively stable overall gross profit margin during the Track Record Period.

Sales and marketing

We consider perceived quality and reputation to be of paramount importance for the sales of our products. We mainly promote our products through the following marketing channels and methods, namely (i) publication of advertisements and columns in relevant industry publications and magazines; (ii) publication of latest news and information of our Group and products on our website; (iii) participation in various industry exhibitions; (iv) participation in academic discussion forums such as the third Sino-Japanese paper-making technology exchange seminar held in 2010; and (v) organisation of promotional seminars and events in order to introduce our products and expand our network. All of the above serve to promote our brand as well as increase customers' awareness of our Group and our products. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we spent approximately HK$0.3 million, HK$0.3 million and HK$0.2 million respectively on marketing and promotional activities, representing approximately 0.3%, 0.1% and 0.2% of our total revenue for the respective periods.

Competition

Industrial automation

The industrial automation system market for the PRC's paper-making industry is relatively concentrated with the five largest suppliers in the industry taking up approximately 59.7% of the market in 2011. Over the last decade, the PRC government's policies to encourage development and technological innovations in the paper-making industry have led to the growth of the industrial automation system market. Suppliers of industrial automation systems in the PRC comprise the following three groups:

- world-renowned companies that have established their offices in the PRC and which possess relatively large market shares and mature technologies;

- PRC companies which target a large number of medium-sized paper manufacturers with annual outputs below 500,000 tonnes; and

- smaller industrial automation system companies that compete for the smaller and less lucrative parts of the market.

For further details about the competitive landscape of the industrial information product market, please refer to the paragraph headed "The industrial automation system market in the PRC's paper-making industry – Competitive landscape" under the section headed "Industry Overview" in this prospectus.

According to Euromonitor, the development of industrial automation systems is closely linked to the growth of the PRC's paper-making industry, which has been growing rapidly and is in line with the PRC's GDP growth over the past five years. In addition, according to the 2011 Annual Report of the PRC's Paper-Making Industry, the PRC's aggregate production output of paper and paperboard achieved a CAGR of approximately 7.8% from 2007 to 2011. Our Group also obtained sales orders for our industrial automation systems, with a total aggregate contract value of approximately HK$160.6 million, HK$195.2 million and HK$51.4 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. As at the Latest Practicable Date, we had sales orders with an aggregate contract value of approximately HK$146.9 million. As such, our Directors are of the view that the track record results for our industrial automation systems are sustainable, given the steady growth in the PRC's paper-making industry, the sales orders obtained during the Track Record Period and the sales orders on hand as at the Latest Practicable Date, as well as the significant increase in revenue of approximately 137.0 % from the sale of industrial automation systems during the year ended 30 June 2012 as compared with the year ended 30 June 2011.

Sludge treatment

According to the report prepared by Euromonitor, the five largest suppliers in the belt filter press industry accounted for approximately 63.4% of the market share in terms of sales volume in 2011, which includes both the PRC subsidiaries of international company and PRC companies. Our competition in respect of our sludge treatment products mainly comes from the filter press market. At present, the filter press market for the PRC's paper-making industry comprises about 200 enterprises, which are mainly located in Hangzhou in Zhejiang Province, Wuxi in Jiangsu Province, Shanghai and Dezhou in Shandong Province, Hengshui in Hebei Province, and Yuzhou in Henan Province. The market concentration of the filter press industry is relatively high. The market share of the top five suppliers in the filter press market for the paper-making industry amounted to approximately 54.6% for the year 2011. For further details about the competitive landscape of the sludge treatment product market, please refer to the paragraph headed "The sludge treatment product market in the PRC's paper-making industry – Competitive landscape" under the section headed "Industry Overview" in this prospectus.

Although the output of sludge per tonne of paper and paperboards in the PRC's paper-making industry is predicted by Euromonitor to decrease over the next five years, this is only on the basis that the paper-manufacturers are to take measures to reduce paper waste as encouraged by incentive policies set out under the 12th Five-Year Plan put forward by the PRC's Government. According to Euromonitor, during the 11th Five-Year Period, the PRC's sludge treatment product market grew quickly in terms of capacity and efficiency while the total amount of sludge kept increasing. Further, it is expected that the amount of sludge produced in the PRC will continue to grow at a CAGR of approximately 3.4% between 2011 and 2016, and such amount is estimated to reach approximately 19.5 million tonnes. Therefore, our Directors believe that there is still room for development in the sludge treatment products market; and leveraging on our experience in setting the industry standards and technical conditions for the filter press and our experience in serving customers of sludge treatment products, in particular the paper manufacturers, our Directors consider that our Group should be able to capture certain market share in the sludge treatment products market. For the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our Group obtained sales orders for our sludge treatment products, with an aggregate contract value of approximately HK$28.8 million, HK$45.6 million and HK$15.0 million respectively. As at the Latest Practicable Date, we had sales orders with an aggregate contract value of approximately HK$51.0 million. Given the above, our Directors are of the view that the track record results for our sludge treatment products are sustainable.

Installation, testing and return policy

All of our industrial automation systems and sludge treatment products have been tested before their delivery. We provide on-site installation guidance and testing services to our customers after our product is delivered to them. If our customers are satisfied with the results of the on-site testing and the quality of our products, they will issue testing certificates to our Group to acknowledge their acceptance of our products. Customers may return the products to us if our products fail to meet the product specifications or requirements stipulated under the sales contracts or if our products are damaged or defective for reasons of which we are responsible for, such as damage to the products during the transportation process. Once the products have been delivered to customers, should the products be unfit for use after delivery due to customers own reasons, for example, improper storage methods, our Group will not be responsible for such losses incurred by the customer as it is considered that after delivery, the customers will be responsible for the safekeeping of such products. Our Directors confirm that there were no losses suffered or costs incurred by our Group as a result of customers' failure in safekeeping the delivered products during the Track Record Period and up to the Latest Practicable Date. The duration between the time of delivery and the final testing and inspection varies from customers to customers and largely depends on the complexity and scale of the individual project. The completion of testing of our industrial automation systems require an average of approximately 133 days after product delivery while the completion of testing of our sludge treatment products require an average of approximately 285 days after product delivery. As our sludge treatment products are relatively new and the relevant technologies are still being fine-tuned, the time required from product delivery to completion of testing is longer as compared to that of industrial automation projects.

Customer training

Most of our products are customised to meet customers' specifications. We provide guidance on installation of our products, which will then be subjected to on-site testing procedures. Training will also be offered to our customers by our customer service team in respect of the operation and routine maintenance of such products. Our customer service team is also responsible for collecting and handling feedback from customers.

Services provided within the warranty period

We normally grant our customers a warranty period of either 18 months from the date of delivery, or 12 months after our industrial automation systems and sludge treatment products have passed on-site testing, whichever is earlier. During the warranty period, after-sales services are provided free-of-charge by our engineers and include on-site engineering and maintenance services, and/or the repair and replacement of spare parts and components.

We have also set up a customer service hotline to attend to product-related issues encountered by our customers. We usually aim to attend to product-related issues encountered by our customers within 24 hours, including on-site inspection of our products.

We maintain a warranty provision to cover potential liabilities that could arise under the warranty period. We estimate our warranty provision based on the warranty periods specified in our sales contracts and our historical experience of warranty expense incurred for the related products. To the extent that accrued warranty costs differ from the estimates, we will prospectively revise the accrual rate for such costs. The provision is made at an accrual rate of approximately 2.3% of sales of our industrial automation systems and sludge treatment products covered by our warranty.

In the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we made warranty provision of approximately HK$1.8 million, HK$4.8 million and HK$2.3 million respectively. The historical usage rate, calculated based on the number of completed contracts where our existing customers had used our after-sales services within the warranty period and the total number of completed contracts with valid warranty period, was approximately 13.9%, 17.8% and 13.9% for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Our estimates for determining the accruals for warranty costs may be affected by substandard materials that could be provided by our suppliers and new product developments.

PRODUCTION FACILITIES

Our production facilities are located at Zhenhua Road, Second Industrial Zone, Tongxiang Economic Development Area, Tongxiang, Jiaxing City, Zhejiang Province, the PRC. The site comprises an industrial facility formed by a land parcel with nine buildings. The nine buildings have a total gross floor area of approximately 23,056.45 square metres and are used by our Group for production, ancillary office and dormitory purposes. Please refer to the paragraph headed "Valuation certificate" in Appendix III to this prospectus for further details of our property interests.

Our production process mainly involves the assembly of various parts and components. Labour and availability of production plants and manufacturing equipment are the two major factors determining our production capacity. An estimated production capacity and actual production level for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 is set out below.

	Year ended 30 June 2011			Year ended 30 June 2012			Six months ended 31 December 2012		
	Estimated capacity *(units)* *(Note 3)*	Actual production *(units)* *(Note 3)*	Utilisation rate *(%)*	Estimated capacity *(units)* *(Note 3)*	Actual production *(units)* *(Note 3)*	Utilisation rate *(%)*	Estimated capacity *(units)* *(Note 3)*	Actual production *(units)* *(Note 3)*	Utilisation rate *(%)* *(Note 4)*
Industrial automation	2,500	1,987	79.5	2,500	2,270	90.8	2,500	1,195	95.6
Sludge treatment	35	23	65.7	42	35	83.3	42	14	66.7

Notes:

1. The estimated capacity represents the maximum annual output at the bottleneck of the production process assuming sufficient labour is available at all times.

2. The utilisation rate is the ratio of the actual production to the estimated production capacity during the relevant year/period of the Track Record Period.

3. Each set of our industrial automation system mainly comprises units of cabinets with hardware and/or our self-developed software.

4. The utilisation rate for the six months ended 31 December 2012 is calculated based on the annualised actual production volume for the period divided by the annual estimated capacity.

As shown in the above table, the production capacity for sludge treatment product increased from approximately 35 units for the year ended 30 June 2011 to 42 units for the year ended 30 June 2012. Such increase was a result of increase in investment in machineries amounting to approximately HK$4.5 million in sludge treatment products production during the year ended 30 June 2012. These machineries can speed up the production process of sludge treatment products.

Our utilisation rate for sludge treatment products dropped from 83.7% in the year ended 30 June 2012 to 66.7% in the six months ended 31 December 2012 primarily because one of our customers requested us to postpone our product delivery to six months ending 30 June 2013 due to postponement in the construction schedule of its production facilities. Correspondingly, we had delayed the production schedule in respect of the products to be delivered to this customer.

Potential investors should understand that the above information is for reference only and represents an estimate of the quantity of products that we may be capable of producing based on normal working hours and level of our workforce. In view of our high production utilisation rate based on our estimated production capacity during the Track Record Period and potential market opportunities in future, we believe that we will have to increase our long-term capacity by increasing, among other things, our production staff force and our production space.

Planned expansion

We plan to use approximately HK$27.1 million, or approximately 45.5% of the net proceeds from the Placing towards the construction of new production facilities as well as improvement of existing production process in adjacent to our existing production facilities in Tongxiang, Jiaxing City, Zhejiang Province, the PRC. We intend to carry out the following activities:

(i) build a new production facility of approximately 11,000 sq.m. which will include an industrial automation plant of approximately 6,000 sq.m. and a sludge treatment plant of approximately 5,000 sq.m. and improve the roads and the greenery around the factory area; and

(ii) improve the production process using the high/low voltage power supply systems, addition of new laboratory facilities and testing facilities.

Construction of our new production facility is expected to begin in June 2013 and complete by December 2013. Upon completion of our new production facility, we estimate that our production capacity for industrial automation systems and sludge treatment products will increase from approximately 2,500 units and 42 units respectively, as at 31 December 2012 to approximately 5,000 units and 55 units respectively, by the end of 2013.

Our Directors currently estimate that the new production facility will require a total investment of approximately HK$27.1 million, including construction costs of approximately HK$18.1 million for the new production facility which include the building costs, renovation and the purchase of furniture, fixture and equipment; approximately HK$9.0 million for building new laboratory facilities, acquiring additional testing facilities and equipment for improvement of our production process. To implement the above expansion plan, the construction of our new production facilities will be on the land we already owned, which is adjacent to our existing production plant. Our Directors believe that such increase will be supported by growth in the PRC's paper-making industry. According to Euromonitor, the sales of sludge treatment is expected to gradually increase based on the continuous growth anticipated for the sludge treatment product market for the PRC's paper-making industry towards 2016. Based on the above reasons, our Directors confirmed that the basis for our Group's estimated production capacity is in line with our business plan.

As at the Latest Practicable Date, no payment had been made in connection to the expansion plan so far. A breakdown of the estimated investment costs of our planned expansion for our production facilities is set out in the table below:

	HK$ million
Construction costs	18.1
Total planned investment	27.1
Total investment incurred as at the Latest Practicable Date	Nil
Total investment expected to be incurred	27.1

Potential investors should note that the above figures only represent our internal estimates as at the Latest Practicable Date and hence the actual costs may deviate materially from our estimates.

According to our PRC Legal Advisers, the expansion of our production capacity shall be subject to the approval of the MEP. As the new production plant is still in the planning stage, we have not applied for the approval from MEP. Our Directors plan to apply for such approval after the plan for the new production plant is fixed.

SUPPLIERS

We source parts and components such as inverters, control panels and cooling fans for the production of our industrial automation systems from our suppliers. We also purchase parts and components such as high pressure relief valves, piston pumps and steel-belts for the production of our sludge treatment products. In selecting our suppliers, we consider a number of factors, including but not limited to their technical capabilities, competitiveness in price, financial condition, reputation in the industry and our working relationship. The credit period offered by our suppliers of parts and components generally ranges between 15 days and 60 days, depending on the nature, the number of years of business relationship and the amount of our purchasers. Huazhang Automation (Zhejiang), our largest supplier, accounting for approximately 44.1%, 42.3% and 36.9% of our total purchases for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, does not require us to pay any advance payment on placing of purchase orders. We are offered by Huazhang Automation (Zhejiang) a credit period of 60 days from the date of delivery to fully settle our payment. Payments for our purchases of parts and components from some of our suppliers, which have had only a few years of business relationship with us, are usually made upon delivery, or in the following stages: (i) a down payment of approximately 10% to 30% of the total contract value payable upon signing of the relevant contract or within the stipulated number of days from the date of the contract; (ii) approximately 60% to 80% of the contract value payable within one month upon the delivery; and (iii) the remaining contract value of up to approximately 10% payable upon the expiry of the warranty period (which is usually for a period of 12 months after delivery). We are not contractually indemnified by our suppliers for losses incurred as a result of the supply of defective goods. However, we are usually given a warranty period of one year from the date of delivery of the goods by our suppliers to us. If goods purchased are found to be defective, we will request a return and/or an exchange of goods.

Our Group had a total of 269, 324 and 252 suppliers for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. All of these suppliers are selected and approved based on the criteria set out in the paragraph headed "Quality Control" in this section. We have not entered into any long-term supply agreements with any of our suppliers.

The table below sets out the details of our Group's top five suppliers for the year ended 30 June 2011:

Ranking	Name of suppliers	Principal business	Location	Paid-in capital	Approximate number of years of business relationships	Purchase amount	Approximate percentage of our Group's total purchase
				(million)		*(HK$ million)*	*(%)*
1	Huazhang Automation (Zhejiang)	Wholesale, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems	Hangzhou, Zhejiang Province	US$1.7	5	54.9	44.1
2	Supplier A	Resale of electronic products, import and export business	Shenzhen, Guangdong Province	RMB3.0	2	12.8	10.3
3	Supplier B	Wholesale and retail of machine facilities, hardware, household electrical appliances etc.	Ningbo, Zhejiang Province	RMB1.5	1	6.3	5.1
4	Supplier C	Manufacture of wire, cable, copper, copper products etc.	Jiangyin, Jiangsu Province	RMB50.0	5	3.1	2.5
5	Supplier D	Manufacture and processing of electrical parts, cabinets, etc.	Zhangjiagang, Jiangsu Province	RMB10.0	7	2.9	2.3

The table below sets out the details of our Group's top five suppliers for the year ended 30 June 2012:

Ranking	Name of suppliers	Principal business	Location	Paid-in capital *(million)*	Approximate number of years of business relationships	Purchase amount *(HK$ million)*	Approximate percentage of our Group's total purchase *(%)*
1	Huazhang Automation (Zhejiang)	Wholesale, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems	Hangzhou, Zhejiang Province	US$1.7	6	67.9	42.3
2	Supplier A	Resale of electronic products, import and export business	Shenzhen, Guangdong Province	RMB3.0	3	8.8	5.5
3	Supplier C	Manufacture and processing of wire, cable, copper, copper products etc.	Jiangyin, Jiangsu Province	RMB50.0	6	5.5	3.4
4	Supplier D	Manufacture and processing of electrical parts, cabinets, etc.	Zhangjiagang, Jiangsu Province	RMB10.0	8	3.3	2.0
5	Supplier E	Manufacture and processing of honed steel pipe, high precision cold-drawing tube and hydraulic equipment	Wuxi, Jiangsu Province	RMB0.5	1	3.5	2.2

The table below sets out the details of our Group's top five suppliers for the six months ended 31 December 2012:

Ranking	Name of suppliers	Principal business	Location	Paid-in capital *(million)*	Approximate number of years of business relationships	Purchase amount *(HK$ million)*	Approximate percentage of our Group's total purchase *(%)*
1	Huazhang Automation (Zhejiang)	Wholesale, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems	Hangzhou, Zhejiang Province	US$1.7	6	31.2	36.9
2	Supplier A	Resale of electronic products, import and export business	Shenzhen, Guangdong Province	RMB3.0	3	7.1	8.5
3	Supplier F	Production and sales of wire and cable, irradiated film products, heat shrink products, and other irradiated products	Huangshi, Hubei Province	RMB130.0	1	3.4	4.0
4	Supplier G	Engineering, design, development and manufacture of complete tissue systems	Italy	€0.5	1	2.1	2.5
5	Supplier D	Manufacture and processing of electrical parts, cabinets, etc.	Zhangjiagang, Jiangsu Province	RMB10.0	8	1.8	2.2

Our total purchases from our five largest suppliers accounted for approximately 64.3%, 55.4% and 54.0% of our total purchases for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Save for Huazhang Automation (Zhejiang), none of our five largest suppliers during the Track Record Period was a Connected Person of our Company. For further details of Huazhang Automation (Zhejiang) and its relationship with our Group, please refer to the paragraph headed "Excluded business" under the section headed "Relationship with Controlling Shareholders" in this prospectus. During the Track Record Period, we had not encountered any major difficulties in the purchase of parts or components from our suppliers.

During the Track Record Period, Huazhang Automation (Zhejiang) was our largest supplier accounting for approximately 44.1%, 42.3% and 36.9% of our total purchase for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Further details of the supply from Huazhang Automation (Zhejiang) are set out in the paragraph headed "Supply Arrangement with Huazhang Automation (Zhejiang)" in this section below. Our Group's transactions with Huazhang Automation (Zhejiang) shall continue after the Listing. Please refer to the section headed "Continuing connected transactions" in this prospectus for further details.

To the best of our Directors' knowledge, except for Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu, who are our Controlling Shareholders, none of our Directors or their respective associates, or existing Shareholders who owned more than 5% in our issued share capital, had any interests in any of the five largest suppliers of our Group. To the best of our Directors' knowledge, none of our major suppliers is subject to any legal proceedings that may materially impact on our operations and financial condition.

Supply arrangement with Huazhang Automation (Zhejiang)

Huazhang Automation (Zhejiang) is an authorised distributor of the Branded Industrial Automation Products in Zhejiang province of the PRC pursuant to a distributor agreement dated 1 January 2010 entered into with the PRC indirectly wholly-owned subsidiary of the brand owner of the Branded Industrial Automation Products. for a maximum total term of five years from 1 January 2010. Such brand owner is a multinational company with its shares traded on the New York Stock Exchange. It has operating subsidiaries in different jurisdictions of the world and is principally engaged in the business of industrial automation. The flagship products it manufactures include branded automation components and integrated control systems and the after-sales services that complement its product offering. Its annual consolidated turnover and income from operating activities were approximately US$6.3 billion and US$737.0 million respectively for the year ended 30 September 2012.

In order to stabilise both the price and quantity of the Branded Industrial Automation Products supplied to our Group through Huazhang Automation (Zhejiang), our Group had been participating in the "Solution Partner" programme launched by the brand owner of the Branded Industrial Automation Products during the Track Record Period and up to the Latest Practicable Date and our Group entered into an agreement on 1 August 2012 regarding our Group's participation in such "Solution Partner" programme. Major terms of such agreement include: (i) the brand owner of the Branded Industrial Automation Products agreed to provide necessary information training and updates on the Branded Industrial Automation Products from time to time to our Group and to promote our Group as one of the "Solution Partners" capable to provide specialised industrial automation systems through their publicity means; (ii) our Group agreed to comply with the method of purchasing the Branded Industrial Automation Products through the designated authorised distributor as instructed from time to time. Huazhang Automation (Zhejiang) is the authorised distributor for supplying the Branded Industrial Automation Products designated to our Group. Based on our Directors' understanding, any change to the designated authorised distributor would require prior written consent from the brand owner of the Branded Industrial Automation Products as they want to better manage and control its distribution network in China in order to minimise competition among their authorised distributors. As confirmed by our PRC Legal Advisers, based on the terms of the agreement between our Group and the brand owner of the Branded Industrial Automation Products, our Group will require a prior written consent from for the change of the designated authorised distributor.

During the Track Record Period, we mainly procured the Branded Industrial Automation Products such as inverters, control panels and power source equipment from Huazhang Automation (Zhejiang). Our purchases of the Branded Industrial Automation Products accounted for approximately 88.4%, 88.7% and 88.8% of our total purchases from Huazhang Automation (Zhejiang) during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, while our purchases of parts and components under other brands accounted for the remaining portion of our total purchases from Huazhang Automation (Zhejiang). To the best knowledge of our Directors and as confirmed by Huazhang Automation (Zhejiang), the sale of parts and components to our Group accounted for approximately 8.6%, 11.6% and 8.2% of the total sales of Huazhang Automation (Zhejiang) for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Although there are various authorised distributors of the Branded Industrial Automation Products in China, we currently anticipate that our purchases of the Branded Industrial Automation Products from Huazhang Automation (Zhejiang) will continue after Listing as Huazhang Automation (Zhejiang) is an authorised distributor of the Branded Industrial Automation Products designated for the supply of the Branded Industrial Automation Product in Zhejiang Province, the PRC, and, based on our Directors' understanding, our Group will be required to obtain prior written approval from if we were to purchase the Branded Industrial Automation Products from another authorised distributor. As at the Latest Practicable Date, no such written approval had been obtained by our Group. As such, our Group had not sourced Branded Industrial Automation Products from other authorised distributors in the PRC during the Track Record Period and up to the Latest Practicable Date. Our Group does not specifically inform our customers of the use of the Branded Industrial Automation Products in the Group's industrial automation systems, as long as the technical specifications and quality requirements provided by the customers under the sales contracts are satisfactorily met.

During the Track Record Period, Huazhang Automation (Zhejiang) supplied the Branded Industrial Automation Products to us as well as other customers. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the credit and pricing policies offered by Huazhang Automation (Zhejiang) to our Group are not less favourable to those offered by Huazhang Automation (Zhejiang) to its other customers.

Our Group has not been specifically requested by our customers to use the Branded Industrial Automation Products in the production of our industrial automation systems, and there are other equivalent parts and components made by other brands that can substitute the relevant Branded Industrial Automation Products. Unless specifically requested by our customers, our Group would procure the Branded Industrial Automation Products as our raw materials as the quality is consistent and the prices of the relevant Branded Industrial Automation Products offered by Huazhang Automation (Zhejiang) were more competitive than the prices of the comparable parts and components under other brands during the Track Record Period. During the Track Record Period, the prices of the Branded Industrial Automation Products were approximately 4.6% lower than those of the other comparable parts and components made by other brands. Approximately 96.8%, 97.8% and 99.2% of our Group's total turnover during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively was attributable to sales of industrial automation systems and sludge treatment products which had applied the Branded Industrial Automation Products to various extent. As at the Latest Practicable Date, there were other authorised distributors of the Branded Industrial Automation Products in the PRC. There were also quite a number of suppliers in close proximity of our Group from which we could source parts and components under other brands at similar or comparable pricing terms and quality as that of Huazhang Automation (Zhejiang) for our production of industrial automation systems. Should we substitute all of the Branded Industrial Automation Products used in our production with parts and components under other brands of the same quantity and parameter procured from suppliers which are Independent Third Parties, our cost of raw materials would have increased by approximately 4.4%, 4.8% and 5.4% respectively for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Although there was no major interruption regarding the supply from Huazhang Automation (Zhejiang), in order to reduce our reliance on Huazhang Automation (Zhejiang) for the supply of Branded Industrial Automation Products and avoid the risk that such supply is interrupted or no longer available for whatever reason, our Group shall seek the approval for purchasing the Branded Industrial Automation Products from other authorised distributor in the PRC. As at the Latest Practicable Date, no such written approval had been obtained. Based on our Directors' understanding, such approval shall be granted in the event that Huazhang Automation (Zhejiang) ceases to supply the Branded Industrial Automation Products to us. Huazhang Automation (Zhejiang) confirmed that it will give us six months prior notice if it decides to terminate its supply of Branded Industrial Automation Products to us. Our Directors believe that purchasing from another authorised distributor will not affect the quality of our products as the Branded Industrial Automation Products, if sourced from another authorised distributor, would be the same as those sourced from Huazhang Automation (Zhejiang). To reduce our reliance on Huazhang Automation (Zhejiang) and the Branded Industrial Automation Products, our Group intends to enter into letters of intent with other suppliers providing industrial automation parts and components of comparable quality under other brands in order to stabilise the supply of our raw materials by having more contingent suppliers. Our Group also intends to strengthen its relationship with other existing suppliers by increasing its purchases from them. Our Group shall continue to diversify our sources of parts and components by identifying more new suppliers which are capable of supplying parts and components under other brands with quality comparable to that of the Branded Industrial Automation Products for our industrial automation systems, so as to reduce the risk of shortage of supplies from any individual supplier and increase the ease of switching to another supplier if needed.

During the Track Record Period, our Group did not enter into long-term supply contract with Huazhang Automation (Zhejiang), and the transactions between our Group and Huazhang Automation (Zhejiang) during the Track Record Period and up to the Latest Practicable Date were carried on based on an order-by-order basis with a credit term of 60 days. There was no difference in both the pricing and credit policies for transactions between our Group and Huazhang Automation (Zhejiang) immediately prior to and after the disposal of 51% and 19% equity interests in Huazhang Automation (Hong Kong) by Huazhang Overseas in March 2007 and August 2009 respectively.

The supply from Huazhang Automation (Zhejiang) to our Group shall continue after the Listing, and our Group has entered into a master purchase agreement with Huazhang Automation (Zhejiang), details of which are set out in the section headed "Continuing connected transactions" in this prospectus.

For more information of Huazhang Automation (Zhejiang), please refer to the paragraph headed "Excluded business" under the section headed "Relationship with Controlling Shareholders" in this prospectus.

INVENTORY CONTROL

As at 30 June 2011, 30 June 2012 and 31 December 2012, we had an inventory balance of approximately HK$104.7 million, HK$111.2 million and HK$115.1 million respectively, representing approximately 47.3%, 44.4% and 49.2% of our total assets as at the respective date.

Our inventory comprises raw materials (i.e. parts and components), work in progress and finished products. Our procurement team comprised 13 employees as at the Latest Practicable Date, and is responsible for safeguarding the inventory and managing the inventory control of the Group.

Before placing purchase orders with our suppliers for parts and components, our procurement team will check the existing levels of parts and components in stock using the ERP system to avoid over-purchasing and minimise excess inventory. All purchases of parts and components must be authorised either by the manager of our procurement team or one of our Directors. Once a purchase order has been confirmed and approved, all the relevant data pertaining to that order, such as quantity and supplier's name will be entered into our inventory management system. As our production process is sales-driven, procurement arrangements with our suppliers for each individual project are only made after we have entered into sales contracts with our customers. When the parts and components ordered are received from our suppliers, they must be checked against the purchase orders before our Group's acceptance of delivery and acknowledgement of receipt. Parts and components sent for use in our production processes will also need to be recorded in our inventory management system.

We have put in place the following inventory management procedures to monitor our inventory:

- conduct inventory inspections at our warehouse on a regular basis. This allows us to confirm the accuracy of the information recorded in our inventory management system;

- conduct stock-takes on a half-yearly basis to ensure that we keep track of the stock stored in our warehouse and generated during our production process, and that it corresponds with all record entries;

- identify obsolete goods during stock-takes by physically assessing the conditions of parts and components in stock and through ageing analysis; and

- make appropriate provisions for inventory write-down based on the estimated level of usage of the individual types of parts and components in stock.

Apart from the parts and components we procure for our projects on a per-contract basis, it is our policy to maintain spare parts and components that we consider sufficient for meeting the potential needs for replacement parts in our after-sales services and any urgent needs from our existing customers for repair and maintenance. The spare parts and components we maintained amounted to approximately HK$10.1 million as at 30 June 2011, approximately HK$10.4 million as at 30 June 2012 and approximately HK$10.5 million as at 31 December 2012, representing approximately 9.6%, 9.4% and 9.1% of our inventory balance as at the respective date. We generally determine the level of our spare parts and components that are required for meeting the potential needs for replacement parts in our after-sales services and any our customers' urgent needs for repair and maintenance based on our own experience. We would usually consider the factors such as: (i) the frequency of usage of the particular types of spare parts and components in our production processes; (ii) whether they are of a nature that we can use in subsequent projects; (iii) the availability of these spare parts and components based on our previous experience when dealing with the suppliers; (iv) the estimated level of usage of the particular types of spare parts and components in providing our after-sales services; and (v) the lead time of our purchase orders to suppliers. The paper-making process is often required to operate continuously for practical as well as economic reasons, and the shutting down and starting up of paper-making machine may result in loss of operating time and the production of sub-standard products that may need to be reprocessed or disposed of. It is therefore important for paper-making companies to ensure that their paper-making machines can operate continuously without any disruptions as well as access to spare parts and components for timely repair in the event of a system failure or malfunction. If we can assist our customers to replace faulty parts with our spare parts and components in a timely manner, the potential losses caused by downtime of machinery can be minimised.

As at 31 December 2012, a batch of raw materials with cost of approximately HK$2.0 million was considered as obsolete. A provision of approximately HK$1.6 million was made as at 31 December 2012 against such raw material. If our spare parts and components become obsolete due to reasons such as technological advancement of industrial automation systems and sludge treatment products, improper maintenance or the market prices of these spare parts and components falling below our costs in the future, we would have to record impairment losses for them which may adversely affect our results of operations. Please refer to the paragraph headed "If our spare parts and components become obsolete or their market prices fall below their costs in the future, our results of operations may be adversely affected" under the section headed "Risk factors" in this prospectus for more details.

Upon delivery of the products to our customers, our customers will check the products to ensure that the products fulfill their requirements. If our customers find the products delivered to them to be in order, they will sign an acknowledgement of receipt of the products and arrange for storage. Should the products be unfit for use after delivery due to customers' own reasons, for instance, improper storage methods, the customers will be responsible for any such losses incurred. As such, our Group will not be responsible for products delivered to customers as it is considered that once the products have been delivered and are in the customers' possession, the customers will be responsible for the safekeeping of such products. Our Directors confirm that there were no losses suffered or costs incurred by our Group as a result of customers' failure in safekeeping the delivered products during the Track Record Period and up to the Latest Practicable Date.

Upon delivery of our products to our customers' sites, we will also send our technicians to the customers' sites to provide guidance for on-site installation of our products. After installation, our technicians will visit the customers' sites on a regular basis to assess when the on-site testing and inspection can be carried out by us in accordance with the parameters and standards agreed between our customers and us. In the event that our technicians detect that the customers are ready to carry out but intentionally delay the on-site testing and inspection process, or that the on-site testing and inspection process has been successfully carried out but the customers have not issued the testing certification in a timely manner, the technicians will report to our Group's management immediately and our Group's management will then liaise with the customers' senior management directly to resolve the issue.

To further ensure our sales and the corresponding costs of sales are recorded in a timely manner after passing the on-site testing and inspection of our products, we have adopted the following internal control procedures:

- we have a policy to request all technicians to return testing certificates to the accounting and finance department for record keeping within 10 days after certificates issuance;

- our accounting and finance department will perform a monthly review of the status of outstanding projects with the technical department to ensure all testing certificates for projects that have passed customers' inspection have been obtained;

- our accounting and finance department will compare the summary of testing certificates obtained during a month with the sales summary for the same month to ensure all revenue has been recorded upon receipt of the testing certificates; and

- our accounting and finance department will review the accounting vouchers to ensure all revenue and corresponding costs of sales have been properly recorded.

PRODUCT RESEARCH AND DEVELOPMENT

We have set up a research and development department and we place great emphasis on our research, design and development capabilities. The research and development department contributes ideas on new production processes, modifications to existing products and the development of new products. We believe that the innovation of technologically advanced products will enable us to maintain our market position and allow us to compete with the leading manufacturers of industrial automation instruments and sludge treatment instruments.

As at the Latest Practicable Date, our research and development department consisted of 39 personnel, 32 of whom have received tertiary or higher education. All of our research and development personnel had experience in relevant fields such as electrical engineering, software design and development, automation and mechanical design, and had worked for our group for an average of approximately five years. Seven of our research and development personnel possess relevant industry experience of not less than 10 years. Our research and development team is led by Mr. Jin Hao and Mr. Zhong Xin Gang. For details of Mr. Jin Hao's and Mr. Zhong Xin Gang's qualifications and relevant experience, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus.

We were recognised as high technology enterprises (高新技術企業) by the Department of Science and Technology of Zhejiang Province (浙江省科學技術廳), Zhejiang Provincial Department of Finance (浙江省財務廳), Zhejiang Provincial Office of State Administration of Taxation (浙江省國家稅務局), Zhejiang local Taxation Bureau (浙江省地方稅務局) in 2008 and 2011 respectively.

We have entered into a three-year collaboration agreement with Zhejiang University in 2011. According to the collaboration agreement, Zhejiang University is responsible for research and development of technology, provision of technology consultancy, services and laboratory, while we are responsible for collecting market information, promotion of technology and productisation for our sludge treatment products. We aim to develop three strategic products and come up with solutions to key technical problems under such collaboration. Although our Directors have confirmed that no product has been developed yet from this collaboration as it is still at an early stage, it is expected that our research results and development of products could help improve our operation and competitiveness in the sludge treatment industry.

As our business is project-based and all of our industrial automation systems and sludge treatment products are customised according to our customers' requirements, we seek to maintain close contacts with our customers in order to better understand their evolving requirements and to keep abreast of the latest market trends. The feedback from our customers would enable us to respond more quickly to their future demands.

We had participated in setting the industry standards for (i) the model and basic parameters of the filter press; (ii) the technical conditions of the filter press; (iii) the filter plate; and (iv) the filter plate with expression diaphragm. These industry standards were set by the Technical Committee of National Standardisation Administration for Separation Machinery of the PRC (全國分離機械標準化技術委員會) and issued by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部). Huazhang Technology was one of the eight companies that were involved in drafting these industry standards, and these companies were selected by the Technical Committee of National Standardisation Administration for Separation Machinery of the PRC (全國分離機械標準化技術委員會) based on certain criteria, including but not limited to (i) their expertise in the design, manufacture and testing of separation machinery; and (ii) their reputation in the industry.

Our research and development expenses amounted to approximately HK$5.8 million, HK$7.4 million and HK$5.8 million during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, representing approximately 5.9%, 3.2% and 4.8% of our total revenue for the respective period. The expenses incurred mainly represented the salaries of the full-time personnel in our research and development department during the Track Record Period. The total salaries for our research and development personnel amounted to approximately HK$2.6 million, HK$3.9 million and HK$3.5 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. In order to maintain our competitiveness, our Directors intend to apply 10.1% of the net proceeds from the Placing on continuous product development and innovation. We have finalised the design, confirmed the main raw materials to be used for production and completed the system solution for our own RGU, which is one of the components currently used by our industrial automation systems. We also plan to further develop newer models for our industrial automation systems and sludge treatment products. For further details, please refer to the paragraph headed "Implementation plans" in the section headed "Future plans and use of proceeds from the Placing" in this prospectus.

Our research and development team is responsible for designing and developing our owned softwares which are compatible to our own products. As at the Latest Practicable Date, we had registered three software copyrights in the PRC. The following table sets out our revenue during the Track Record Period by (i) products applying our self-developed software; and (ii) products without our self-developed software:

	Year ended 30 June				**Six months ended 31 December**	
	2011		**2012**		**2012**	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Industrial automation systems						
(i) products applying our self-developed software	68.7	81.1	177.9	88.6	53.1	76.5
(ii) products without our self-developed software	16.0	18.9	22.8	11.4	16.3	23.5
Sub-total	84.7	100.0	200.7	100.0	69.4	100.0
Sludge treatment products						
(i) products applying our self-developed software	1.9	79.8	13.7	94.9	40.0	95.6
(ii) products without our self-developed software	0.5	20.2	0.7	5.1	1.8	4.4
Sub-total	2.4	100.0	14.4	100.0	41.8	100.0

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had registered 73 patents (including 30 invention patents and 43 utility model patents) and three software copyrights in the PRC. In addition, we had registered four trademarks in the PRC and applied for registration of three trademarks in Hong Kong. Details of our material intellectual properties rights are set out in the paragraph headed "Intellectual property rights" in Appendix V to this prospectus.

As confirmed by our PRC Legal Advisers, according to relevant laws and regulations in the PRC, design patents refer to the design of the shape and colour applied to an industrial product. Utility model patents refer to the manufacturing method and structure and usage of the products concerned. We review intellectual property rights authorised for our use from time to time and will only renew those that are important to our business. As at the Latest Practicable Date, there were eight invention patents pending authorisation.

Since the intellectual property rights authorised 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.

Our PRC Legal Advisers confirm that we have registered all the intellectual properties developed by our Group (including 30 invention patents, 43 utility model patents and three software copyrights) as at the Latest Practicable Date. Our PRC Legal Advisers also confirm that we were not subject to material infringement of our intellectual property rights and/or third parties' intellectual property rights during the Track Record Period and up to the Latest Practicable Date.

QUALITY CONTROL

Our Directors believe that the reliability and quality of our products are crucial to our success. In order to maintain high quality standards, we have adopted a quality control system to monitor the quality of our final products.

Our Group obtained the ISO 9001:2008 certification since December 2009 in respect of our quality management system in the design, development, production and service of control system products for paper-making metallurgy etc.

According to the Provisions on the Administration of Compulsory Product Certification (強制性產品認證管理規定) issued by the State Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) in 2001 and renewed in 2009, most of the parts and components required for the production of the motor control centre are listed on a directory of products subject to Compulsory Product Certification. Therefore, it was necessary to obtain the China Compulsory Certificate (the "3C Certificate") (強制性產品認證) to manufacture our motor control centre. We have obtained all 3C Certificates necessary for the production of our motor control centre as required by the Provisions on the Administration of Compulsory Product Certification.

In addition, we have established the following quality control system to monitor our operations:

- selection of suppliers – suppliers are chosen based on their ability to guarantee good product quantity and quality, reasonable prices, timely delivery and good services. When selecting and evaluating potential suppliers, we require them to arrange for site visits and request for samples of the materials to be supplied to us to ensure that the materials and the quality of their service meet our requirements. We also conduct quality control inspections on parts and components and other materials supplied prior to their use. When parts and components are delivered to us by our suppliers, we conduct sample checks to ensure that they meet our specifications and quality requirements. Any parts and components that fail to meet our requirements will be returned to the supplier;

- product testing – prior to delivery, we will conduct in-house testing on all finished products. Products which do not meet the relevant quality standards will be re-worked and are subject to the in-house testing again after the re-work; and

- staff training – our staff receive training relating to the relevant ISO standards.

We have 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.

As at the Latest Practicable Date, we employed eight staff responsible for our Group's quality control operations which is led by Mr. Liu, one of the member of our senior management. For details of Mr. Liu's qualifications and relevant experience, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus. All of our quality control personnel had experience in either our industrial automation systems or sludge treatment products, and had worked for our group for an average of approximately six years. Our quality control team comprises seven personnel who have received tertiary or higher education.

Our Directors confirm that there were no material product quality issues, claims, complaints or sales returns during the Track Record Period and up to the Latest Practicable Date.

OCCUPATIONAL SAFETY AND HEALTH MEASURES

We are subject to the relevant PRC laws and regulations regarding production safety, 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 Safety 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 detail 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.

Our Directors confirm that there were no material accidents, health injuries, or any non-compliance incidents with the relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

We maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities. We also maintain property insurance for our production facility in Jiaxing City, Zhejiang Province. We have not maintained any insurance in respect of any third party losses that may arise from the interruption of our business or in respect of product liability claims. During the Track Record Period, we had not experienced any material product liability claims or other legal claims. Our Directors consider that the existing level of insurance coverage is sufficient for our present operations. Our Group will continue to review and assess the risks and make necessary adjustments to its insurance practice so that it is in line with the operation needs and industry practice from time to time.

We do not maintain product liability insurance. Our Directors consider that it is not an industry norm to maintain product liability insurance because there is no such requirement under the current PRC laws. During the Track Record Period and up to the Latest Practicable Date, we had not faced any material complaints, product claims or product recall, and, so far as we are aware of, we had not contributed to any product claims or product recall of our customers during the period. During the Track Record Period and as of the Latest Practicable Date, we had not received any major complaints about the quality of our products from customers or as to our non-compliance with the requirements imposed by them in connection with social, health and safety issues that would materially and adversely affect our business or relationship with such customers, and there were no past incidents related to our product quality and/or product liability claims which had material impact on our Group.

AWARDS AND RECOGNITIONS

We have obtained various recognitions for its research and development capabilities, production techniques and operational performance including:

Year awarded	Description of award/recognition	Awarding organisation or authority
2006	Zhejiang Province Technology-based Small-Medium Enterprise (浙江省科技型中小企業)	Science Technology Department of Zhejiang Province (浙江省科學技術廳)
2007	Zhejiang Province Centre of Technology for Small-Medium Enterprise (浙江省省級中小企業技術中心)	Bureau of Small-Medium Enterprise of Zhejiang Province (浙江省中小企業局)
2008	High Technology Enterprise (高新技術企業)	Science Technology Department of Zhejiang Province, Zhejiang Provincial Department of Finance, Zhejiang Provincial Office, SAT, Zhejiang local Taxation Bureau (浙江省科學技術廳、 浙江省財政廳、浙江省國家稅務局、浙江省地方稅務局)
2008	Tongxiang Patent Model Enterprise (桐鄉專利示範企業)	Science and Technology Bureau of Tongxiang (桐鄉市科學技術局)
2010	Zhejiang Province Innovative Pilot Enterprise (浙江省創新型試點企業)	Science Technology Department of Zhejiang Province (浙江省科學技術廳)
2010	Zhejiang Province Patent Model Enterprise 2010 (2010浙江省專利示範企業)	Intellectual Property Bureau of Zhejiang Province (浙江省知識產權局) Commission of Economy and Information Technology of Zhejiang Province (浙江省經濟和信息化委員會)
2011	Zhejiang Province Provincial Level Research and Development Centre for Advanced and Innovative Technology (浙江省省級高新技術企業研究開發中心)	Science Technology Department of Zhejiang Province (浙江省科學技術廳)

Year awarded	Description of award/recognition	Awarding organisation or authority
2011	Tongxiang Top Ten Technological Progress Enterprise of 2010 (2010年度桐鄉十佳科技進步企業)	The People's Government of Tongxiang (桐鄉市人民政府)
2011	Technological Innovation Excellence Enterprise 2010 (2010科技創新優勝企業)	Management Committee of Economic Development District of Tongxiang, Zhejiang Province (浙江省桐鄉經濟開發區管理委員會)
2011	High Technology Enterprise (高新技術企業)	Department of Science and Technology of Zhejiang Province (浙江省科學技術廳) Zhejiang Provincial Department of Finance (浙江省財務廳) Zhejiang Provincial Office of State Administration of Taxation (浙江省國家稅務局) Zhejiang Province local Taxation Bureau (浙江省地方稅務局)
2011	The sludge dewatering machine was named the "2011 National Major New Product" and was awarded "Jiaxing Municipal Technological Progress Award (Class 2)" (污泥幹化機項目被評為"2011年國家重點新產品"，獲得"嘉興市科技進步二等獎")	MST
2012	Outstanding Growing Enterprise of 2011 (二零一一年優秀成長型企業)	Management Committee of Economic Development District of Tongxiang, Zhejiang Province (浙江省桐鄉經濟開發區管理委員會)

CERTIFICATES, LICENCE AND PERMITS

Our PRC Legal Advisers have confirmed that Huazhang Technology, our PRC operating subsidiary, has obtained all requisite business licences, approvals, certificates and permits all of which are presently in force in respect of its business operations and has complied with all material applicable laws and regulations in the PRC.

The table below sets out the dates of issue and expiry dates of Huazhang Technology's material certifications and permits:

Name of certificate/ licence/permit	Granting authority in the PRC	Date of grant	Expiry date
Registration Certificate for Customs Declaration on Import and Export Goods (中華人民共和國海關進出口貨物收發貨人報關註冊登記證書)	Jiaxing Customs of the PRC (中華人民共和國嘉興海關)	10/01/2002	10/03/2014
High-tech Enterprise Certificate (高新技術企業證書)	Science Technology Department of Zhejiang Province (浙江省科學技術廳), Zhejiang Provincial Department of Finance (浙江省財政廳), Zhejiang Province National Taxation Bureau (浙江省國家稅務局), Local Tax Bureau of Zhejiang Province (浙江省地方稅務局)	14/10/2011	13/10/2014
Certificate for China Compulsory Product Certification (中國國家強制性產品認證證書)	China Quality Certification Centre (中國質量認證中心)	12/04/2012	18/03/2015

Name of certificate/ licence/permit	Granting authority in the PRC	Date of grant	Expiry date
Business licence (營業執照)	The Administration for Industry and Commerce of Jiaxing (嘉興市工商局)	09/08/2012	18/07/2051
Pollution emission permit (主要污染物排放權證)	Tongxiang Environmental Protection Agency (桐鄉市環境保護局)	05/09/2012	04/09/2017
ISO 9001:2008 certification (Quality Management System)	Zhejiang Gainshine Assessment Co., Ltd.	24/12/2012	23/12/2015
ISO 14001:2004 (Environment Management System)	Zhejiang Gainshine Assessment Co., Ltd.	07/02/2013	06/02/2016
OHSAS 18001:2007 (Occupational Health and Safety Management System)	Zhejiang Gainshine Assessment Co., Ltd.	07/02/2013	06/02/2016

ENVIRONMENTAL PROTECTION

As advised by our PRC Legal Advisers, our operations in the PRC are subject to, among others, the following environmental laws and regulations: (i) the Environmental Protection Law of the PRC (中華人民共和國環境保護法); (ii) the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法); (iii) the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國污染防治法); (iv) the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (中華人民共和國固體廢物污染環境防治法); (v) the Law of the PRC on the Environmental Impact Assessment (中華人民共和國環境影響評價法); and (vi) the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例).

To ensure that we comply with the applicable environmental laws and regulations, we have implemented internal procedures to prevent and manage pollution. We also 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.

Due to the nature of our business, we do not generate a lot of pollution as the production of our products mainly involve assembly of parts and components. Given that the current measures are adequate, it is expected that we will not incur material costs in respect of compliance with the currently applicable environmental rules and regulations in the foreseeable future.

The costs of compliance with the applicable environmental regulations and laws amounted to approximately HK$0.1 million, HK$0.2 million and HK$0.1 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Our Directors expect to incur approximately HK$0.3 million for the same purpose for the year ending 30 June 2013.

We will continue to ensure compliance with the applicable environmental regulations and laws from time to time in the future. In the event that there is a material change in our production process or type of products, the environmental impacts arising from our operations will be assessed to determine if any additional measures needs to be taken to ensure compliance with applicable environmental laws and regulations.

As at the Latest Practicable Date, we had not been prosecuted, penalised or ordered to pay any penalties for violation of the environmental protection laws, rules and regulations of the PRC and of the jurisdiction where our operations are being carried out during the Track Record Period. Our PRC legal advisers have confirmed that Huazhang Technology, our PRC operating subsidiary, has complied with the relevant environment protection laws and rules of the PRC.

LEGAL COMPLIANCE AND LEGAL PROCEEDINGS

As advised by our PRC Legal Advisers, our operating subsidiary in the PRC, Huazhang Technology, has obtained all requisite certificates, permits and licences from the relevant regulatory authorities in the PRC in relation to its establishment and business operations, and has complied with all the relevant laws and regulations in relation to its operations.

As confirmed by our PRC Legal Advisers, our Group is not required to obtain any approvals or permits from CSRC and/or any other governmental authorities for the Listing.

To the best knowledge of our Directors, as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group that would have a material adverse effect on the results of the operations or financial condition of our Group.

PROPERTIES

Owned properties

As at the Latest Practicable Date, our Group owned two sites, which are parts of commercial buildings, and one industry facility in Zhejiang province, the PRC. The details of the properties owned by our Group in the PRC are set out in the table below:

Location	Tenure	Particulars of occupancy	Approximate gross floor area *(sq.m.)*
Units 1206-1210, Weixing Building No. 252 Wensan Road, Xihu District, Hangzhou City, Zhejiang Province, the PRC	Land use rights of the property expires on 5 August 2044 for composite uses	Office purposes	422.27
Unit 801, Block B, Changdi Huoju Building, No. 259 Wensan Road, Xihu District, Hangzhou City, Zhejiang Province, the PRC	Land use rights of the property expires on 17 June 2049 for composite uses	Office purposes	750.42
Zhenhua Road, Second Industrial Zone, Tongxiang Economic Development Area, Tongxiang, Jiaxing City, Zhejiang Province, the PRC	Land use rights of the property expires on 8 May 2052 for industrial uses	Production, ancillary office and dormitory purposes An industrial facility with nine buildings and various ancillary structures *(Note)*	23,056.45

Note: In respect of the industrial facility owned by our Group, we have obtained title certificates for six of the nine buildings. The remaining three buildings consist of two guardhouses and a store room for our back-up power generator. Our Directors confirm that (i) the two guardhouses are for the purposes of welcoming guests only and therefore they are considered not crucial for the business operation of our Group; and (ii) the store room is a temporary facility erected during construction of the workshop, and was used temporarily for storage of the back-up power generators which are currently not in use. As such, we plan to demolish the relevant store room and submit the application for title certificates for the two gatehouses in June 2013. Our PRC Legal Advisers advised that there is no legal impediment for our Group to obtain the relevant title certificates for the two guardhouses.

Leased properties

As at the Latest Practicable Date, our Group had leased one commercial building unit for office purposes in Hong Kong from an Independent Third Party. The details of the leased property are set out in the table below:

Location	Lease term	Particulars of occupancy	Approximate gross floor area *(sq.m.)*
Portion A of Unit 5 on 8th Floor of Tower I, South Seas Centre, No. 75 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong	1 December 2012 to 30 November 2015	Office purposes	1,527.0

Further details of our Group's property interests are set out in the valuation report prepared by Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent valuer, in Appendix III to this prospectus.

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Placing, Florescent Holdings, which is owned as to 77.9% by Lian Shun, which in turn is owned as to 53.79% by Mr. Zhu, 20.74% by Mr. Wang, 17.95% by Mr. Liu and 7.52% by Ms. Zhu, will be interested in 75% of the issued share capital of our Company (without taking into account the Shares which may be issued pursuant to the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme).

On 6 May 2013, a confirmation of concert party arrangement was executed by each of Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu, confirming that they are parties acting in concert in relation to the consolidation of the control of Huazhang Overseas and our Group since 25 March 2003, being the date of incorporation of Huazhang Overseas. As such, Florescent Holdings, Lian Shun, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu are all regarded as our Controlling Shareholders within the meaning of the GEM Listing Rules. Details of the structure of our Group immediately following the completion of the Capitalisation Issue and the Placing are set out in the section headed "History, corporate structure and Reorganisation" in this prospectus.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their respective associates after the Placing.

Management independence

Although our Controlling Shareholders will retain controlling interests in our Company upon completion of the Placing, the day-to-day management and operation of the business of our Group will be the responsibility of all the executive Directors and senior management of our Company. Our Board has six Directors comprising three executive Directors and three independent non-executive Directors. Our Board and senior management operate independently from our Controlling Shareholders and they are in a position to fully discharge their duties to our Shareholders as a whole after the Listing without reference to our Controlling Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum. In addition, our Company has an independent senior management team which is independent from our Controlling Shareholders and each of their respective associates to carry out the business decisions of our Group independently.

Having considered the above factors, each of our Directors is satisfied that he or she is able to perform his or her role as a director independently, and our Directors are of the view that our Company is capable of managing our Group's business independently from our Controlling Shareholders after the Listing, notwithstanding that Mr. Zhu, being a Controlling Shareholder, is an executive Director.

Operational independence

Our Group has established its own organisational structure made up of individual departments, each with specific areas of responsibilities. Our Group has also established a set of internal controls to facilitate the effective operation of its business. During the Track Record Period, we mainly procured the Branded Industrial Automation Products such as inverters, control panels and power source equipment from Huazhang Automation (Zhejiang), a company which is indirectly owned as to 30% by Huazhang Overseas, which is in turn owned as to approximately 77.9% in aggregate by our Controlling Shareholders. Our Group has not been specifically requested by our customers to use the Branded Industrial Automation Products in the production of our industrial automation systems, and there are other equivalent parts and components made by other brands that can substitute the relevant Branded Industrial Automation Products. As at the Latest Practicable Date, there were other authorised distributors of the Branded Industrial Automation Products in the PRC. There were also other suppliers from which we could source parts and components under other brands at similar or comparable terms and quality as those offered by Huazhang Automation (Zhejiang) for our production of industrial automation systems. To reduce our reliance on Huazhang Automation (Zhejiang), our Group shall continue to diversify our sources of parts and components by identifying more new suppliers and increasing purchases from existing suppliers which are capable of supplying parts and components under other brands with quality comparable to that of the Branded Industrial Automation Products. Save from disclosed above, our Group's operation is independent from and not connected with our Controlling Shareholders and their respective associates.

Financial independence

Our Group has independent financial and accounting systems, independent treasury function for receiving cash and making payments and independent access to third party financing. Our Group makes financial decisions according to its own business needs. Our Directors believe that by leveraging on the listing status after the Listing, our Group would be able to obtain third party financing at reasonable terms in accordance with its business needs. Our Directors consider that our Group is not financially dependent on our Controlling Shareholders.

UNDERTAKINGS

Each of Florescent Holdings, Lian Shun, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu, being our Controlling Shareholders, has given certain undertakings in respect of the Shares (including those as required by Rules 13.16A(1) and 13.19 of the GEM Listing Rules) to our Company, the Sole Sponsor, the Sole Lead Manager (for itself and on behalf of the Underwriters) and the Stock Exchange, details of which are set out in the paragraph headed "Undertakings" under the section headed "Underwriting" in this prospectus.

EXCLUDED BUSINESS

Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang)

Huazhang Automation (Hong Kong) was wholly-owned by Huazhang Overseas prior to the disposal of 51% and 19% equity interests in Huazhang Automation (Hong Kong) to French Business Partner in March 2007 and August 2009 respectively. After the said disposals and up to the Latest Practicable Date, Huazhang Automation (Hong Kong) was owned as to 70% by French Business Partner, an Independent Third Party, and 30% by Huazhang Overseas, an investment holding company which in turn was owned as to approximately 77.9% in aggregate by Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu, our Controlling Shareholders. Please refer to the section headed "History, corporate structure and Reorganisation" in this prospectus for the reasons for the disposals.

Huazhang Automation (Zhejiang) is wholly-owned by Huazhang Automation (Hong Kong).

Background of Huazhang Automation (Zhejiang)

Huazhang Automation (Zhejiang) is principally engaged in the business of wholesale, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems and is currently an authorised distributor of the Branded Industrial Automation Products in Zhejiang Province of the PRC. Apart from the Branded Industrial Automation Products, Huazhang Automation (Zhejiang) also sells parts and components of other brands.

Huazhang Automation (Zhejiang) was established by Huazhang Automation (Hong Kong) as a direct wholly-owned subsidiary in September 2006. The direct interest in Huazhang Automation (Hong Kong) and the indirect interest in Huazhang Automation (Zhejiang) held by Huazhang Overseas were excluded from our Group for the purpose of the Reorganisation. The audited net profit of Huazhang Automation (Zhejiang) was approximately RMB8.6 million and RMB3.5 million for the two years ended 31 December 2010 and 2011 respectively and the unaudited net profit for the six months ended 30 June 2012 was approximately RMB2.7 million.

Relationship of Huazhang Automation (Zhejiang) with our Group

As one of the suppliers of our Group

Huazhang Automation (Zhejiang) was the largest supplier of our Group during the Track Record Period. Our purchases of raw materials from Huazhang Automation (Zhejiang) accounted for approximately 44.1%, 42.3% and 36.9% of our total purchases for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively. The raw materials we purchased from Huazhang Automation (Zhejiang) were the Branded Industrial Automation Products and other hardware and components which mainly included inverters, control panels and power source equipment. Our Group was not the only customer for Huazhang Automation (Zhejiang) during the Track Record Period. To the best of our Directors' knowledge, the sale of the Branded Industrial Automation Products from Huazhang Automation (Zhejiang) to our Group accounted for approximately 8.6%, 11.6% and 8.2% of its total sales for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. As at 31 December 2012, the total amount of trade payables to Huazhang Automation (Zhejiang) was approximately HK$4.2 million, and such amount had been fully settled by the Latest Practicable Date.

For further details of such supply arrangement, please refer to the paragraphs headed "Suppliers – Supply arrangement with Huazhang Automation (Zhejiang)" in the section headed "Business" in this prospectus. The supply of raw materials by Huazhang Automation (Zhejiang) to our Group will continue after the Listing, as Huazhang Automation (Zhejiang) is currently an authorised distributor of Branded Industrial Automation Products designated in Zhejiang Province and our Group has entered into a master purchase agreement with Huazhang Automation (Zhejiang) in this respect. Details of the master purchase agreement and arrangements there under are set out in the section headed "Continuing connected transactions" in this prospectus.

As one of the customers of our Group

Huazhang Automation (Zhejiang) was the largest customer of our Group during the year ended 30 June 2011. The revenue from our sales to Huazhang Automation (Zhejiang) amounted to approximately HK$10.1 million, HK$5.8 million and HK$2.7 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, representing approximately 10.2%, 2.5% and 2.3% of our total revenue for the respective period. The decrease in our sales to Huazhang Automation (Zhejiang) in the year ended 30 June 2012 was primarily due to the decrease in the tenders received by Huazhang Automation (Zhejiang) from its customers which requested our industrial automation systems. As at 31 December 2012, the total amount of trade receivables due from Huazhang Automation (Zhejiang) to our Group was approximately HK$57,000 and such amount had been fully settled by Huazhang Automation (Zhejiang) in February 2013.

We generated revenue from Huazhang Automation (Zhejiang) through the supply of industrial automation systems by Huazhang Technology to Huazhang Automation (Zhejiang). Huazhang Automation (Zhejiang) received tenders for industrial automation systems from customers which are not engaged in the paper-making industry from time to time and sources the systems from contractors such as our Group as it does not have the requisite technical staff and production facilities to assemble the same. During the Track Record Period, Huazhang Automation (Zhejiang) sourced industrial automation systems from us for on-selling to its customers in industries such as metallurgy, mechanical, electricity, petrochemical and water treatment. Huazhang Automation (Zhejiang) was not the end-user of the industrial automation systems assembled and supplied by Huazhang Technology but only resold the same to its customers during the Track Record Period. As confirmed by our Directors, none of these customers of Huazhang Automation (Zhejiang) were related parties or associates of our Group and/or our Directors. The customers which sourced industrial automation systems from Huazhang Automation (Zhejiang) during the Track Record Period were mainly engaged in the businesses of metallurgy, mechanical, electricity, petrochemical and water treatment, and none of these customers were engaged in the paper-making industry.

Huazhang Automation (Zhejiang)'s purchases from our Group accounted for approximately 1.89%, 1.16% and 1.55% of its total purchases for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, and Huazhang Automation (Zhejiang)'s sales of our industrial automation systems accounted for approximately 11.1%, 12.1% and 17.6% of its total turnover for the same period respectively. Huazhang Automation (Zhejiang)'s turnover was mostly contributed by the trading of parts and components for industrial automation systems, such as the Branded Industrial Automation Products. Further, our Group offered the same credit terms and payment terms to Huazhang Automation (Zhejiang) as well as other customers of our Group in relation to their purchases. As at the Latest Practicable Date, there were 50 contracts signed with Huazhang Automation (Zhejiang) but not completed, and the aggregate amount of these outstanding contracts was approximately HK$2.9 million. Please refer to the paragraphs headed "Salient terms of a typical sales contract entered into during the Track Record Period" in the section headed "Business" in this prospectus for the details of payment terms offered by our Group to its customers.

If our sales to Huazhang Automation (Zhejiang) and their related cost of sales during the Track Record Period were excluded from the financial results of our Group, our Company would still be able to meet the cash flow requirement under rule 11.12A(1) of the GEM Listing Rules.

Our sales to Huazhang Automation (Zhejiang) will continue after the Listing, and our Group has entered into a master supply agreement with Huazhang Automation (Zhejiang), details of which are set out in the section headed "Continuing connected transactions" in this prospectus.

As confirmed by our Directors (including our independent non-executive Directors) and the Sole Sponsor upon reviewing the terms of the transactions between our Group and Huazhang Automation (Zhejiang) and comparing the same with the terms of transactions between our Group and suppliers and customers which are Independent Third Parties, transactions between our Group and Huazhang Automation (Zhejiang) were conducted on normal commercial terms and on an arm's length basis and on comparable terms (including the pricing policy) as offered to and/or from other Independent Third Parties during the Track Record Period.

Competition

Huazhang Automation (Zhejiang) principally engages in the business of trading, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems. Huazhang Automation

(Zhejiang) also sells industrial automation systems upon its customers' request, but the sale of industrial automation systems is only supplemental to its trading business and only accounted for approximately 11.1%, 12.1% and 17.6% of its total turnover for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Although Huazhang Automation (Zhejiang) also engages in the sale of industrial automation systems, as confirmed by the directors of Huazhang Automation (Zhejiang), Huazhang Automation (Zhejiang) has a different clientele as compared with that of our Group, and none of the customers of Huazhang Automation (Zhejiang) is engaged in the paper-making industry in the PRC. Further, the core business of Huazhang Automation (Zhejiang) is the trading of parts and components for industrial automation systems, which accounted for approximately 88.9%, 87.9% and 82.4% of its total turnover for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively; whereas our Group's core business is the manufacturing and sale of industrial automation systems and sludge treatment products, which accounted for approximately 87.9%, 93.8% and 93.0% of our Group's total turnover for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively.

Mr. Zhu was one of the directors of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) during the Track Record Period. In order to avoid any potential conflict of interests among his positions in our Group, Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang), Mr. Zhu resigned as a director of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) on 30 August 2012. As confirmed by the directors of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang), Mr. Zhu did not participate in the daily operation and management of Huazhang Automation (Hong Kong) and/or Huazhang Automation (Zhejiang) during the period from 1 July 2010 to 30 August 2012.

Mr. Wang, one of our Controlling Shareholders, who was interested in approximately 20.74% of the issued share capital of Lian Shun as at the Latest Practicable Date, was indirectly interested in Huazhang Automation (Hong Kong) through his interest of approximately 16.16% in Huazhang Overseas. Mr. Wang is currently one of the directors of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang). He has been the general manager of Huazhang Automation (Zhejiang) overseeing its day-to-day operations since 2006. Mr. Wang was a director of Huazhang Technology until he resigned from such position on 10 October 2012 in order to avoid any potential conflict of interests among his positions in Huazhang Automation (Hong Kong), Huazhang Automation (Zhejiang) and our Group. As confirmed by our Directors, during the period whereby Mr. Wang was a director of Huazhang Technology, he was only involved in advising the board of Huazhang Technology on its strategic directions and business development, therefore he was not involved in the daily operation and day-to-day management of our Group during the Track Record Period and up to the Latest Practicable Date. Further, save for Mr. Wang, none of our Controlling Shareholders held any managerial role in Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) as at the Latest Practicable Date. As confirmed by the directors of Huazhang Automation (Hong Kong), save for the interest in Huazhang Automation (Zhejiang), Huazhang Automation (Hong Kong) does not own any interest or business or otherwise engage in any business.

Our Directors consider that there is no direct competition between our Group and Huazhang Automation (Zhejiang) based on the following reasons:

(i) the core business of our Group (i.e. manufacture and sale of industrial automation systems and sludge treatment products) and that of Huazhang Automation (Zhejiang) (i.e. trading, import and export of parts and components for industrial automation systems) are different;

(ii) the clientele of our Group (i.e. principally clients engaging in the paper-making industry) and that of Huazhang Automation (Zhejiang) are different and there is no overlapping of major customers and suppliers between our Group and Huazhang Automation (Zhejiang); and

(iii) there is no overlapping of senior management and workforce between our Group and Huazhang Automation (Zhejiang).

Reasons for exclusion

According to the memorandum and articles of association of Huazhang Automation (Hong Kong), *inter alia*:

(i) the board of directors of Huazhang Automation (Hong Kong) shall consist of five members, three of whom shall be and had been appointed by French Business Partner while the remaining two shall be and had been appointed by Huazhang Overseas;

(ii) the chairman of the board of directors of Huazhang Automation (Hong Kong) shall be a director appointed by French Business Partner;

(iii) the quorum for a meeting of the board of directors of Huazhang Automation (Hong Kong) shall be three consisting of at least two directors appointed by French Business Partner and one appointed by Huazhang Overseas; and

(iv) the quorum for any general meeting of Huazhang Automation (Hong Kong) shall be at least two shareholders (or its proxy) representing more than sixty percent in nominal value of the issued share capital of Huazhang Automation (Hong Kong).

As such, French Business Partner effectively controls the majority of the board of directors and the general meeting of Huazhang Automation (Hong Kong). Therefore, none of Huazhang Overseas, our Controlling Shareholders and their respective associates is able to exercise control over Huazhang Automation (Hong Kong) and/or Huazhang Automation (Zhejiang). Based on the above, in the event that Huazhang Overseas were to transfer its minority interests in Huazhang Automation (Hong Kong) to our Group, as the majority of the board of directors of Huazhang Automation (Hong Kong) is controlled by French Business Partner, it is expected that our Group would not be able to exercise control over Huazhang

Automation (Hong Kong) and to ensure the business decisions made by Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) are beneficial to our Group as a whole, therefore our Directors consider that inclusion of the 30% interests in Huazhang Automation (Hong Kong) in our Group is not in the best interest of our Shareholders. Since the only asset held by Huazhang Overseas after the Reorganisation is its 30% interests in Huazhang Automation (Hong Kong), our Directors also consider that it is not in the best interest of our Shareholders to inject Huazhang Overseas into our Group.

Pursuant to the HAHK 2007 S&P Agreement (as supplemented by an agreement dated 30 June 2009), French Business Partner was granted the HAHK Second Call Option for acquiring all outstanding interests in Huazhang Automation (Hong Kong). The HAHK Second Call Option may be exercised by French Business Partner within three months following the issue of the audited consolidated financial statements of Huazhang Automation (Hong Kong) for the financial year ending 31 December 2013, which is expected to be available by no later than 31 March 2014, and shall lapse within three months after the issue of such financial statements. As at the Latest Practicable Date, as confirmed by the directors of Huazhang Overseas, Huazhang Overseas had not received any notice from French Business Partner on whether and when French Business Partner will exercise the HAHK Second Call Option.

Further, in addition to granting the HAHK Second Call Option, pursuant to the terms of the HAHK Shareholders' Agreement, Huazhang Overseas can only dispose of its interest in Huazhang Automation (Hong Kong) to a bona fide purchaser and subject to French Business Partner's right of first refusal. A bona fide purchaser refers to a party purchasing a property for value without notice of any other party's claim and the title to the property. Having considered that: (i) the ultimate shareholders of our Company prior to the Listing are identical to those of Huazhang Overseas, and they are also parties to the HAHK Shareholders' Agreement; and (ii) our Controlling Shareholders in their capacity as shareholders of Huazhang Overseas may have access to the financial information, business information and/or the prospect of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang), our Directors consider that our Company may be deemed to be aware of French Business Partner's rights in relation to such interests in Huazhang Automation (Hong Kong) (including the right of first refusal and the HAHK Second Call Option), and therefore our Company will not be considered as a bona fide purchaser for initiating such transfer, and the validity of such transfer of shareholding interests in Huazhang Automation (Hong Kong) may be challenged by French Business Partner and may constitute a breach of the terms of the HAHK Shareholders' Agreement.

Further, the HAHK Shareholders' Agreement also prohibits each of our Controlling Shareholders to transfer his/her indirect interests in Huazhang Automation (Hong Kong) held through Huazhang Overseas to another entity not subject to the restrictions on disposal of interests in Huazhang Automation (Hong Kong). As such, the injection of Huazhang Overseas to our Group will violate such restriction under the HAHK Shareholders' Agreement.

Having considered the above, our Directors are of the view that it is not in the best interest of our Company and Shareholders as a whole to transfer the 30% interest in Huazhang Automation (Hong Kong) held by Huazhang Overseas or to inject Huazhang Overseas to our Group before Listing as, (i) our Group would have no control over Huazhang Automation (Hong Kong); and (ii) the 30% interest in Huazhang Automation (Hong Kong) is subject to the HAHK Second Call Option which may be exercised by French Business Partner in early 2014. In addition, as our Company would not be considered as a bona fide purchaser, Huazhang Overseas may breach the terms of the HAHK Shareholders' Agreement, and due to the further restrictions on transfer of indirect interests in Huazhang Automation (Hong Kong) imposed on our Controlling Shareholders under the HAHK Shareholders' Agreement, our Group may be subject to potential claims from French Business Partner under such circumstances.

Save as disclosed above, none of our Controlling Shareholders nor any of their associates had interests in any other companies as at the Latest Practicable Date which may, directly or indirectly, compete with the business of our Group or otherwise required to be disclosed under Rule 11.04 of GEM Listing Rules.

NON-COMPETITION UNDERTAKING BY HUAZHANG AUTOMATION (HONG KONG) AND HUAZHANG AUTOMATION (ZHEJIANG)

To further delineate the respective business of Huazhang Automation (Zhejiang) and our Group and to protect our Group from any potential competition from Huazhang Automation (Zhejiang), Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) have entered into a deed of non-competition in our Company's favour on 6 May 2013, pursuant to which, they will not, and any company directly or indirectly controlled by any of them (excluding any member of our Group) will not, either on its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which, directly or indirectly, competes or may compete with the business of supply and sale of industrial automation systems and sludge treatment products in the PRC (including Hong Kong) from time to time after Listing. Such non-competition undertaking does not apply to: (i) the holding of shares or other securities in any company engaging in the said businesses by Huazhang Automation (Hong Kong) and/or Huazhang Automation (Zhejiang), provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) and their respective associates (except members of our Group) does not amount to more than 5% of the share capital of such company; and (ii) our Group having confirmed not to pursue the business opportunity or fail to give such notice within prescribed time pursuant to the terms of the deed of non-competition.

Further, in the event that Huazhang Automation (Hong Kong) and/or Huazhang Automation (Zhejiang) and/or their respective associates (except members of our Group) is/are offered or becomes aware of any orders for the supply and sale of industrial automation systems and sludge treatment products; or any business opportunity which directly or indirectly invests in or owns a business of supply and sale of industrial automation systems and sludge treatment products, no matter involving client engaging in paper-making or non-paper-making industry, it/they shall immediately notify our Company of such business opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable us to make an informed assessment of such opportunity. An independent committee of the Board comprising all of our independent non-executive Directors (the "Independent Board Committee") who do not have any material interest in such opportunity shall decide whether to accept such opportunity by simple majority, taking into account our Company's prevailing business, the financial resources required for the relevant opportunity and the commercial viability of such opportunity. Huazhang Automation (Hong Kong) and/or Huazhang Automation (Zhejiang) and/or their respective associates (except members of our Group) is/are only allowed to pursue the opportunity as instructed by our Company or when our Company does not accept such opportunity or does not reply within the prescribed time, and in any event it/they is/are not allowed to pursue opportunity involving provision of products and services to client engaging in paper-making industry in the PRC (including Hong Kong).

The non-competition undertaking by Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) shall take effect from the date on which dealings in our Share first commence on GEM and will cease to have any effect upon earlier of the date on which:

(i) any of Huazhang Overseas, our Director(s), our Controlling Shareholders or their respective associates, individually and/or collectively, cease to be interested in 10% of the issued share capital of Huazhang Automation (Hong Kong); or

(ii) our Controlling Shareholders cease to be deemed as Controlling Shareholders of our Company; or

(iii) our Shares cease to be listed on the Stock Exchange (except for temporary suspension of our Shares due to any reason).

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders has given a non-competition undertaking in favour of our Company, pursuant to which each of our Controlling Shareholders undertakes and covenants with our Company (for itself and as trustee of its subsidiaries) that, for so long as he/it and/or his/its associates, directly or indirectly, whether individually or taken together, remain to be our Controlling Shareholder, he/it will not and will procure his/its associates (excluding any members of our Group) not to directly or indirectly (whether as an investor, shareholder, partner, agent or otherwise or whether for profit, reward or otherwise) 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 our Group (the "Restricted Business") from time to time after the Listing. Each of our Controlling Shareholders has also covenanted to notify our Company shall he/it or his/its associates be offered or become aware of any business opportunity regarding the Restricted Business and shall provide our Company all necessary information. The Independent Board Committee shall decide whether to accept such opportunity by simple majority, taking into account our Company's prevailing business, the financial resources required for the relevant opportunity and the commercial viability of such opportunity. Such non-competition undertaking does not apply to:

(i) the holding of Shares or other securities issued by our Company or any of its subsidiaries from time to time;

(ii) interests in the shares of a company other than our Group, provided that the total number of shares held by our Controlling Shareholders and their associates in aggregate does not exceed 30% of the issued shares of that class of the company in question and our Controlling Shareholders and their associates are not entitled to appoint a majority of the directors of that company;

(iii) the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of our Controlling Shareholder and his/its associates (as "interest" is construed in accordance with the provisions contained in Part XV of the SFO) does not amount to more than 5% of the relevant share capital of the company in question;

(iv) the contracts and other agreements entered into between our Group and our Controlling Shareholder and/or his/its associates; and

(v) the involvement, participation or engagement of our Controlling Shareholder and/or his/its associates in a Restricted Business in relation to which our Company has agreed in writing to such involvement, participation or engagement, following a decision by the Independent Board Committee to allow such involvement, participation or engagement subject to any conditions the Independent Board Committee may require to be imposed.

The non-competition undertaking will take effect from the date on which dealings in our Shares first commence on GEM and will cease to have any effect upon the earlier of the date on which:

(i) any of our Controlling Shareholders and his/its associates and/or successor, individually and/or collectively, cease to own 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then issued share capital of our Company directly or indirectly or ceases to be deemed as controlling shareholder of our Company (as defined in the GEM Listing Rules from time to time); or

(ii) our Shares cease to be listed on the Stock Exchange (except for temporary suspension of our Shares due to any reason).

MEASURES TO ENSURE COMPLIANCE TO NON-COMPETITION UNDERTAKINGS

In order to better manage any potential or actual conflict of interest between Huazhang Automation (Hong Kong), Huazhang Automation (Zhejiang) and our Group and in order to supervise and ensure our Controlling Shareholders' compliance to the non-competition undertakings, our Group shall adopt the following measures:

(i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-competition undertakings by Huazhang Automation (Hong Kong), Huazhang Automation (Zhejiang) and our Controlling Shareholders, and any materials findings and information of such review shall be disclosed by our Group either through our Company's annual report or by way of announcement;

(ii) our Company shall disclosure whether the terms of the non-competition undertakings have been complied with by Huazhang Automation (Hong Kong), Huazhang Automation (Zhejiang) and our Controlling Shareholders in the corporate governance report of our annual report;

(iii) in the event that our Company does not accept the business opportunity offered or referred to by Huazhang Automation (Hong Kong), Huazhang Automation (Zhejiang) and/or our Controlling Shareholders, we shall fully disclose the particulars of such business opportunity and our reasons for not accepting the same in our annual or interim report; and

(iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to the compliance and enforcement of the non-competition undertakings by Huazhang Automation (Hong Kong), Huazhang Automation (Zhejiang) and/or our Controlling Shareholders, he/she must abstain from voting on the resolutions of the Board approving such relevant matter and shall not be counted towards the quorum for voting pursuant to the Articles of Association.

Our Directors believe that the above measures are sufficient to supervise and manage any potential conflict of interests between Huazhang Automation (Hong Kong), Huazhang Automation (Zhejiang), our Controlling Shareholders and/or their respective associates with our Group, in order to protect the interests of our Shareholders as a whole.

During the Track Record Period, our Group entered into a number of transactions with Huazhang Automation (Zhejiang), a company which is indirectly owned as to 30% by Huazhang Overseas, which is in turn owned as to approximately 77.9% in aggregate by our Controlling Shareholders. Therefore, Huazhang Automation (Zhejiang) will become a Connected Person of our Company upon the Listing. Our Directors confirmed that all these transactions were conducted in the ordinary and usual course of business and on normal commercial terms during the Track Record Period. Following the Listing, these transactions will continue in the ordinary and usual course of business and will constitute continuing connected transactions of our Company under the GEM Listing Rules. For more information on Huazhang Automation (Zhejiang), please refer to the paragraph headed "Excluded business" under the section headed "Relationship with Controlling Shareholders" in this prospectus.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Use of trademark of our Group by Huazhang Automation (Zhejiang)

Huazhang Technology is the registered owner of the trademark number 1493871 under class 9 in the PRC (the "Trademark"). Huazhang Automation (Zhejiang) has been authorised to use the Trademark since November 2006 at a royalty-free basis as a condition of the transactions contemplated under the HAHK 2007 S&P Agreement. During the Track Record Period, such authorisation of the use of the Trademark in favour of Huazhang Automation (Zhejiang) continued pursuant to a trademark licensing agreement dated 4 November 2009 ("Trademark Licensing Agreement") at a royalty-free basis for a term expiring on 3 November 2016. As such, Huazhang Automation (Zhejiang) did not pay any consideration to our Company for the use of the Trademark during the Track Record Period.

The transactions under the Trademark Licensing Agreement were conducted as a condition of the disposal by Huazhang Overseas of its interests in Huazhang Automation (Hong Kong) in March 2007, and no consideration will be payable by Huazhang Automation (Zhejiang) for each of the three years ending 30 June 2015 respectively. Accordingly, the transaction under the Trademark Licensing Agreement falls within the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules and is therefore exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Provision of industrial automation systems by our Group to Huazhang Automation (Zhejiang)

During the Track Record Period, our Group sold industrial automation systems to Huazhang Automation (Zhejiang). The revenue from our sales to Huazhang Automation (Zhejiang) amounted to approximately HK$10.1 million, HK$5.8 million and HK$2.7 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, representing approximately 10.2%, 2.5% and 2.3% of our total revenue for the respective period. As Huazhang Automation (Zhejiang) is a Connected Person of our Company, any transaction between our Group and Huazhang Automation (Zhejiang) constitutes a connected transaction of our Company upon the Listing. Our Directors confirmed that the aforesaid transactions during the Track Record Period were conducted in the ordinary and usual course of business and on normal commercial terms. Following the Listing, these transactions will continue in the ordinary and usual course of business and will constitute continuing connected transactions of our Company under the GEM Listing Rules.

On 6 May 2013, our Group entered into a master supply agreement (the "Master Supply Agreement") with Huazhang Automation (Zhejiang), pursuant to which Huazhang Automation (Zhejiang) engages us for the provision of industrial automation systems in accordance with specifications provided by Huazhang Automation (Zhejiang) from time to time. The prices for providing the industrial automation systems shall be determined on a case by case and an arm's length basis, with reference to the prevailing market price of similar or comparable products and mutually agreed by both parties. The Master Supply Agreement has an initial term commencing from the Listing Date to 30 June 2015. Our Directors, including our independent non-executive Directors, are of the view that the Master Supply Agreement was entered into in the ordinary and usual course of business of our Group and on normal commercial terms.

It is proposed that the annual caps for the fees received under the Master Supply Agreement will amount to approximately HK$6.0 million, HK$6.3 million and HK$6.6 million respectively for each of the three financial years ending 30 June 2015. Such annual caps have been determined by our Company after taking into account (a) the historical amounts of sales by our Group to Huazhang Automation (Zhejiang) during the Track Record Period; and (b) the estimated annual growth of 5% of our Group's sales of industrial automation systems to Huazhang Automation (Zhejiang).

Given that the highest relevant percentage ratio of the transactions contemplated under the Master Supply Agreement is, on an annual basis, more than 1% but less than 5%, the continuing connected transactions contemplated under the Master Supply Agreement will be subject to the reporting, announcement and the annual review requirements under the GEM Listing Rules.

Purchases from Huazhang Automation (Zhejiang) by our Group

During the Track Record Period, the raw materials purchased from Huazhang Automation (Zhejiang) by our Group accounted for approximately HK$54.9 million, HK$67.9 million and HK$31.2 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, representing approximately 44.1%, 42.3% and 36.9% of our total purchases for the same period respectively. The raw materials we purchased from Huazhang Automation (Zhejiang) were the Branded Industrial Automation Products, which mainly included inverter, control panel and power source equipment, as well as other hardware and components.

On 6 May 2013, our Group entered into a master purchase agreement (the "Master Purchase Agreement") with Huazhang Automation (Zhejiang), pursuant to which we engage Huazhang Automation (Zhejiang) for the provision of the Branded Industrial Automation Products and other hardware and components in accordance with specifications provided by our Group to Huazhang Automation (Zhejiang) from time to time. The prices for providing the Branded Industrial Automation Products and other hardware and components shall be determined on a case by case and an arm's length basis, with reference to prevailing market price of similar or comparable products and mutually agreed by both parties. The Master Purchase Agreement has an initial term commencing from the Listing Date to 30 June 2015. Our Directors, including our independent non-executive Directors, are of the view that the Master Purchase Agreement was entered into in the ordinary and usual course of business of our Group and on normal commercial terms.

Huazhang Automation (Zhejiang) is the designated distributor for the Branded Industrial Automation Products, which usually offers parts and components for industrial automation systems, in particular the Branded Industrial Automation Products, at more competitive prices compared to other brands' distributors. We will be required to obtain a prior written approval if we were to purchase the Branded Industrial Automation Products from another authorised distributor. It is proposed that the annual caps for the fees received under the Master Purchase Agreement will amount to approximately HK$68.0 million, HK$64.6 million and HK$61.4 million respectively for each of the three financial years ending 30 June 2015 respectively. Such annual caps have been determined by our Company after taking into account (a) the historical amounts of purchase by our Group from Huazhang Automation (Zhejiang) during the Track Record Period; and (b) our intention to reduce our reliance on Huazhang Automation (Zhejiang) in the future and hence an annual decrease of 5% in demand for the Branded Industrial Automation Products and other hardware and components from Huazhang Automation (Zhejiang) as raw materials of our Group.

Given that the highest relevant percentage ratio in respect of the transactions contemplated under the Master Purchase Agreement is, on an annual basis, more than 25% and its annual consideration exceeds HK$10 million, the continuing connected transactions contemplated under the Master Purchase Agreement will be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

Waiver for the continuing connected transactions from the Stock Exchange

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions under the Master Supply Agreement and the Master Purchase Agreement have been and shall be (a) entered into in the ordinary and usual course of business of our Group; (b) on normal commercial terms and are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (c) the annual cap amounts are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Our Directors (including our independent non-executive Directors) are of the view that the prices and terms in relation to the Master Supply Agreement and Master Purchase Agreement offered to/by Huazhang Automation (Zhejiang) to us are or shall be of no less favourable than those offered to/by Huazhang Automation (Zhejiang) to Independent Third Parties, and are also no less favourable to us than those obtainable by our Group from Independent Third Parties.

Under the GEM Listing Rules, the continuing connected transactions contemplated under the Master Supply Agreement and the Master Purchase Agreement will be subject to the reporting, announcement, annual review and independent Shareholders' approval requirements. As the Master Supply Agreement and the Master Purchase Agreement were entered into prior to the Listing Date, details of which have been fully disclosed in this prospectus and the transactions contemplated thereunder are expected to continues on a recurring basis, our Directors consider that compliance with the announcement and independent Shareholders' approval requirements would be unduly burdensome, impractical as well as imposing additional administrative costs to our Company. Accordingly, our Company has, pursuant to Rule 20.42(3) of the GEM Listing Rules, applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and independent Shareholders' approval requirements relating to the continuing connected transactions contemplated under the Master Supply Agreement and the Master Purchase Agreement. In addition, our Directors confirm that our Company will comply with the applicable provisions under Rules 20.35(1), 20.35(2), 20.36 to 20.40 of the GEM Listing Rules.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the continuing connected transactions contemplated under the Master Supply Agreement and the Master Purchase Agreement for which waiver is sought (a) have been and shall be entered into in the ordinary and usual course of business of our Company, on normal commercial terms, are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (b) the proposed annual caps for the continuing connected transactions under the Master Supply Agreement and the Master Purchase Agreement are fair, reasonable and in the interests of our Group and our Shareholders as a whole.

BOARD OF DIRECTORS

Our Board consists of six Directors, of whom three are executive Directors and the remaining three are independent non-executive Directors. Our executive Directors have been appointed for a term not exceeding three years, and our independent non-executive Directors have been appointed for an initial term from 6 May 2013 to 30 June 2015. One-third of our Directors will be subject to re-election at each annual general meeting and every Director must be subject to re-election at an annual general meeting at least once every three years.

Members of our Board

Name	Age	Date of appointment	Position	Roles and responsibilities
Mr. Zhu Gen Rong	50	26 June 2012	Executive Director (Chairman)	Overseeing overall operation strategic planning, development, and management of the senior executives of our Group. He is also a member of the Nomination Committee.
Mr. Zhong Xin Gang	44	6 May 2013	Executive Director	Strategic planning, execution and day-to-day management and administration of our Group's sludge treatment product department.
Mr. Jin Hao	42	6 May 2013	Executive Director	Strategic planning, execution and day-to-day management and administration of our Group's industrial automation system department.
Mr. Kong Chi Mo	38	6 May 2013	Independent non-executive Director	Serving as the chairman of the Audit Committee and a member of the Remuneration and Nomination Committee.

Name	Age	Date of appointment	Position	Roles and responsibilities
Mr. Dai Tian Zhu	59	6 May 2013	Independent non-executive Director	Serving as the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee.
Ms. Chen Jin Mei	60	6 May 2013	Independent non-executive Director	Serving as the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee.

Executive Directors

Mr. Zhu Gen Rong (朱根榮), aged 50, 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 20 years of experience in the mechanical and engineering industry. Prior to founding our Group, Mr. Zhu worked at the 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, research in the technology for wood 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 Huazhang 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, accepting tenders for projects of industrial automation system, and the purchasing of materials and equipment for industrial automation systems. He also founded Hangzhou Yiyi Consultation (then known as 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 as at the Latest Practicable Date. Mr. Zhu founded Huazhang Technology, 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. Zhong Xin Gang (鍾新鋼), aged 44, 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 21 years of experience in the mechanical and engineering industry. Mr. Zhong joined our Group in July 2011 and is currently the general manager of the 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 a director, among others, during the period between 2003 and 2011. He previously worked at Hangzhou Xingyuan Filter Technology Company Limited (杭州興源過濾科技股份有限公司) 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 obtained a bachelor's degree in chemical engineering from Zhejiang University (浙江大學) in July 1991. Mr. Zhong was also previously a committee member of the China Institute of Mechanical Engineering and Fluid Engineering (中國機械工程學會流體工程學會) in 2001, and a council member of the China Association of General Machinery Industry, Separation Machinery Branch (中國通用機械工業協會分離機械分會) from 2004 to 2012.

Mr. Jin Hao (金皓), aged 42, 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 19 years of experience in the mechanical 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 January 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 has 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 59, 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 bachelor's degree in pulp and paper process from the Zhejiang University of Technology (浙江工業大學) (formerly known as Zhejiang Institute of Technology (浙江工學院)) 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. In July 1997, 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 Eighth 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 of the academic committee of the 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.

Ms. Chen Jin Mei (陳錦梅), aged 60, is an independent non-executive Director, and is the chairman 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 joined the Hangzhou Municipal Finance Bureau (杭州市財政局) in November 1969. Ms. Chen was the deputy director general of Hangzhou Municipal Finance Bureau from July 1997 to June 2002 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 obtained several master's degrees in (i) management engineering from Zhejiang University (浙江大學) in June 1998; (ii) political economics from Zhejiang Provincial Party School (中共浙江省委黨校) in July 2000; and (iii) 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. As at the Latest Practicable Date, Ms. Chen was an independent director of Shenzhen Victor Onward Textile Industrial Co., Ltd, a company listed on Shenzhen Stock Exchange (stock code: 000018).

Mr. Kong Chi Mo (江智武), aged 38, *FCCA, FCIS, FCS (PE) & MHKIoD* is an independent non-executive Director. He is the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee respectively. Mr. Kong was appointed as an independent non-executive Director on 6 May 2013. He has over 15 years of experience in the accounting, corporate governance and capital market. Mr. Kong has been the chief financial officer of China Vanadium Titano-Magnetite Mining Company Limited (Stock code: 00893) ("China VTM") since May 2008. 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 tax associate at 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 bronze certificates of merit in continuing professional development in 2010 and 2011 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.

Save as disclosed above, each of our Directors confirms with respect to him or her that: (i) he or she has not held any directorships in the three years preceding the date of this prospectus in any companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he or she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of our Company; (iii) he or she does not hold any positions in our Company or other members of our Group; (iv) he or she does not have any interests in our Shares within the meaning of Part XV of SFO; (v) there was no information required to be disclosed under Rule 17.50(2) of the GEM Listing Rules in relation to his or her appointment; and (vi) there are no other matters that need to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Mr. Liu Chuan Jiang (劉川江), aged 50, is the deputy general manager and quality assurance director of Huazhang Technology. Mr. Liu has approximately 21 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 Huazhang Technology and was also previously the technical director of Huazhang Technology. Mr. Liu worked at the Hangzhou Project and Research Institute of Electro-mechanic in Light Industry (輕工業杭州機電設計研究院) as engineer from April 1989 to January 1994. He then worked as technical director at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司) from 1994 to 1996 and in Hangzhou Huazhang Electric Engineering Company Limited from 1996 to 2001. 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 the 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. Liu is one of our Controlling Shareholders and as at the Latest Practicable Date, Mr. Liu was interested in approximately 17.95% of the entire issued share capital of Lian Shun, which in turn held approximately 77.9% of the issued share capital of Florescent Holdings, our Controlling Shareholder. Save as disclosed, Mr. Liu has no relationship with any other Directors, senior management, Substantial Shareholders or Controlling Shareholders and has not held any directorships in the three years preceding the date of this prospectus in any companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Tang Zhi Chao (唐志超), aged 54, is the deputy general manager and procurement director of Huazhang Technology. Mr. Tang has over nine 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 Huazhang Technology. Mr. Tang obtained a diploma in pulp and paper technology from the Zhejiang Institute of Technology, Hangzhou Campus (浙江工學院杭州分校) in January 1982. As at the Latest Practicable Date, Mr. Tang was interested in 15.76% of the entire issued share capital of Qunyu, which in turn held 22.1% of the issued share capital of Florescent Holdings, our Controlling Shareholder. Save as disclosed, Mr. Tang has no relationship with any other

Directors, senior management, Substantial Shareholders or Controlling Shareholders and has not held any directorships in the three years preceding the date of this prospectus in any companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. So, Alan Wai Shing (蘇偉成), aged 46, joined our Group in May 2012 and is the chief financial controller of Huazhang Technology. He has approximately 19 years of experience in audit work and has been an associate of the Hong Kong Society of Accountants since May 1999, as well as a registered practising member of the Hong Kong Institute of Certified Public Accountants since January 2012. Prior to joining our Group, Mr. So worked at various institutions, including accounting firms, and held the position of Audit Assistant Manager at RSM Nelson Wheeler from January 1999 to February 2001. Mr. So obtained a bachelor's degree in business majoring in accounting from the Edith Cowan University, Western Australia, Australia, in February 1993, and a master's degree in business administration from the Open University of Hong Kong in December 2003. Mr. So did not have any shareholding interest in our Company as at the Latest Practicable Date. Save as disclosed, Mr. So has no relationship with any Directors, senior management, Substantial Shareholders or Controlling Shareholders and has not held any directorships in the three years preceding the date of this prospectus in any companies the securities of which are listed on any securities market in Hong Kong or overseas.

COMPLIANCE OFFICER

Mr. Jin Hao (金皓), aged 42, who is an executive Director, is the compliance officer of our Company. For details of his qualifications and experience, please refer to the paragraph headed "Executive Directors" in this section.

COMPANY SECRETARY

Mr. So, Alan Wai Shing (蘇偉成), aged 46, was appointed as our company secretary of our Company on 6 May 2013. Mr. So is ordinarily resident in Hong Kong. For details of his qualification and experience, please refer to the paragraph headed "Senior Management" in this section.

REMUNERATION OF DIRECTORS AND HIGHEST PAID INDIVIDUALS DURING THE TRACK RECORD PERIOD

Our Group reimburses our Directors for expenses which are necessarily and reasonably incurred for providing services to our Group by executing their functions in relation to our Group's operations. Our Directors receive, in their capacity as our Group's employees, compensation in the form of salaries and other allowances, discretionary bonus and benefits in kind. During each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, the aggregate amount of salaries and other allowances and benefits in kind paid to our Directors were about HK$1.9 million, HK$2.5 million and HK$1.2 respectively.

During the Track Record Period, the remuneration of our Directors was determined with reference to their respective experience, responsibilities with our Group and general market conditions. Any discretionary bonus (if any) payable to our Directors is linked to the performance of our Group and of individual Director. Our Company intends to continue its remuneration policy after the Listing, subject to the review by and the recommendation of the remuneration committee of our Company.

None of our Directors have been paid any sum of money for each of the two years ended 30 June 2012 as an inducement to join or upon joining our Company; or for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

Further information on the remuneration of each Director during the Track Record Period as well as information on the highest paid individuals is set out in notes 21(a) and 21(b) to the accountant's report as set out in Appendix I to this prospectus.

AUDIT COMMITTEE, REMUNERATION COMMITTEE AND NOMINATION COMMITTEE

Audit Committee

Our Company has established an audit committee on 6 May 2013 with terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of our Group. The Audit Committee has three members comprising our three independent non-executive Directors, namely, Mr. Dai Tian Zhu, Ms. Chen Jin Mei and Mr. Kong Chi Mo. The chairman of the Audit Committee is Mr. Kong Chi Mo.

Remuneration Committee

Our Company established a remuneration committee on 6 May 2013 with terms of references in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Dai Tian Zhu, Ms. Chen Jin Mei and Mr. Kong Chi Mo. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The chairman of the Remuneration Committee is Ms. Chen Jin Mei.

Nomination Committee

Our Company established a nomination committee on 6 May 2013 with terms of references in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The Nomination Committee comprises one executive Director, namely, Mr. Zhu and three independent non-executive Directors, namely, Mr. Dai Tian Zhu, Ms. Chen Jin Mei and Mr. Kong Chi Mo. The primary duties of the Nomination Committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board. The chairman of the Nomination Committee is Mr. Dai Tian Zhu.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser upon Listing in compliance with Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where our Group proposes to use the proceeds of the Placing in a manner different from that detailed in the listing document or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in the listing document; and
- where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules.

The terms of the appointment of the compliance adviser shall commence on the Listing Date and end on the date which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

STAFF

Overview of staff number

The following table below shows the number of employees of our Group by function as at Latest Practicable Date:

Function	Number of employees
Production	72
Research and development	39
Technical	17
Sales and marketing	19
Procurement and warehouse	13
Maintenance services	13
General administration and management	12
Quality control	8
Accounting and finance	5
Total	198

EMPLOYEE BENEFITS

Our Group also makes contributions to the retirement fund in compliance in all material respects with the requirements of the laws and regulations of the jurisdictions where it operates.

As at the Latest Practicable Date, our Group had two employees in Hong Kong. Our Group will contribute to the mandatory provident fund in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) and relevant requirements based on 5% of the relevant incomes of the relevant employee.

During the Track Record Period, the aggregate employee social benefit expenses amounted to approximately HK$3.3 million, HK$4.2 million and HK$3.0 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively.

OUR RELATIONSHIP WITH OUR STAFF

Our 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 our 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. Our Directors believe that we have maintained a very good relationship with our staff.

SHARE OPTION SCHEME

Our Group has conditionally adopted the Share Option Scheme, pursuant to which, among others, the directors and employees of our Group may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

CORPORATE GOVERNANCE

Our Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, our Company intends to comply with the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules after Listing.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware immediately following completion of the Capitalisation Issue and the Placing (without taking into account the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme), the following persons will have an interest or a short position in our Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Capacity/ Nature of interest	Number of Shares held immediately after the Capitalisation Issue and the Placing	Approximate percentage of shareholding in our Company immediately after the Capitalisation Issue and the Placing
Florescent Holdings	Beneficial owner	204,000,000	75%
Lian Shun	Interest in a controlled corporation	204,000,000 *(Note 1)*	75%
Mr. Zhu	Interest in a controlled corporation	204,000,000 *(Note 2)*	75%
Mr. Wang	Interest in a controlled corporation	204,000,000 *(Note 3)*	75%
Mr. Liu	Interest in a controlled corporation	204,000,000 *(Note 4)*	75%
Ms. Zhu	Interest in a controlled corporation	204,000,000 *(Note 5)*	75%

Notes:

1. Under the SFO, Lian Shun is deemed to be interested in the Shares held by Florescent Holdings by virtue of Lian Shun holding 77.9% of the issued share capital of Florescent Holdings.

2. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 53.79% by Mr. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the Shares held by Florescent Holdings.

3. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 20.74% by Mr. Wang. Mr. Wang is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings.

4. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 17.95% by Mr. Liu. Mr. Liu is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings.

5. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 7.52% by Ms. Zhu. Ms. Zhu is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Placing (but without taking into account Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

You should read the following discussion and analysis of our Group's financial condition and results of operations together with our combined financial information for each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, and the accompanying notes ("Financial Information") included in the accountant's report set out in Appendix I to this prospectus. The Financial Information has been prepared in accordance with HKFRSs, which may differ in material respects from the generally accepted accounting principle in other jurisdiction. Potential investors should read the whole of the accountant's report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis may contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by our Company in light of our experience and perception of historical trends, current condition and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet the expectations and predictions of our Company depends on a number of factors over which our Company has no control. For additional information, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW OF OUR OPERATIONS

We are principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products for the paper-making industry and other industries such as metallurgy and electricity in the PRC. Our industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers and are mainly sold to customers in the paper-making industry in the PRC. According to Euromonitor, in 2011, our Group had a market share of approximately 5.7% of the industrial automation system market for the paper-making industry in the PRC and a market share of approximately 0.1% of the entire industrial automation system market in the PRC in the same year. We are also engaged in the provision of after-sales services to our existing customers.

Majority of our industrial automation systems are made from our self-developed software and hardware sourced from our suppliers, and are used in industrial production applications to improve production line efficiency by controlling the production process. In addition, we also provide industrial automation systems which do not contain our self-developed software. Our industrial automation systems mainly comprise the following four types of products:

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

Both our industrial automation systems and sludge treatment products are made-to-order according to customers' specifications and requirements.

We also provide after-sales services to both customers of our industrial automation systems and sludge treatment products. Our after-sales services include the provision of on-site engineering and maintenance services and/or the repair and replacement of spare parts and components.

We achieved a significant growth in our revenue during the Track Record Period. Our revenue increased by approximately 131.6% from approximately HK$99.1 million in the year ended 30 June 2011 to approximately HK$229.5 million in the year ended 30 June 2012, and by approximately 15.9% from HK$103.3 million for the six months ended 31 December 2011 to HK$119.7 million for the six months ended 31 December 2012. Our gross profit increased by approximately 123.7% from approximately HK$28.8 million in the year ended 30 June 2011 to approximately HK$64.3 million in the year ended 30 June 2012, and by approximately 28.4% from HK$26.9 million for the six months ended 31 December 2011 to HK$34.5 million for the six months ended 31 December 2012. The net profit of our Group was approximately HK$0.5 million and HK$19.1 million for the two years ended 30 June 2011 and 2012 respectively, representing an increase of approximately 3,399.3%. For the six months ended 31 December 2012, the net profit of our Group was approximately HK$6.2 million, representing an increase of 8.1% from HK$5.8 million for the six months ended 31 December 2011.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Financial Information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants. The Financial Information presents the financial position, results and cash flows of the companies now comprising our Group as if the current group structure had been in existence since 1 July 2010, or if established after 1 July 2010, the later of their respective dates of establishment or the dates when they became controlled by the Controlling Shareholders. The net assets of the companies now comprising our Group are combined using the existing book values from the Controlling Shareholders' perspective. The Financial Information has not included the assets, liabilities and results of the entities that were not transferred to our Company pursuant to the Reorganisation on the basis that these entities engaged in businesses dissimilar from that of our Group, have separate management personnel and accounting records and have been financed and operated independently.

Huazhang Electric, the wholly-owned subsidiary of our Company, was incorporated in Hong Kong on 25 March 1993 and has since then adopted 30 June as its financial year end date. At the time of incorporation of our Company, our management considered that it would be more convenient for our Company to follow the same year end date as its wholly-owned subsidiary. As a result, our Company adopted 30 June as its year end date and there was no change since then.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following are some factors that may affect the results of operations and financial conditions of our Group. The following should be read in conjunction with the sections headed "Risk Factors" and "Regulations" in this prospectus.

Level of capital spending by paper-making companies in the PRC

During the Track Record Period, a significant portion of our revenue was derived from sales of our industrial automation systems to customers from the paper-making industry in the PRC.The demand for our industrial automation systems depends significantly on the level of installation, replacement and maintenance activities of the paper-making companies in the PRC, which in turn depends on the level of capital spending by such paper-making companies. 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 companies in the PRC may have a direct impact on our results of operations.

Fluctuations in costs of raw materials

Adjusted Cost of Raw Materials was the largest component of our cost of sales, accounting for approximately 86.5%, 92.1% and 89.3% for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively. 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.

Our business is project-based and our products are highly customised. The types of raw materials used in the projects vary depending on the design and complexity of the projects. The major types of raw materials for our production purpose include the inverters, low voltage components and modules. The unit purchase price we paid for the parts and/or components with different specifications within each of the major types of raw materials varied substantially during the Track Record Period due to the wide variety of different types and specifications of inverters, low voltage components and modules we purchased in accordance with the various project requirements over the period. During the Track Record Period, the unit purchase price we paid for inverters ranged from approximately HK$235 to approximately HK$253,000, the unit purchase price we paid for low voltage components ranged from approximately HK$5.2 to approximately HK$214,000, and the unit purchase price we paid for modules ranged from approximately HK$4.4 to approximately HK$62,000. During the Track Record Period, we did not experience significant fluctuations in the price we paid for the parts and/or components with the same specifications within each of the major types of raw materials used in our production.

The inverters, low voltage components and modules accounted for approximately 37.1%, 21.7% and 19.1% of our Adjusted Cost of Raw Materials for the year ended 30 June 2011 respectively, approximately 38.3%, 30.6% and 11.5% of our Adjusted Cost of Raw Materials for the year ended 30 June 2012 respectively, and approximately 22.3%, 32.2% and 8.0% of our Adjusted Cost of Raw Materials for the six months ended 31 December 2012 respectively.

The table below sets out the volume and average unit costs for the major types of raw materials purchased by our Group during the Track Record Period:

	For the year ended 30 June					
	2011		2012		Volume purchased	Average unit cost
	Volume purchased *(units)*	Average unit cost *(HK$)*	Volume purchased *(units)*	Average unit cost *(HK$)*	percentage change *(%)*	percentage change *(%)*
Inverters	5,010	8,613.8	5,978	8,878.1	19.3%	3.1%
Low voltage components	14,951	1,345.5	16,053	1,386.1	10.0%	2.3%
Modules	11,286	1,388.3	6,807	1,691.6	(39.7)%	21.8%

	For the six months ended 31 December					
	2011		2012		Volume purchased	Average unit cost
	Volume purchased *(units)*	Average unit cost *(HK$)*	Volume purchased *(units)*	Average unit cost *(HK$)*	percentage change *(%)*	percentage change *(%)*
Inverters	2,692	9,402.3	2,792	8,465.5	3.7	(10.9)
Low voltage components	9,054	680.9	9,156	1,201.8	1.1	74.8
Modules	4,648	1,608.2	5,488	1,490.5	18.1	(8.2)

The average unit costs for inverters and low voltage components were relatively stable for the years ended 30 June 2011 and 2012. The average unit cost for modules increased by approximately 21.8% from HK$1,388.3 for the year ended 30 June 2011 to HK$1,691.6 for the year ended 30 June 2012. Such increase was a result of the use of more complex modules for the production during the year ended 30 June 2012.

The average unit costs for inverters and modules were relatively stable for the six months ended 31 December 2011 and 2012. However, the average unit cost for low voltage components increased by approximately 76.5% from HK$680.9 for the six months ended 31 December 2011 to HK$1,201.8 for the six months ended 31 December 2012. Such substantial increase in the average unit cost of low voltage components was primarily due to the increase in the total value of low voltage components (which was equal to the unit purchase price of different types and specifications of low voltage components purchased for fulfillment of various project requirements times the number of units of the relevant types and specifications of low voltage components) by approximately 78.5% from approximately HK$6.2 million in the six months ended 31 December 2011 to approximately HK$11.0 million in the six months ended 31 December 2012 while the total quantity of low voltage components (comprising different types and specifications of low voltage components) purchased only slightly increased by approximately 1.1% from 9,054 units in the six months ended 31 December 2011 to 9,156 units in the six months ended 31 December 2012. The increase in the total value of low voltage components purchased in the six months ended 31 December 2012 was mainly due to increase in the proportion of higher-end low voltage components with higher purchase prices in the same period.

The total value of circuit breakers purchased, being one of the types of low voltage components, accounted for over 30% of that of low voltage components purchased for the six months ended 31 December 2011 and 2012. The increase in the total value of circuit breakers purchased increased by approximately 67.7% from approximately HK$2.3 million for the six months ended 31 December 2011 to approximately HK$3.8 million for the six months ended 31 December 2012 while the total quantity of circuit breakers (comprising circuit breakers with different features and specifications) purchased only increased by approximately 7.3% from 5,014 units in the six months ended 31 December 2011 to 5,382 units in the six months ended 31 December 2012. The increase in total value of circuit breakers purchased was mainly due to reduction in the quantity of circuit breakers with lower capacity and lower purchase price purchased in the six months ended 31 December 2012, hence the average unit price of circuit breakers purchased increased by approximately 56.2% from approximately HK$449.3 for the six months ended 31 December 2011 to approximately HK$701.7 for the six months ended 31 December 2012.

As inverters and low voltage components were our major raw materials for our production, any change in the prices of these products would have a significant impact on our business. During the Track Record Period, there was no material price fluctuation of raw materials. The table below sets out for demonstration purpose only the hypothetical impact of price fluctuations of these raw materials on our performance for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012, assuming a maximum increase of 10% in our purchase prices of these raw materials during the corresponding period and that we were unable to pass on such increase in costs to our customers:

		Decrease in net profit			
		for the year ended 30 June		**for the six months ended 31 December**	
	Increase in the purchase price	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$*	*HK$*
Inverters and low voltage components	10%	3,044,490	8,912,804	3,640,461	3,561,406

We determine the contract price for sales of industrial automation systems and sludge treatment products based on our estimated costs plus a mark-up margin at the time when we submit our proposal to potential customers. In other words, the cost of raw materials required for each project is taken into consideration when determining the contract prices. Given the fixed-price nature of our sales contracts and the fact that the procurement arrangements with our suppliers of raw materials are entered into after signing of the sales contracts, we are generally unable to pass on any increase in the prices of raw materials to our customers. Adjusted Cost of Raw Materials which comprised mainly parts and components used together with change in inventory of finished goods and work in progress and provision for inventories write-down was the largest component of our cost of sales, accounting for approximately 86.5% and 92.1% of our total cost of sales for each of the two years ended 30 June 2011 and 2012 respectively, and 89.9% and 89.3% for the six months ended 31 December 2011, 2012 respectively. Any increase in the prices of raw materials may adversely affect our profitability if we cannot fully pass on such increase to our customers.

Business mix

During the two years ended 30 June 2011 and 2012, the majority of our revenue was generated from the sale of our industrial automation systems and provision of after-sales services, and a small portion of our revenue was derived from the sale of sludge treatment products. For the six months ended 31 December 2012, revenue from the sales of sludge treatment products increased to represent approximately 35.0% of our total revenue, primarily attributable to the significant increase in our sales of sludge treatment products. Our different business segments have historically experienced different gross profit margins. Any change in the gross profit margins of our business segments or business mix of our revenue will affect our results of operations from one year to another.

Difficulty in obtaining financing

Our Group currently obtains financing from one of the four largest banks in the PRC. In the event that our Group's financing needs exceed the financial resources currently available to our Group, our Group may need to obtain additional borrowings from other commercial banks in the PRC. 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.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations as included in this prospectus are based on the Financial Information prepared in accordance with the significant accounting policies under note 2 to the accountant's report set out in

Appendix I to this prospectus, which are in conformity with the HKFRSs. Accounting methods, assumptions and estimates that underlie the preparation of the Financial Information affect our financial condition and results of operations reported. Such assumptions and estimates are made based on historical experience and various other assumptions that we believe to be reasonable, the results of which form the basis of judgments on our carrying amounts of assets and liabilities and our results. Results may differ under different assumptions or conditions.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our Financial Information. We believe that the following accounting policies involve the most significant accounting judgments and estimates used in the preparation of our Financial Information.

Consolidation and combination

Subsidiaries are all entities over which our Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether our Group controls another entity. Different methods of accounting are used for acquisition of subsidiaries through common control and non-common control business combinations, as described below.

(a) Business combinations under common control

Our Group applies merger accounting to account for the business combinations (including acquisition of subsidiaries) under common control, where all assets and liabilities are recorded at predecessor carrying amounts, as if the existing Group structure had been in existence throughout the Track Record Period and our Company and its subsidiaries have been combined from the date when they first came under the control of the controlling party, where differences between consideration payable and the net assets value are taken to the merger reserve.

(b) Business combinations under non-common control

Our Group uses the acquisition method of accounting to account for business combinations. Subsidiaries are fully consolidated from the date on which control is transferred to our Group. They are de-consolidated from the date that control ceases. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owner of the acquiree and the equity interests issued by our Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, our Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

Any contingent consideration to be transferred by our Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

If the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interests in the acquiree (collectively the "Sum of Consideration") is more than the fair value of the identifiable net assets acquired, the excess is recorded as goodwill. If the Sum of Consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the combined statement of comprehensive income.

Inter-company transactions, balances and unrealised gains or losses on transactions between companies within our Group are eliminated on combination. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by our Group.

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 our Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within our Group.

Our Group's revenue recognition policy is in line with the industry norm. Our Group recognises 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 our Group's activities as described below. Our Group bases its estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specification of each arrangement.

The revenue recognition policy adopted by us is as follows:

(a) Sales of goods

Our Group manufactures and sells a range of industrial automation systems and sludge treatment products. Pursuant to HKAS 18 – Revenue, revenue from the sales of goods is recognised when the risks and rewards of the goods have been transferred to the customer, which is usually upon (1) delivery of products to the customer; (2) completion of their installation and on-site testing (if required in our sales contract); and (3) the product acceptance by the customers without any further unfulfilled obligation.

(b) Revenue from after-sales service

Our Group is engaged in the provision of after-sales services to the existing industrial automation systems customers and sludge treatment products customers. Revenue from after-sales services is recognised when the services are rendered.

(c) Operating lease rental income

Rental income from operating leases is recognised in the combined statements of comprehensive income on a straight-line basis over the lease term. When our 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.

Our Group consider the following revenue recognition policies not applicable to ourselves for our sales of industrial automation systems and sludge treatment products:

Our Group has not adopted the percentage of completion method ("POC Method") for revenue recognition. The POC Method is not required for revenue recognition under HKAS unless it falls within the scope of construction contracts as prescribed under HKAS 11 – Construction Contracts or rendering of services as prescribed under paragraph 20 of HKAS 18 – Revenue. The POC Method may or may not be applied for revenue recognition depending on the facts and circumstances of the individual case.

Our Directors are of the view that HKAS 11 is not applicable to our Group. Although the average duration of industrial automation system projects and sludge treatment products projects are both over one year, HKAS 11 does not require a company undertaking projects that last over one year to adopt such accounting standard, unless the said projects meet the definition of construction contracts under HKAS 11.

A construction contract is defined under HKAS 11 as a contract specifically negotiated for construction of an asset or a combination of assets that are closely interrelated in terms of their design, technology and function or their ultimate purpose or use. Though our industrial automation systems and sludge treatment products have some custom-built features based on our customer's requirements, such as level of power output, engine speed, and dimensions for the industrial automation systems, and sludge solid rate and daily production volume for sludge treatment products, the major elements of the products, including the inner-system design, software design, and assembling solution were designed by our Group directly, for which our customers do not have any rights or capability to specifically negotiate. As our customers have limited influence on and do not specifically negotiated the whole production process of our products, the sales agreements with our customers do not meet the above definition of construction contracts, thus HKAS 11 is not applicable to our Group.

Moreover, unlike a typical construction company, the prolonged project duration for our industrial automation systems and sludge treatment projects is mainly due to the long waiting time from delivery of our products and completion of the on-site testing, inspection and acceptance of products of 133 days and 285 days on average for our industrial automation systems and sludge treatment products respectively, as the on-site testing of our customers' entire paper-making machine cannot commence unless installation of all parts and components, including those provided by other suppliers of the customers, is fully completed. Our Group is unable to control the time required by our customers for the installation of other parts and components provided by other suppliers.

Our Directors are also of the view that rendering of service under HKAS 18 is not applicable to our Group. Although our Group is also required to provide guidance and assist our customers in performing on-site installation and testing under the sales contract, these two components are considered as an the integral part of the sales of our products, as our customers only accept our products upon successful completion of on-site installation and testing, which include the proper functioning of our products, meeting the prescribed technical performance indicators, etc. Therefore, providing guidance and assistance to our customers for on-site installation and testing are not regarded as separate service components under the sales of industrial automation systems and sludge treatment products, and thus, the rendering of service under HKAS 18 is also not applicable to our Group.

Given the above, our Directors are of the view that both HKAS 11 and the rendering of service under HKAS 18 are not applicable to our Company, and therefore our Group did not apply the POC method for revenue recognition.

Moreover, we do not net off our sales to against purchases from Huazhang Automation (Zhejiang), a Connected Person of our Company upon the Listing, as we and Huazhang Automation (Zhejiang) are not under a subcontracting relationship. We purchase various parts and components from Huazhang Automation (Zhejiang) and other independent suppliers as raw materials for assembling our products for sales. The purchase contracts entered into between us and our suppliers (including Huazhang Automation (Zhejiang)) are based on our sales orders on hand. Upon delivery of raw materials to us, our Directors consider that the risk and rewards in relation to these raw materials have been transferred to us.

Similar to the design process of the industrial automation systems that were sold to our customers who were Independent Third Party, the industrial automation systems we sold to Huazhang Automation (Zhejiang) were designed by us. As such, our Directors consider that we did not only perform pure assembly services but also other value-added services (such as the design work) when we manufacture the industrial automation systems sold to Huazhang Automation (Zhejiang).

Based on the above, our Directors did not consider that our purchases and sales with Huazhang Automation (Zhejiang) involved any subcontracting relationship. And as our sales and purchases with Huazhang Automation (Zhejiang) were separate transactions during the Track Record Period, our Directors consider that it was appropriate not to net off our sales to against purchases from Huazhang Automation (Zhejiang).

(d) Interest income

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

(e) Dividend income

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

Property, plant and equipment

Property, plant and equipment include buildings, machineries and furniture, fittings and equipment. All property, plant and equipment are stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the item or its part replaced is derecognised. All other repairs and maintenance are charged to the combined statements of comprehensive income when they are incurred.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– buildings	20 years
– machineries	10 years
– furniture, fittings and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income/(losses)' in the combined statements of comprehensive income.

Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. Our Group acquired the rights to use certain land and the premiums paid for such rights are recorded as land use rights, which are amortised over the use terms of between 34 to 50 years using the straight-line method.

Impairment of financial assets carried at amortised cost

Our Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss 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 been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statements of comprehensive income. As a practical expedient, our Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statements of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific-unit-cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the combined balance sheets date in the countries where our Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the combined balance sheets date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions are recognised when our Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

RESULTS OF OPERATIONS

The following table sets out the combined results of our Group for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012, which are derived from, and should be read in conjunction with, the combined financial information set out in the accountant's report set out in Appendix I in this prospectus.

Combined statements of comprehensive income

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Revenue	99,115,212	229,520,229	103,252,990	119,650,158
Cost of sales	(70,354,673)	(165,171,426)	(76,382,302)	(85,136,466)
Gross profit	28,760,539	64,348,803	26,870,688	34,513,692
Distribution costs	(6,424,408)	(12,224,321)	(5,905,752)	(6,884,292)
Administrative expenses	(16,616,931)	(22,123,362)	(10,263,200)	(13,739,971)
Research and development expenses	(5,799,664)	(7,437,497)	(4,595,582)	(5,780,912)
Other income	1,595,800	1,474,156	1,076,399	373,169
Other losses	–	(607)	–	–
Operating profit	1,515,336	24,037,172	7,182,553	8,481,686
Finance income	218,467	414,721	223,356	114,557
Finance costs	(775,937)	(1,580,076)	(482,951)	(594,373)
Finance costs – net	(557,470)	(1,165,355)	(259,595)	(479,816)
Profit before income tax	957,866	22,871,817	6,922,958	8,001,870
Income tax expense	(412,516)	(3,788,448)	(1,145,000)	(1,753,328)
Profit for the year/period, all attributable to the owner of the Company	545,350	19,083,369	5,777,958	6,248,542
Other comprehensive income for the year/period				
Currency translation differences	3,122,283	1,315,342	1,493,915	436,007
Other comprehensive income for the year/period, net of tax	3,122,283	1,315,342	1,493,915	436,007
Total comprehensive income for the year/period, all attributable to the owner of the Company	3,667,633	20,398,711	7,271,873	6,684,549

DESCRIPTION OF THE MAJOR COMPONENTS OF THE STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue by business segment

Our revenue increased by approximately 131.6% from approximately HK$99.1 million for the year ended 30 June 2011 to approximately HK$229.5 million for the year ended 30 June 2012, and by approximately 15.9% from approximately HK$103.3 million for the six months ended 31 December 2011 to approximately HK$119.7 million for the same period in 2012. During the Track Record Period, our revenue was generated from three business segments, namely, (i) industrial automation systems; (ii) sludge treatment products; and (iii) after-sales services.

The following table sets out our revenue by business segment and the corresponding percentage of our total revenue for the Track Record Period:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Industrial automation systems	84,716,265	85.5	200,760,826	87.5	92,367,906	89.5	69,381,447	58.0
Sludge treatment products	2,362,602	2.4	14,465,470	6.3	5,455,220	5.3	41,839,930	35.0
After-sales services	12,036,345	12.1	14,293,933	6.2	5,429,864	5.2	8,428,781	7.0
	99,115,212	100.0	229,520,229	100.0	103,252,990	100.0	119,650,158	100.0

Industrial automation systems

Majority of our revenue was generated from the sales of our industrial automation systems which accounted for approximately 85.5%, 87.5% and 58.0% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively. Our revenue from sales of industrial automation systems increased by approximately 137.0% from approximately HK$84.7 million in the year ended 30 June 2011 to approximately HK$200.8 million in the year ended 30 June 2012 while our revenue from sales of industrial automation systems decreased by approximately 24.9% from approximately HK$92.4 million in the six months ended 31 December 2011 to approximately HK$69.4 million in the year ended 31 December 2012.

In the six months ended 31 December 2011, our Group had experienced a delay in acceptance of our industrial automation systems in relation to seven of our sales contracts with an aggregate contract value of approximately HK35.6 million which was caused by the delay in construction work of our customers' production facilities. For illustrative purpose, if such delay did not occur, our revenue from sales of industrial automation systems would have been approximately HK$120.3 million in the year ended 30 June 2011 and approximately HK$165.2 million in the year ended 30 June 2012 while our revenue from sales of industrial automation systems would have been approximately HK$56.8 million in the six months ended 31 December 2011.

The following table sets out the breakdown of our revenue from sales of industrial automation systems by customers' base during the Track Record Period:

	Year ended 30 June				Six months ended 31 December			
	2011		**2012**		**2011**		**2012**	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Paper-making industry	71,298,961	84.2	186,794,890	93.0	83,186,636	90.1	53,850,313	77.6
Other industries *(Note)*	13,417,304	15.8	13,965,936	7.0	9,181,270	9.9	15,531,134	22.4
	84,716,265	100.0	200,760,826	100.0	92,367,906	100.0	69,381,447	100.0

Note: Other industries included electricity and metallurgy.

During the Track Record Period, we sold our industrial automation systems mainly to customers in the paper-making industry in the PRC. Our revenue from sales of industrial automation systems to such customers accounted for approximately 84.2%, 93.0% and 77.6% of our revenue from sales of industrial automation systems during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

Sludge treatment products

Our revenue from sales of sludge treatment products amounted to approximately HK$2.4 million, HK$14.5 million and HK$41.8 million, representing approximately 2.4%, 6.3% and 35.0% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

The following table sets out the breakdown of our revenue from sales of sludge treatment products by customers' base during the Track Record Period:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* (*unaudited*)	*%*	*HK$*	*%*
Paper-making industry	1,885,949	79.8	13,761,865	95.1	5,152,186	94.4	36,447,026	87.1
Other industries *(Note)*	476,653	20.2	703,605	4.9	303,034	5.6	5,392,904	12.9
	2,362,602	100.0	14,465,470	100.0	5,455,220	100.0	41,839,930	100.0

Note: Other industries included environmental protection and chemical engineering.

During the Track Record Period, our sludge treatment products were mainly sold to customers in the paper-making industry in the PRC. Our revenue from sales of sludge treatment products to such customers accounted for approximately 79.8%, 95.1% and 87.1% of our revenue from sales of sludge treatment products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

After-sales services

Our Group generated revenue from the provision of after-sales services to customers of our industrial automation systems and sludge treatment products. Due to the complexity and sophistication of the application solutions developed for our industrial automation systems and sludge treatment products as well as the requisite associated technical know-how for their repair and maintenance, customers of our industrial automation systems and sludge treatment products usually retain us for provision of our after-sales services, which include on-site engineering and maintenance services and/or the repair and replacement of spare parts and components.

The revenue derived from the provision of our after-sales services amounted to approximately HK$12.0 million, HK$14.3 million and HK$8.4 million for the years ended 30 June 2011 and 2012 and six months ended 31 December 2012, respectively representing approximately 12.1%, 6.2% and 7.0% of our total revenue during the respective period.

We expect that the revenue generated from provision of after-sales services will continue to provide a steady income stream to us as such services are required by our existing customers with the normal wear and tear of our products.

Cost of sales

Our cost of sales mainly comprised Adjusted Cost of Raw Materials, direct labour costs and manufacturing overhead costs such as depreciation and utility charges. The following table sets out the breakdown of the cost of sales of our Group for the Track Record Period:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Raw materials consumed	119,085,458	169.3	147,925,965	89.5	74,929,793	98.1	81,724,525	96.0
Changes in inventories of finished goods and work in progress*(Note)*	(60,030,015)	(85.3)	4,156,680	2.5	(5,269,310)	(6.9)	(4,971,733)	(5.8)
Provision for/(reversal of) inventories write-down	1,790,480	2.5	113,570	0.1	(969,336)	(1.3)	(744,492)	(0.9)
Adjusted Cost of Raw Materials	60,845,923	86.5	152,196,215	92.1	68,691,147	89.9	76,008,300	89.3
Direct labour costs	7,616,713	10.8	9,134,964	5.5	6,021,032	7.9	6,106,201	7.2
Manufacturing overhead costs	1,375,997	2.0	2,262,688	1.4	1,202,884	1.6	2,324,763	2.7
Others	516,040	0.7	1,577,559	1.0	467,239	0.6	697,202	0.8
	70,354,673	100.0	165,171,426	100.0	76,382,302	100.0	85,136,466	100.0

Note: Changes in inventories of finished goods and work in progress also contained raw materials consumed, direct labour costs and manufacturing overhead costs.

The largest component of our cost of sales was Adjusted Cost of Raw Materials, which amounted to approximately HK$60.8 million, HK$152.2 million and HK$76.0 million, representing approximately 86.5%, 92.1% and 89.3% of our cost of sales respectively for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Direct labour costs mainly represented the compensation and benefits offered to our production employees and engineers. Manufacturing overhead costs primarily included depreciation charges relating to our production facilities, electricity and water, and travelling expenses incurred by our engineers and technicians for customer visits to discuss product specifications.

The table below sets out the details of materials in our costs of sales during the Track Record Period:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* (*unaudited*)	*%*	*HK$*	*%*
Inverters	22,604,246	37.1	58,316,980	38.3	26,412,675	38.5	17,087,426	22.5
Low voltage components	13,213,286	21.7	46,539,533	30.6	16,416,278	23.9	24,811,471	32.6
Modules	11,612,062	19.1	17,516,886	11.5	9,328,428	13.6	6,155,750	8.1
Cabinets	7,245,029	11.9	7,459,820	4.9	4,466,171	6.5	1,275,821	1.7
Copper	2,441,023	4.0	5,857,461	3.8	1,646,432	2.4	2,436,615	3.2
Others	3,730,277	6.1	16,505,535	10.8	10,421,163	15.1	24,241,217	31.9
	60,845,923	100.0	152,196,215	100.0	68,691,147	100.0	76,008,300	100.0

Our major raw materials included inverters and low voltage components which respectively accounted for approximately 37.1% and 21.7% of our Adjusted Cost of Raw Materials for the year ended 30 June 2011, approximately 38.3% and 30.6% of our Adjusted Cost of Raw Materials for the years ended 30 June 2012 and approximately 22.5% and 32.6% of our Adjusted Cost of Raw Materials for the six months ended 31 December 2012. Others represented spare parts and components as well as other materials for production of our industrial automation systems and sludge treatment products.

The low voltage components increased significantly from approximately HK$13.2 million for the year ended 30 June 2011 to approximately HK$46.5 million for the year ended 30 June 2012. Such increase was a result of using larger quantities of instrument meters for two of our projects which were custom-designed, and the significant increase in sales of sludge treatment products in 2012 as low voltage components were one of the raw materials used for the production of our sludge treatment products. The costs of low voltage components increased by 51.1% from approximately HK$16.4 million for the six months ended 31 December 2011 to approximately HK$24.8 million for the six months ended 31 December 2012. The increase was mainly attributable to the application of an integrated system component provided by our suppliers amounting to HK$4.4 million in a project completed during the six months ended 31 December 2012.

Gross profit

The table below sets out our gross profit by business segment during the Track Record Period:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*	*HK$*	*%*
					(unaudited)			
Industrial automation systems	22,393,532	77.8	54,844,257	85.2	23,381,594	87.0	20,299,577	58.8
Sludge treatment products	594,877	2.1	3,827,940	6.0	1,208,149	4.5	10,890,498	31.6
After-sales services	5,772,130	20.1	5,676,606	8.8	2,280,945	8.5	3,323,617	9.6
	28,760,539	100.0	64,348,803	100.0	26,870,688	100.0	34,513,692	100.0

Our gross profit increased by approximately 123.7% from approximately HK$28.8 million in the year ended 30 June 2011 to approximately HK$64.3 million in the year ended 30 June 2012. This increase was primarily due to the increase in the gross profit generated from the sale of our industrial automation systems by approximately 144.9% from approximately HK$22.4 million in the year ended 30 June 2011 to approximately HK$54.8 million in the year ended 30 June 2012.

For the six months ended 31 December 2012, our gross profit increased by approximately 28.4% from approximately HK$26.9 million for the six months ended 31 December 2011 to approximately HK$34.5 million for the same period in year 2012. Such increase was mainly due to the increase in gross profits generated from sale of sludge treatment products.

Majority of our gross profit was generated from the sales of industrial automation systems and sludge treatment products during the Track Record Period. The gross profit generated from the sales of industrial automation systems and sludge treatment products in aggregate accounted for approximately 79.9%, 91.2% and 90.4% of our total gross profit for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

For our industrial automation systems and sludge treatment products, we review their pricing from time to time and determine product prices principally based on the following factors: (i) quantity and costs of required raw materials; (ii) manufacturing costs; (iii) product quality; and (iv) prices of similar products offered by competitors. The prices of our products are adjusted to reflect the market environment of a particular locality in which the products are sold. Nevertheless, it is our policy to maintain a certain level of profit margin for each sales contract after taking into account the above factors. If the profit margin for a contract price is below that of the pre-determined level, prior approval from our management must be obtained before that sales contract can be released to our customers for their consideration. During the Track Record Period, we priced our industrial automation systems and sludge treatment products based on their estimated cost with a pre-determined profit margin. We did not experience significant fluctuation in the price of the parts and/or components with the same specifications within each of the major types of our raw materials and therefore there was no material difference between our estimated project costs and our actual procurement costs during the Track Record Period.

Our after-sales service contracts involved: (i) provision of engineering and maintenance services together with the supply of spare parts and components; (ii) supply of spare parts and components only; and (iii) provision of engineering and maintenance services only to our existing customers for repair and replacement after the expiry of our warranty services. Given that the expertise of our technical personnel is required, we generally charge our customers a higher mark-up for the provision of our after-sales services. On the other hand, a lower mark-up is generally charged for our supply of spare parts and components to our customers.

Distribution costs

Distribution costs mainly comprised staff costs, transportation costs and warranty expenses. The table below sets out the breakdown of our distribution costs during the Track Record Period:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Staff costs	2,425,286	3,767,869	1,488,681	2,461,903
Transportation costs	1,157,158	2,415,280	1,386,066	1,413,859
Warranty expenses	1,845,897	4,755,445	2,246,435	2,331,773
Travelling expenses	705,087	831,335	458,135	405,331
Others	290,980	454,392	326,435	271,426
	6,424,408	12,224,321	5,905,752	6,884,292

Staff costs mainly represented the basic salary, social welfare contribution and year-end bonus paid to or provided for salespersons. Transportation costs mainly represented the payments to the transportation company for product deliveries. Warranty expenses mainly represented the estimated costs of providing maintenance services as well as the replacement of spare parts and components in connection with our product warranty based on our past experience.

Administrative expenses

Administrative expenses mainly comprised staff costs, office expenses and professional service fees. The table below sets out the breakdown of our administrative expenses during the Track Record Period:

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Staff costs	8,901,869	11,211,480	5,856,983	5,479,406
Depreciation and amortisation	1,117,694	1,723,226	755,402	1,197,065
Transportation	440,396	593,182	334,198	300,497
Travelling	1,040,400	1,055,973	631,270	367,503
Provision for/(reversal of) doubtful debts	315,487	402,650	(208,230)	(693,390)
Tax charges	391,495	591,535	201,679	143,840
Office expenses	1,221,792	2,363,178	1,450,035	1,210,571
Entertainment	1,506,071	1,370,233	713,761	628,121
Professional service fees	–	2,193,887	–	4,684,905
Others	1,681,727	618,018	528,102	421,453
	16,616,931	22,123,362	10,263,200	13,739,971

Staff costs mainly represented the basic salary, social welfare contribution and year-end bonus paid to or provided for back office personnel and management teams. Office expenses mainly represented the property management fee, management meeting expenses and general administrative expenses. Professional service fees were incurred for advices and services provided by various professional parties in relation to the Listing. We incurred professional service fees of approximately nil, HK$2.2 million and HK$4.7 million in relation to the Listing for the year ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. We expect to incur and charge to administrative expenses further listing-related fees of approximately HK$7.8 million for the financial periods after 31 December 2012.

Research and development expenses

Research and development expenses mainly comprised staff costs and materials consumed for product development. Based on our Group's policy, research and development expenses should not be less than 3% of the revenue in each year.

Our research and development activities during the Track Record Period were carried out for obtaining new knowledge for the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes or systems, which were all related to the research phase, and thus related cost shall be expensed off when incurred.

The table below sets out the breakdown of our research and development expenses during the Track Record Period:

	Year ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Staff costs	2,599,753	3,888,637	2,678,477	3,474,501
Materials consumed for product development	1,928,735	808,173	140,054	1,195,265
Depreciation	60,630	75,373	30,379	58,267
Transportation	265,581	458,131	212,403	126,263
Travelling	450,857	748,414	399,883	324,381
Office expenses	118,955	215,489	129,959	120,114
Others	375,153	1,243,280	1,004,427	482,121
	5,799,664	7,437,497	4,595,582	5,780,912

Materials consumed for product development mainly included hardware, and parts and components such as inverters, soft starters and modules for our product development. Staff costs represent the basic salary, social welfare contribution, and other welfare expenses that we have incurred for our product development staff. Other expenses represented expenses such as patent fees and other general expenses.

Other income

Other income mainly comprised government grants and operating lease income. The table below sets out the breakdown of our Group's other income during the Track Record Period:

	Year ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Government grants	998,579	960,722	768,521	46,000
Operating lease income	597,221	391,990	307,878	81,177
Others	–	121,444	–	245,992
	1,595,800	1,474,156	1,076,399	373,169

Government grants were received from the local government in Tongxiang for rewarding our effort on product development and innovation and were unconditional. The local government in Tongxiang would assess on a case-by-case basis if a product meets certain criteria, such as economic performance index, profitability, results of research and development, for awarding the government grant.

Operating lease income represents rental income we have earned by leasing out our non-occupied premises to our related parties and Independent Third Parties.

Finance costs and income

Finance costs mainly comprised interest expenses on bank borrowings and net foreign exchange loss, whereas finance income mainly comprises interest income on bank deposits and net foreign exchange gain.

The table below sets out a breakdown of our finance costs and income during the Track Record Period:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(unaudited)*	*HK$*
Finance costs				
– Interest expenses on bank borrowings	959,411	1,716,098	627,566	594,373
– Net foreign exchange loss	–	50,584	18,924	–
	959,411	1,766,682	646,490	594,373
Less: amounts capitalised on qualifying assets	(183,474)	(186,606)	(163,539)	–
	775,937	1,580,076	482,951	594,373
Finance income				
– Interest income on bank deposits	(203,660)	(414,721)	(223,356)	(94,942)
– Net foreign exchange gain	(14,807)	–	–	(19,615)
	(218,467)	(414,721)	(223,356)	(114,557)
Net finance costs	557,470	1,165,355	259,595	479,816

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our net finance costs amounted to approximately HK$0.6 million, HK$1.2 million and HK$0.5 million respectively, representing approximately 0.6%, 0.5% and 0.4% of our total revenue during the respective period.

Income tax

The table below sets out the breakdown of our income tax expense during the Track Record Period:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Current income tax – EIT	754,550	3,757,802	1,156,937	1,587,901
Deferred income tax	(342,034)	30,646	(11,937)	165,427
Income tax expense	412,516	3,788,448	1,145,000	1,753,328

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, our Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

The statutory income tax rate of Huazhang Electric, our subsidiary registered in Hong Kong, is 16.5%. No Hong Kong profits tax has been provided as we have not derived any taxable profits in Hong Kong.

EIT is provided based on the assessable income of entity within our Group incorporated in the PRC. Pursuant to the Tax Law, the EIT rate is unified at 25% for all types of entities effective from 1 January 2008.

Under the relevant regulations of the Tax Law, entities designated and approved as High and New Technology Enterprises were entitled to enjoy a preferential EIT rate of 15%. Huazhang Technology, our PRC subsidiary, was approved and designated as a High and New Technology Enterprise from year 2008 to 2013. During the Track Record Period, the applicable income tax rate of Huazhang Technology was 15%.

We may also be subject to the PRC withholding income tax. According to the Tax 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. We did not recognise any deferred tax liabilities for the unremitted earnings of our PRC subsidiary that was earned before 30 June 2012 as we do not plan to declare any dividends in the foreseeable future out of those unremitted earnings and we currently expect to re-invest those unremitted earnings in the PRC permanently.

Our Company intends to declare dividends of 25% of the net profit for each of the financial year starting from the year ending 30 June 2013, subject to the approval of our Board and Shareholders. The remaining 75% of the net profit is intended to be reinvested in the PRC permanently.

OUR RESULTS OF OPERATIONS

Financial year ended 30 June 2012 compared to financial year ended 30 June 2011 and the six months ended 31 December 2012 compared to the six months ended 31 December 2011

Revenue

Our total revenue increased by approximately 131.6% from approximately HK$99.1 million for the year ended 30 June 2011 to approximately HK$229.5 million for the year ended 30 June 2012. The increase was mainly attributable to the significant increase in the revenue from industrial automation systems by approximately 137.0% from approximately HK$84.7 million in the year ended 30 June 2011 to approximately HK$200.8 million in the year ended 30 June 2012.

Our total revenue increased by approximately 15.9% from approximately HK$103.3 million for the six months ended 31 December 2011 to approximately HK$119.7 million for the six months ended 31 December 2012. The increase was mainly attributable to the substantial business growth in the sales of our sludge treatment products for the six months ended 31 December 2012 by approximately HK$36.4 million, which was partially offset by the decrease in revenue from sales of industrial automation systems by approximately HK$23.0 million in the same period.

Revenue generated from sales of our industrial automation systems

The table below sets out the breakdown of revenue generated from sales of different types of our industrial automation systems:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Drive control system	56,797,391	67.0	153,445,265	76.5	72,354,567	78.3	45,931,329	66.2
Distributed control system	18,356,499	21.7	18,559,243	9.2	13,874,473	15.0	12,015,757	17.3
Machine control system	3,270,315	3.9	10,886,429	5.4	5,077,246	5.5	–	–
Motor control centre	3,972,530	4.7	15,424,516	7.7	–	–	11,090,660	16.0
Other *(Note)*	2,319,530	2.7	2,445,373	1.2	1,061,620	1.2	343,701	0.5
	84,716,265	100.0	200,760,826	100.0	92,367,906	100.0	69,381,447	100.0

Note: "Other" refers to industrial automation systems which do not contain our self-developed software, assembled in accordance with customers specifications.

We completed a total of 223, 262 and 126 industrial automation systems contracts for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. The following table sets out the number and the average value of sale contracts completed for each type of our Group's major industrial automation systems for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	Number of sale contracts completed	Average contract value *(HK$)*	Number of sale contracts completed	Average contract value *(HK$)*	Number of sale contracts completed	Average contract value *(HK$)*	Number of sale contracts completed	Average contract value *(HK$)*
Drive control system	173	328,309	224	685,024	97	745,923	88	521,947
Distributed control system	15	1,223,767	12	1,546,604	8	1,734,309	7	1,716,537
Machine control system	2	1,635,158	5	2,177,286	2	2,538,623	–	–
Motor control centre	3	1,324,177	3	5,141,505	–	–	4	2,772,655

The following table sets out the minimum and maximum value of sales contracts completed for each type of our Group's major industrial automation systems for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	Maximum value *(HK$)*	Minimum value *(HK$)*	Maximum value *(HK$)*	Minimum value *(HK$)*	Maximum value *(HK$)*	Minimum value *(HK$)*	Maximum value *(HK$)*	Minimum value *(HK$)*
Drive control system	4,012,656	53,168	12,352,068	83,039	12,386,064	83,268	5,939,547	76,741
Distributed control system	3,691,644	120,380	6,300,593	124,559	6,317,933	208,169	4,520,363	346,912
Machine control system	3,210,124	60,190	4,442,593	620,717	4,454,820	622,426	–	–
Motor control centre	1,906,012	902,848	14,324,247	207,598	–	–	7,884,355	525,624

The contract value of our sales contracts depends on the scope of services to be provided, the specifications and requirements of the customers as well as the complexity of the project.

Our revenue from sales of industrial automation systems increased by approximately 137.0% from approximately HK$84.7 million in the year ended 30 June 2011 to approximately HK$200.8 million in the year ended 30 June 2012. The increase was mainly attributable to: (i) the increase in turnover derived from sales of drive control systems by approximately HK$96.6 million or approximately 170.2%, from approximately HK$56.8 million in the year ended 30 June 2011 to approximately HK$153.4 million in the year ended 30 June 2012 caused by delay in acceptance of our industrial automation systems for seven of our contracts with an aggregate contract value of approximately HK$35.6 million to the year ended 30 June 2012 as the construction work of our customers' production facilities was delayed; (ii) increased sales volume of our industrial automation systems; and (iii) obtaining sales contracts with larger value. We sold more industrial automation systems with higher value due to improvements in the efforts of our sales force to solicit business from existing customers and the increase in capacity of our customers' paper-making machines. We have also rewarded our sales personnel with better incentives such as more year-end bonus. These incentives were determined based on the value of the sales contracts concluded during the relevant financial year. The amount of incentives to our sales personnel amounted to approximately HK$1.3 million and HK$1.8 million for each of the two years ended 30 June 2011 and 2012, and such increase in incentives of approximately 40.9% was in line with the growth in the total value of sales contracts by approximately 27.0% from approximately HK$201.5 million in the year ended 30 June 2011 to approximately HK$256.0 million in the year ended 30 June 2012.

Our revenue from sales of industrial automation systems decreased by approximately 24.9% from approximately HK$92.4 million in the six months ended 31 December 2011 to approximately HK$69.4 million in the six months ended 31 December 2012. The revenue recorded in the six months ended 31 December 2011 was relatively high primarily because of the delay in acceptance of our industrial automation systems in relation to seven of our sales contracts with an aggregate contract value of approximately HK35.6 million to the six months ended 31 December 2011, which was caused by the delay in construction work of our customers' production facilities. For illustrative purpose, our revenue generated from sales of our industrial automation systems for the six months ended 31 December 2011 would have been approximately HK$56.8 million if such delay did not occur; and the revenue amount of approximately HK$69.4 million generated from the sales of our industrial automation systems for the six months ended 31 December 2012 would have represented an increase of approximately 22.2% when compared to the revenue generated from sales of our industrial automation systems for the six months ended 31 December 2011 if the above delay did not occur.

Drive control system

Drive control system is a core system which is required by all paper-making machines, without which the paper-making machines would not be able to function. Most of our customers for our industrial automation systems require this system when they place orders and as such, sales of our drive control system accounted for majority of our sales of industrial automation systems during the Track Record Period.

Our revenue from the sales of the drive control system increased by approximately 170.2% from approximately HK$56.8 million in the year ended 30 June 2011 to approximately HK$153.4 million in the year ended 30 June 2012. The increase in revenue from the sales of the drive control system was primarily attributable to the increased number of sales contract completed and higher average contract price for our drive control system. The number of completed sales contracts for our drive control system increased by approximately 28.3% from 173 for the year ended 30 June 2011 to 222 for the year ended 30 June 2012. Meanwhile, the average value of the sales contract increased significantly from approximately HK$0.33 million per contract for the year ended 30 June 2011 to approximately HK$0.69 million per contract for the year ended 30 June 2012 due to increase in the scope of the service as well as the complexity of our completed projects. We completed six projects each with a contract value of over HK$5 million and the aggregate contract value amounted to approximately HK$59.8 million for the year ended 30 June 2012. However, there were no completed projects with contract value over HK$5 million in the year ended 30 June 2011.

Our revenue from the sales of the drive control system decreased by approximately 36.5% from approximately HK$72.4 million for the six months ended 31 December 2011 to approximately HK$45.9 million for the six months ended 31 December 2012. The number of completed sales contracts for our drive control system decreased by approximately 9.3% from 97 for the six months ended 31 December 2011 to 88 for the six months ended 31 December 2012. Meanwhile, the average value of sales contract decreased from approximately HK$0.75 million for the six months ended 31 December 2011 to approximately HK$0.52 million for the six months ended 31 December 2012, representing a decrease of 30.0% primarily due to the relatively high average contract value for the six months ended 31 December 2011 driven up by seven contracts with an aggregated value of approximately HK$35.6 million of which the systems acceptance were delayed to the same period.

Distributed control system

Distributed control system is an optional system which is not required by all paper-making machines. We usually receive purchase orders for this type of system only from customers which operate large-scale paper machines.

Our revenue from the sales of distributed control system was approximately HK$18.4 million in the year ended 30 June 2011 and approximately HK$18.6 million in the year ended 30 June 2012, representing an increase of approximately 1.1%. Such increase was mainly attributable to the increase in the average value of contracts for our distributed control system from approximately HK$1.2 million for the year ended 30 June 2011 to approximately HK$1.5 million for the year ended 30 June 2012, which was partially offset by the effect of the decrease in the number of the relevant contracts completed from 15 for the year ended 30 June 2011 to 12 for the year ended 30 June 2012.

Our revenue from the sales of distributed control system decreased by approximately 13.4% from approximately HK$13.9 million in the six months ended 31 December 2011 to approximately HK$12.0 million in the six months ended 31 December 2012. Such decrease was mainly attributable to our completion of a project with a contract value amounting to approximately HK$6.3 million in the six months ended 31 December 2011 but there were no completed projects with contract value over HK$5 million in the six months ended 31 December 2012.

Machine control system

Our revenue from the sales of machine control system was approximately HK$3.3 million in the year ended 30 June 2011 and approximately HK$10.9 million in the year ended 30 June 2012, representing an increase of approximately 232.9%. Such increase was mainly attributable to the increase in the average value of contracts for our machine control system from HK$1.6 million for the year ended 30 June 2011 to HK$2.2 million for the year ended 30 June 2012 as a result of the completion of more complicated projects. Meanwhile, the number of the relevant contracts completed increased from two for the year ended 30 June 2011 to five for the year ended 30 June 2012.

Our revenue from the sales of machine control system was approximately HK$5.1 million and Nil for the six months ended 31 December 2011 and 2012 respectively. No project for the sales of machine control system was completed in the six months ended 31 December 2012.

Motor control centre

Our revenue from the sales of motor control centre was approximately HK$4.0 million in the year ended 30 June 2011 and approximately HK$15.4 million in the year ended 30 June 2012, representing an increase of approximately 288.3%. Such increase was mainly attributable to the increase in the average contract value of our motor control centre from approximately HK$1.3 million for the year ended 30 June 2011 to approximately HK$5.1 million for the year ended 30 June 2012, which was primarily a result of completion of a motor control centre project amounting to HK$14.3 million for a paper factory with an annual production capacity of 300,000 tons. The number of contracts completed for each of the two years ended 30 June 2011 and 2012 remained unchanged.

Our revenue from the sales of motor control centre was approximately HK$11.1 million for the six months ended 31 December 2012. We did not complete any projects of motor control centre for the six months ended 31 December 2011.

According to the 2011 Annual Report of the PRC's Paper-Making Industry, the PRC's aggregate production output of paper and paperboard achieved a compound annual growth rate of approximately 7.8% from 2007 to 2011. Our Directors are of the view that the track record results for industrial automation systems are sustainable, given the development of the industrial automation systems is closely linked to the growth of the PRC's paper-making industry, which has achieved rapid growth consistent with the PRC's GDP growth over the past five years, and we had sales orders on hand with an aggregate contract value of approximately HK$143.4 million for our industrial automation systems as at 31 December 2012.

Revenue generated from sales of our sludge treatment products

The table below sets out the breakdown of revenue by type of our sludge treatment products:

	Year ended 30 June				**Six months ended 31 December**			
	2011		**2012**		**2011**		**2012**	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Filter press	476,653	20.2	6,576,754	45.5	1,916,345	35.1	18,102,766	43.3
Steel-belt filter press	1,885,949	79.8	7,888,716	54.5	3,538,875	64.9	23,737,164	56.7
	2,362,602	100.0	14,465,470	100.0	5,455,220	100.0	41,839,930	100.0

During the Track Record Period, we completed a total of 56 sludge treatment contracts. The following table sets out the number and the average value of sales contracts completed for each type of our Group's sludge treatment products for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	Number of sale contracts completed	Average contract value	Number of sale contracts completed	Average contract value	Number of sale contracts completed	Average contract value	Number of sale contracts completed	Average contract value
		(HK$)		*(HK$)*		*(HK$)*		*(HK$)*
Filter press	4	119,163	17	386,868	7	273,764	28	646,527
Steel-belt filter press	1	1,885,949	2	3,944,358	1	3,538,875	4	5,934,291

The following table sets out the minimum and maximum value of sales contracts completed for each type of our Group's sludge treatment products for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	Maximum value	Minimum value	Maximum value	Minimum value	Maximum value	Minimum value	Maximum value	Minimum value
	(HK$)	*(HK$)*	*(HK$)*	*(HK$)*	*(HK$)*	*(HK$)*	*(HK$)*	*(HK$)*
Filter press	207,655	7,629	4,234,994	50,342	1,613,311	50,481	6,622,858	9,829
Steel-belt filter press	1,885,949	–	4,359,553	3,529,161	3,538,875	–	10,491,448	2,207,619

The contract value of our sales contracts depends on the scope of services to be provided, the specifications and requirements of the customers as well as the complexity of the project. The value of sales contracts for our sludge treatment products completed by us increased over the Track Record Period which led to higher average contract value of the completed sales contracts over the same period.

Our revenue increased by more than five times from approximately HK$2.4 million for the year ended 30 June 2011 to approximately HK$14.5 million for the year ended 30 June 2012. The increase in revenue from sludge treatment products was mainly due to the fact that we received our first order for our sludge treatment products in March 2010 and first recognised revenue from sales of sludge treatment products in December 2010 after spending several years developing our sludge treatment products. Our first order was an one-off "demo" product without on-site testing and inspection requirement agreed by our customer at the time of sales and was delivered to the customer in June 2010 for adjustment. Upon completion of adjustments of the product, the sales in respect of this sales order was recognised in December 2010. Through product demonstrations to our potential customers in addition to the marketing and promotional activities conducted by our salespersons, we have managed to secure several sales orders which were subsequently delivered to our customers in the year ended 30 June 2012.

Our revenue from sales of sludge treatment products increased by more than six times from approximately HK$5.5 million for the six months ended 31 December 2011 to approximately HK$41.8 million for the six months ended 31 December 2012. During the six months ended 31 December 2012, we continued to enjoy a substantial growth in our sludge treatment business mainly because of the effort of our marketing staff and research and development results that led to an increase in the sales contracts obtained, and the completion of more contracts with larger values in the six months ended 31 December 2012 as compared with that in the six months ended 31 December 2011.

Revenue generated from provision of our after-sales services

Revenue from the provision of after-sales services increased by approximately 18.8% from approximately HK$12.0 million for the year ended 30 June 2011 to approximately HK$14.3 million for the year ended 30 June 2012. The increase was mainly due to the increase in demand for our after-sales services, as the warranty period for more of our industrial automation systems previously supplied by us expired in the year ended 30 June 2012. The number of industrial automation contracts with warranty period expired during the two years ended 30 June 2011 and 2012 was 38 and 40 respectively.

During the Track Record Period, all of our revenue from the provision of after-sales services was derived from customers of our industrial systems. Revenue from the provision of after-sales services increased by approximately 55.2% from approximately HK$5.4 million for the six months ended 31 December 2011 to approximately HK$8.4 million for the same period in 2012. Such increase was mainly attributable to the increase in demand for our after-sales services as there was an increase in the number of expired warranties of our sales contracts completed in previous year. The number of after-sales service contracts completed by us increased from 90 for the six months ended 31 December 2011 to 142 for the six months ended 31 December 2012.

Cost of sales

The increase in cost of sales by approximately 134.8% from approximately HK$70.4 million for the year ended 30 June 2011 to approximately HK$165.2 million for the year ended 30 June 2012 was primarily due to the increase in the Adjusted Cost of Raw Materials, which accounted for approximately 86.5% and 92.1% of the total cost of sales for the two years ended 30 June 2011 and 2012 respectively. The increase in the Adjusted Cost of Raw Materials from approximately HK$60.8 million in the year ended 30 June 2011 by approximately 150.1% to approximately HK$152.2 million in the year ended 30 June 2012 was mainly due to the increased volume of raw materials purchased and used for in the production of our industrial automation systems and sludge treatment products, which was in turn driven by the the increase in number and size of sales orders secured.

Direct labour costs accounted for approximately 10.8% and 5.5% of our cost of sales during the two years ended 30 June 2011 and 2012 respectively. Direct labour costs increased by approximately 19.9% from approximately HK$7.6 million for the year ended 30 June 2011 to approximately HK$9.1 million for the year ended 30 June 2012. The increase in our direct labour costs was mainly due to the addition of labour for production of sludge treatment product in the second half of the year ended 30 June 2012 and the increase in the number of engineers hired to cope with the increase in our orders received. On average, our engineer headcount increased from 33 for the year ended 30 June 2011 to 37 for the year ended 30 June 2012.

Manufacturing overhead costs accounted for approximately 2.0% and 1.4% of our cost of sales during the two years ended 30 June 2011 and 2012 respectively. Manufacturing overhead costs increased by approximately 64.4% from approximately HK$1.4 million for the year ended 30 June 2011 to approximately HK$2.3 million for the year ended 30 June 2012. The increase in our manufacturing overhead costs was primarily due to (i) increase in depreciation attributable to our expansion of production facilities to cope with increased sales orders from customers by approximately HK$0.4 million; (ii) increase in utilities charges by approximately HK$0.2 million; and (iii) increase in travelling expenses by our engineers visiting our customers for manufacturing purposes by approximately HK$0.2 million.

The cost of sales increased from approximately HK$76.4 million for the six months ended 31 December 2011 to approximately HK$85.1 million for the six months ended 31 December 2012, representing an increase of approximately 11.5%. Such increase was attributable to increase in the Adjusted Cost of Raw Materials, which accounted for approximately 89.9% and 89.3% of the total cost of sales for the six months ended 31 December 2011 and 2012 respectively. The increase in the Adjusted Cost of Raw Materials from approximately HK$68.7 million in the six months ended 31 December 2011 by approximately 10.7% to approximately HK$76.0 million in the six months ended 31 December 2012 was mainly due to the increased volume of raw materials purchased and used for in the production of our sludge treatment products, which was in turn driven by the increase in number and size of sales orders secured.

Direct labour costs accounted for approximately 7.9% and 7.2% of our cost of sales during the six months ended 31 December 2011 and 2012. Direct labour costs remained stable at approximately HK$6.0 million and HK$6.1 million for the six months ended 31 December 2011 and 2012 respectively.

Manufacturing overhead costs accounted for approximately 1.6% and 2.7% of our cost of sales for the six months ended 31 December 2011 and 2012 respectively. Manufacturing overhead costs increased by approximately 93.3% from approximately HK$1.2 million for the six months ended 31 December 2011 to approximately HK$2.3 million for the six months ended 31 December 2012. The increase in our manufacturing overhead costs was primarily due to (i) increase in depreciation attributable to our addition of machineries to cope with increased sales orders from customers by approximately HK$0.2 million; (ii) increase in utilities charges by approximately HK$0.1 million; and (iii) increase in travelling expenses by our engineers visiting our customers for manufacturing purposes by approximately HK$0.5 million.

The following table sets out our cost of sales by business segments and as a percentage of our total cost of sales during the Track Record Period:

	Year ended 30 June				Six months ended 31 December			
	2011		**2012**		**2011**		**2012**	
	HK$	*%*	*HK$*	*%*	*HK$* (*unaudited*)	*%*	*HK$*	*%*
Industrial automation systems	62,322,733	88.6	145,916,569	88.3	68,986,312	90.3	49,081,870	57.7
Sludge treatment products	1,767,725	2.5	10,637,530	6.5	4,247,071	5.6	30,949,432	36.3
After-sales services	6,264,215	8.9	8,617,327	5.2	3,148,919	4.1	5,105,164	6.0
	70,354,673	100.0	165,171,426	100.0	76,382,302	100.0	85,136,466	100.0

The cost of sales in respect of our industrial automation systems increased by approximately 134.1% from approximately HK$62.3 million in the year ended 30 June 2011 to approximately HK$145.9 million. The cost of sales in respect of sludge treatment products increased by approximately 501.8% from approximately HK$1.8 million for the year ended 30 June 2011 to approximately HK$10.6 million for the year ended 30 June 2012. The cost of sales for after-sales services increased by approximately 37.6% from approximately HK$6.3 million for the year ended 30 June 2011 to approximately HK$8.6 million for the year ended 30 June 2012.

The cost of sales in respect of our industrial automation systems decreased by approximately 28.9% from approximately HK$69.0 million for the six months ended 31 December 2011 to approximately HK$49.1 million for the same period in 2012. For the cost of sales in respect of sludge treatment products, there was an increase of approximately 628.7% from approximately HK$4.2 million for the six months ended 31 December 2011 to approximately HK$30.9 million for the six months ended 31 December 2012. Cost of sales for after-sales services increased by approximately 62.1% from approximately HK$3.1 million for the six months ended 31 December 2011 to approximately HK$5.1 million for the six months ended 31 December 2012.

Gross profit

The table below sets out our gross profit margin by business segments during the Track Record Period.

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
			(unaudited)	
Industrial automation systems	26.4%	27.3%	25.3%	29.3%
Sludge treatment products	25.2%	26.5%	22.1%	26.0%
After-sales services	48.0%	39.7%	42.0%	39.4%
Overall	29.0%	28.0%	26.0%	28.8%

Year ended 30 June 2012 compared to year ended 30 June 2011

Our gross profit increased by approximately 123.7% from approximately HK$28.8 million in the year ended 30 June 2011 to approximately HK$64.3 million in the year ended 30 June 2012. This increase was primarily due to the increase in the gross profit generated from the sale of our industrial automation systems by approximately 144.9% from approximately HK$22.4 million in the year ended 30 June 2011 to approximately HK$54.8 million in the year ended 30 June 2012. Our overall gross profit margin decreased slightly from approximately 29.0% for the year ended 30 June 2011 to approximately 28.0% for the year ended 30 June 2012. This was primarily due to the substantial decrease in gross profit margin in our provision of after-sales services from approximately 48.0% for the year ended 30 June 2011 to approximately 39.7% for the year ended 30 June 2012.

The gross profit margin for sales of our industrial automation systems slightly increased from approximately 26.4% for the year ended 30 June 2011 to approximately 27.3% for the year ended 30 June 2012. Such slight increase was mainly attributable to the decrease in the proportion of sales generated from the supply of our industrial automation systems to a customer in the electricity industry in the PRC in the year ended 30 June 2012 as compared to the year ended 30 June 2011. Our sales to such customer as a percentage of the total sales of our industrial automation systems decreased from approximately 4.7% in the year ended 30 June 2011 to approximately 1.2% in the year ended 30 June 2012. We derived a lower gross profit margin from these sales than our sales to customers in the paper-making industry in the PRC because the industrial automation system market for the electricity industry in the PRC was relatively new to our Group. The gross profit margin for sales of our industrial automation systems, if our sales to this customer in the electricity industry in the PRC were excluded from our total revenue generated from sales of our industrial automation systems, would have been relatively stable and maintained at approximately 27.5% and 27.6% for the years ended 30 June 2011 and 2012 respectively. This was primarily because there was no significant fluctuation in the price of the parts and/or components with the same specifications within each of the major types of our raw materials purchased during the two years ended 30 June 2012.

The gross profit margin for sales of our sludge treatment products slightly increased from approximately 25.2% for the year ended 30 June 2011 to 26.5% for the year ended 30 June 2012 as our sludge treatment business only started in March 2010 when we received our first sales order for such business and we first recognised revenue from our sales of sludge treatment products in December 2010. In order to attract more customers for our sludge treatment products, we charged a lower price for this sales order. Such lower margin sales order has resulted in lower profit margin of our sludge treatment products in the year ended 30 June 2011 than that in the year ended 30 June 2012.

The gross profit margin for provision of after-sales services decreased from approximately 48.0% in the year ended 30 June 2011 to approximately 39.7% in the year ended 30 June 2012. Our after-sales service contracts involved: (i) provision of engineering and maintenance services together with the supply of spare parts and components; (ii) the supply of spare parts and components only; and (iii) provision of engineering and maintenance services only to our existing customers for repair and replacement after the expiry of our warranty services. Given that the expertise of our technical personnel is required, we generally charge our customers a higher mark-up for the provision of our after-sales services. On the other hand, a lower mark-up is generally charged for our supply of spare parts and components to our customers. The revenue attributable to (i) the provision of engineering and maintenance services together with the supply of spare parts and components, (ii) the supply of spare parts and components only and (iii) the provision of engineering and maintenance services only accounted for approximately 71.5%, 21.9% and 6.6% respectively in the year ended 30 June 2011, and approximately 77.6%, 20.6% and 1.8% respectively in the year ended 30 June 2012 of the total revenue from provision of after-sales services. The corresponding gross profit margin for the abovementioned sub-segments was approximately 55.4%, 10.9% and 89.7% respectively in the year ended 30 June 2011, and 45.4%, 13.3% and 98.8% respectively in the year ended 30 June 2012.

The decrease in the gross profit margin for provision of after-sales services was primarily due to (i) the decrease in gross profit margin for the provision of engineering and maintenance services together with the supply of spare parts and components, which was mainly attributable to lowering of contract prices as part of our effort to maintain a long-term relationship with and retain our existing customers, as well as (ii) the decrease in proportion of revenue attributable to the provision of engineering and maintenance services to the revenue from provision of after-sales services in the year ended 30 June 2012.

Six months ended 31 December 2012 compared to six months ended 31 December 2011

For the six months ended 31 December 2012, our gross profit increased by approximately 28.4% from approximately HK$26.9 million for the six months ended 31 December 2011 to approximately HK$34.5 million for the same period in year 2012. Such increase was due to an increase in gross profits generated from sale of sludge treatment products.

Our overall gross profit margin increased from approximately 26.0% for the six months ended 31 December 2011 to approximately 28.8% for the six months ended 31 December 2012. Such increase was a result of the increase in gross profit margin for sales of industrial automation systems and sludge treatment products from approximately 25.3% and 22.1% respectively for the six months ended 31 December 2011 to approximately 29.3% and 26.0% respectively for the six months ended 31 December 2012.

The gross profit margin for sales of industrial automation systems in the six months ended 31 December 2011 was relatively lower mainly due to the completion of three industrial automation system projects with lower profit margins and an aggregate amount of approximately HK$9.9 million, representing approximately 10.7% of the revenue from sales of industrial automation system in that year. The three projects had an average profit margin of approximately 10.4% which was significantly lower than the normal level. Such projects were used for exploring industrial automation system market in the electricity industry as well as providing value-added on-site services to our customers. The gross profit margin in relation to our sludge treatment product segment for the six months ended 31 December 2011 was lower than its gross profit margin for the six months ended 31 December 2012 primarily due to the completion of our major sludge treatment project with a relatively low gross profit margin of about 22% during the six months ended 31 December 2011 which accounted for approximately 94.4% of our sales of sludge treatment products during the same period. As this major sludge treatment project was one of the relatively new sludge treatment projects obtained by our Group, some improvements and adjustments to certain parts and components of the sludge treatment products of this project were made subsequent to product delivery by our engineers as part of our product quality enhancement effort and were not specified in the relevant sales contracts. As such, the costs of sales incurred by our Group were higher than those originally anticipated, hence resulting in a lower gross margin for this project.

The gross profit margin for provision of after-sales services decreased from approximately 42.0% for the six months ended 31 December 2011 to approximately 39.4% for the six months ended 31 December 2012. Such decrease was a result of increase in the proportion of revenue from sole supply of spare parts and components which had a lower gross profit margin. The proportion of income from sole supply of spare parts and components to total income from provision of after-sales services increased from approximately 16.6% for the six months ended 31 December 2011 to approximately 26.4% for the six months ended 31 December 2012 while the gross profit margin for this sub-segment maintained stable at approximately 19.5% and 18.7% for the six months ended 31 December 2011 and 2012 respectively.

Distribution costs

Our distribution costs increased by approximately 90.3% from approximately HK$6.4 million for the year ended 30 June 2011 to approximately HK$12.2 million for the year ended 30 June 2012. The increase in distribution costs was mainly due to (i) increase in staff costs by approximately HK$1.3 million, which was primarily due to the increase in our average number of salesperson from 10 to 15 for the promotion of our sludge treatment products; and (ii) increase in warranty expenses by approximately HK$3.0 million which was mainly attributable to our increase in number of projects completed within the warranty period.

Our distribution costs increased by about 16.6% from approximately HK$5.9 million for the six months ended 31 December 2011 to approximately HK$6.9 million for the six months ended 31 December 2012. The increase in distribution costs was mainly due to increase in staff costs by approximately HK$1.0 million, which was primarily due to increase in headcounts for promotion of our sludge treatment products.

Administrative expenses

Our administrative expenses increased by approximately 33.1% from approximately HK$16.6 million for the year ended 30 June 2011 to approximately HK$22.1 million for the year ended 30 June 2012. The increase in administrative expenses was mainly due to (i) increase in staff costs by approximately HK$2.3 million due to an increment in the basic salary of our back office personnel and management staff by an average of approximately 11%; and (ii) our professional service fees of approximately HK$2.2 million incurred for services provided by various professional parties in connection with the Listing.

Our administrative expenses increased by approximately 33.9% from approximately HK$10.3 million for the six months ended 31 December 2011 to approximately HK$13.7 million for the six months ended 31 December 2012. Such increase was mainly due to (i) professional service fees amounting to approximately HK$4.7 million incurred in relation to the Listing in the six months ended 31 December 2012. There was no such expense in the six months ended 31 December 2011.

Research and development expenses

Our research and development expenses increased by approximately 28.2% from approximately HK$5.8 million in the year ended 30 June 2011 to approximately HK$7.4 million in the year ended 30 June 2012. The increase in research and development expenses was mainly due to the increase in staff costs by approximately HK$1.3 million as a result of the increase in our average headcount of technical personnel from 24 in the year ended 30 June 2011 to 32 in the year ended 30 June 2012. The amount of materials consumed for product development of approximately HK$1.9 million for the year ended 30 June 2011 was much higher as compared to that of approximately HK$0.8 million incurred for the year ended 30 June 2012. This was mainly due to an one-off sludge treatment product development project which consumed materials of approximately HK$0.7 million during the year ended 30 June 2011 and the decreasing consumption of materials required for developing and enhancing our sludge treatment products as they become more mature.

For the six months ended 31 December 2012, our research and development expenses were approximately HK$5.8 million, representing an increase of 25.8% from the same period in 2011. Such increase was mainly attributable to the increase in raw materials and technical personnel that we have allocated for two research projects commenced during the six months ended 31 December 2012. We consumed raw materials for parts and component development projects amounting to approximately HK$0.1 million and HK$1.2 million for the six months ended 31 December 2011 and 2012 respectively. We also incurred staff costs of approximately

HK$2.7 million and HK$3.5 million for the six months ended 31 December 2011 and 2012 respectively. These two projects were undertaken for the development of parts and components used by our industrial automation products which will improve their efficiency as well as cost effectiveness.

Other income

Our other income decreased by approximately 7.6% from approximately HK$1.6 million for the year ended 30 June 2011 to approximately HK$1.5 million for the year ended 30 June 2012. The decrease in other income was mainly due to a decrease in operating lease income from approximately HK$0.6 million in the year ended 30 June 2011 to approximately HK$0.4 million in the year ended 30 June 2012. This was because a lease agreement expired in the year ended 30 June 2012 and the tenants did not renew the lease.

Our other income decreased by approximately 65.3% from approximately HK$1.1 million for the six months ended 31 December 2011 to approximately HK$0.4 million for the six months ended 31 December 2012. Such decrease in other income was mainly due to the significant decrease in government grant and operating lease income.

Finance costs and income

Our Group had a net finance cost of approximately HK$0.6 million and HK$1.2 million for the two years ended 30 June 2011 and 2012 respectively. This was due to an increase in finance costs from approximately HK$0.8 million for the year ended 30 June 2011 to approximately HK$1.6 million for the year ended 30 June 2012, which was mainly attributable to the increase in bank borrowings.

Our net finance costs increased approximately 84.8% from approximately HK$0.3 million for the six months ended 31 December 2011 to approximately HK$0.5 million for the six months ended 31 December 2012. The lower level of net finance costs in the six months ended 31 December 2011 was mainly attributable to the interest capitalised for the construction work of our production plant amounting to approximately HK$0.2 million for the six months ended 31 December 2011. Such construction work was completed in May 2012 and there was no such capitalisation for the six months ended 31 December 2012.

Income tax expense

Income tax expense of our Group increased by approximately 818.4% from approximately HK$0.4 million for the year ended 30 June 2011 to approximately HK$3.8 million for the year ended 30 June 2012. The increase in income tax expenses of our Group was primarily due to the increase in taxable profits earned during the year ended 30 June 2012.

Income tax expense of our Group increased by approximately 53.1% from approximately HK$1.1 million for the six months ended 31 December 2011 to approximately HK$1.8 million for the six months ended 31 December 2012, primarily attributable to the increase in taxable profits earned during the six months ended 31 December 2012.

Our tax charges during the Track Record Period can be reconciled to the profit before income tax per combined statements of comprehensive income as follows:

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Profit before income tax	957,866	22,871,817	6,922,958	8,001,870
Tax calculated at tax rate applicable to profits in the respective jurisdiction	241,629	5,832,643	1,731,782	2,280,318
Tax effect of:				
Effect of preferential tax rate	(275,011)	(2,525,632)	(763,333)	(1,168,886)
Expenses not deductible for tax purposes	441,700	258,806	174,527	98,657
Tax losses for which no deferred income tax assets was recognised	4,198	222,631	2,024	543,239
Tax charges	412,516	3,788,448	1,145,000	1,753,328
Effective tax rates	43.1%	16.6%	16.5%	21.9%

Our effective tax rate for the year ended 30 June 2011 of approximately 43.1% was mainly due to the expenses not deductible for tax purposes comprising mainly undeductible entertainment expenses incurred by our PRC subsidiary where the spending exceeded the ceiling allowed by the Tax Law.

Our effective tax rate for the six months ended 31 December 2012 was approximately 21.9% which was higher than the applicable income tax rate of 15% for Huazhang Technology, the major operation subsidiary of our Company. It was because Huazhang Electric, the investment holding company in Hong Kong had tax losses of approximately HK$3.3 million for which no deferred income tax assets was recognised. The impact of such tax losses on the reconciliation of tax charge was approximately HK$0.5 million. Should these tax losses be excluded from the calculation of effective tax rates, the effective tax rate would be approximately 15.1% and was almost the same as the income tax rate of 15% applicable to Huazhang Technology.

Net profit

Our net profit increased by approximately 3,399.3% from approximately HK$0.5 million for the year ended 30 June 2011 to approximately HK$19.1 million for the year ended 30 June 2012. Net profit margin for our Group increased from approximately 0.6% for the year ended 30 June 2011 to approximately 8.3% for the year ended 30 June 2012. The increase in net profit margin for our Group was mainly due to the significant increase in our gross profit by approximately 123.7% which resulted from the increase in our revenue, as well as our control over our distribution costs, administrative expenses as well as research and development expenses which in aggregate only increased by approximately 44.9% during the same financial year.

Our net profit increased by approximately 8.1% from approximately HK$5.8 million for the six months ended 31 December 2011 to approximately HK$6.2 million for the six months ended 31 December 2012. Net profit margin for our Group decreased from approximately 5.6% for the six months ended 31 December 2011 to approximately 5.2% for the six months ended 31 December 2012. Such decrease was mainly due to increase in income tax expenses which accounted for approximately 1.1% and 1.5% of total revenue for the six months ended 31 December 2011 and 2012 respectively.

Total comprehensive income

Total comprehensive income attributable to the owner of our Company increased by approximately 456.2% from approximately HK$3.7 million for the year ended 30 June 2011 to approximately HK$20.4 million for the year ended 30 June 2012. The increase in our Group's total comprehensive income was primarily due to the significant increase in our net profit for the year ended 30 June 2012.

Total comprehensive income attributable to the owner of our Company decreased by approximately 8.1% from HK$7.3 million for the six months ended 31 December 2011 to HK$6.7 million for the six months ended 31 December 2012. The decrease in our Group's total comprehensive income was primarily due to the significant decrease in currency translation differences by approximately HK$1.0 million, which was offset by the increase of our profit attributable to the owner of our company by approximately HK$0.5 million.

Segment results

Our segment results increased by approximately 221.0% from approximately HK$11.7 million for the year ended 30 June 2011 to approximately HK$37.7 million for the year ended 30 June 2012. The increase was primarily due to the significant growth of results from the industrial automation systems segment during the same period.

Our results from the industrial automation systems segment increased significantly by approximately 190.7% from approximately HK$13.6 million for the year ended 30 June 2011 to approximately HK$39.6 million for the year ended 30 June 2012, primarily attributable to the increase in gross profit for the sales of industrial automation systems during the same period.

Our results from the sludge treatment products segment improved from a loss of approximately HK$7.3 million for the year ended 30 June 2011 to approximately HK$7.2 million for the year ended 30 June 2012. The sales of sludge treatment products generated gross profit of approximately HK$0.6 million and HK$3.8 million for the two years ended 30 June 2011 and 2012 respectively. However, the production of our sludge treatment products commenced in mid-2010. We continued to devote significant resources in research of our sludge treatment products for developing new product models and incurred relevant expenses of approximately HK$5.8 million and HK$7.4 million for the two years ended 30 June 2011 and 2012 respectively which were not qualified for capitalisation. As a result, the gross profit from our sales of sludge treatment products during the two years ended 30 June 2011 and 2012 had not reached a sufficient level to cover the research and development costs and thus this business segment suffered losses. The Directors considered the sludge treatment products segment will be profitable and generate positive cashflow as the sales of sludge treatment products will gradually increase based on the continuous growth of the sludge treatment product market for the PRC paper-making industry towards 2016 according to Euromonitor's research report, driving down the proportion of research and development expenses to revenue for the sales of sludge treatment products when the sludge treatment products become more mature. Moreover, we have recorded a positive segment result of sludge treatment products for the six months ended 31 December 2012. Based on the above, our Directors are of the view that no impairment provision is required for the segmental assets for the sales of sludge treatment products as at 30 June 2012.

Our results from the after-sales services segment slightly decreased from approximately HK$5.5 million for the year ended 30 June 2011 to approximately HK$5.3 million for the year ended 30 June 2012, primarily due to the drop in the gross profit margin during the same period.

Our segment results increased by approximately 48.4% from approximately HK$12.7 million for the six months ended 31 December 2011 to approximately HK$18.9 million for the six months ended 31 December 2012. The increase was primarily due to improvement of gross profit margin of sales of industrial automation systems and sludge treatment products.

Our results from the industrial automation systems segment significantly decreased by approximately 31.6% from approximately HK$16.2 million for the six months ended 31 December 2011 to approximately HK$11.1 million for the six months ended 31 December 2012, primarily attributable to decrease in sales of industrial automation systems and the increase in our research and development costs in industrial automation system segment from nil for the six months ended 31 December 2011 to HK$3.2 million for the six months ended 31 December 2012, which was partially offset by increase in gross profit margin for sales of industrial automation system during the same period.

Our results from the sludge treatment products segment changed from a loss of approximately HK$5.7 million for the six months ended 31 December 2011 to a profit of approximately HK$4.6 million for the six months ended 31 December 2012. Such change was a result of increase in sales of sludge treatment products by approximately HK$36.4 million.

Our results from the after-sales services segment increased from approximately HK$2.2 million for the six months ended 31 December 2011 to approximately HK$3.3 million for the six months ended 31 December 2012, primarily due to the increase in revenue from provision for after-sales service during the same period.

IMPACT ON OUR FINANCIAL RESULTS DUE TO EXPENSES INCURRED IN RELATION TO THE LISTING

Our Directors estimated that the expenses in relation to the Listing of approximately HK$7.8 million will be further incurred and charged to the combined statements of comprehensive income for the year ending 30 June 2013.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other liquidity requirements from cash generated by our operations and bank borrowings, if required. Going forward, we believe our working capital and other liquidity requirements will be satisfied through a combination of cash generated from our operating activities, banking facilities made available to us and the net proceeds from the Placing. We will use part of the proceeds from the Placing to fulfill our capital needs for future expansion.

As at 31 December 2012, we had banking facilities amounting to HK$61.7 million, among which approximately HK$14.8 million was utilised. The banking facilities were secured by our certain land use right and production facilities and were free of restrictive covenants. Based on the business and financial performance of our Group, our Directors are not aware of any circumstances where our ability to obtain external financing going forward may be affected by the recent volatility in the global financial market.

We have never experienced any difficulties in repaying our debts as and when they fall due. However, our ability to meet our working capital requirements, debt repayment or capital required for our fund raising activities is highly dependent on our future operating performance and cash flows. Our future operating performance and cash flows could be affected by various factors such as the future economic climate and our customers' ability to expand.

We expect to finance our working capital requirements for the 12 months following the date of this prospectus with the following sources of funding:

- the cash and cash equivalent on hand, which were approximately HK$23.0 million as at 31 December 2012. Based on our Group's unaudited management accounts, we had cash and cash equivalent of approximately HK$10.4 million as at 31 March 2013;

- the estimated net proceeds of HK$59.5 million to be received by our Group from the Placing; and

- unutilised banking facilities amounting to HK$52.1 million as at the Latest Practicable Date.

Working capital

Our Directors are of the opinion that, after taking into account the existing financial resources available to us, including our available banking facilities and internally generated funds, and the estimated net proceeds from the Placing, we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

Net current (liabilities)/assets

The table below sets out our Group's current liabilities and assets as at the respective period end indicated:

	As at 30 June		As at 31 December	As at 31 March
	2011	2012	2012	2013
	HK$	*HK$*	*HK$*	*HK$*
				(unaudited)
Current assets				
Inventories	104,687,797	111,170,507	115,128,642	113,190,262
Trade and other receivables	46,015,031	33,262,407	38,223,824	42,310,324
Prepayments	9,892,881	9,834,523	6,503,333	11,413,219
Restricted cash	551,946	1,527,484	1,535,716	3,504,274
Cash and cash equivalents	20,047,039	43,817,397	22,956,857	10,363,891
	181,194,694	199,612,318	184,348,372	180,781,970
Current liabilities				
Trade and other payables	167,863,089	147,170,666	137,290,303	139,963,473
Borrowings	18,037,084	24,619,121	6,166,369	–
	185,900,173	171,789,787	143,456,672	139,963,473
Net current (liabilities)/assets	(4,705,479)	27,822,531	40,891,700	40,818,497

We recorded net current liabilities of approximately HK$4.7 million as at 30 June 2011 and net current assets of approximately HK$27.8 million and HK$40.9 million as at 30 June 2012 and 31 December 2012 respectively. The net current liability position as at 30 June 2011 was mainly attributable to the loans obtained from Huazhang Overseas for the investment in the registered capital of Huazhang Technology for the purpose of financing the expansion of its production facilities. The change from a net current liability position as at 30 June 2011 to a net current asset position as at 30 June 2012 and afterwards was mainly due to capitalisation of a loan amounting to approximately HK$35.2 million borrowed from Huazhang Overseas on 30 June 2012 and improvement of our operation.

Cash flows

The following table sets out a summary of our combined cash flow statements for the two years ended 30 June 2011 and 2012 and for the six months ended 31 December 2011 and 2012:

	Year ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Net cash generated from/(used in) operating activities	10,414,623	27,393,054	(44,439)	(7,198,842)
Net cash generated/(used in) investing activities	10,849,552	(127,763)	(2,240,023)	(345,826)
Net cash used in financing activities	(6,367,078)	(3,444,349)	(12,713,596)	(13,335,487)
Net increase/(decrease) in cash and cash equivalent	14,897,097	23,820,942	(14,998,058)	(20,880,155)
Effect of foreign exchange rate changes	14,807	(50,584)	(18,924)	19,615
Cash and cash equivalent at beginning of the year/period	5,135,135	20,047,039	20,047,039	43,817,397
Cash and cash equivalent at end of the year/period	20,047,039	43,817,397	5,030,057	22,956,857

Please refer to the accountant's report set out in Appendix I to this prospectus for further information on our Group's cash flows.

Cash flows from operating activities

Cash generated from operating activities was approximately HK$12.5 million for the year ended 30 June 2011, and was primarily attributable to our operating cash before changes in working capital of approximately HK$5.2 million, as adjusted by a decrease in restricted cash amounted to approximately HK$0.8 million and an increase in trade and other payables of approximately HK$73.2 million, which was in turn due to (i) the increase in advances from customers by approximately HK$56.5 million; (ii) the increase in trade payables of approximately HK$15.7 million because more raw materials were purchased on credit towards the end of the year ended 30 June 2012; and (iii) the increase in other payables, such as accrued wages and other tax payable, amounting to approximately HK$1.0 million, the effects of which were partially offset by an increase in inventories of approximately HK$65.5 million and an increase in trade and other receivables and prepayment of approximately HK$1.3 million. The increase in inventories was primarily due to the increase in aggregate value of sales contracts obtained by our Group during the year ended 30 June 2011. The aggregate value of sales contracts obtained by our Group increased by approximately 53.4% from approximately RMB131 million in the year ended 30 June 2010 to approximately RMB201 million in the year ended 30 June 2011.

Our net cash inflow from operating activities for the year ended 30 June 2011 amounted to approximately HK$10.4 million, which was mainly attributable to the cash flows generated from operating activities amounting to approximately HK$12.5 million, as adjusted by the payment of interest expenses amounting to approximately HK$1.0 million and income tax expenses of approximately HK$1.1 million.

Cash generated from operating activities was approximately HK$32.9 million for the year ended 30 June 2012, which was primarily attributable to our operating cash before changes in working capital of approximately HK$27.2 million, as adjusted by (i) a decrease in trade and other receivables and prepayments of approximately HK$3.5 million, and (ii) an increase in trade and other payables of approximately HK$9.9 million, primarily due to an increase in purchases of raw materials to cope with our increased sales volume, the effects of which were partially offset by: (i) an increase in inventories of approximately HK$6.7 million, mainly attributable to increase in raw materials for the purpose of coping with the production requirement subsequent to the year ended 30 June 2012; and (ii) an increase in restricted cash amounting to approximately HK$1.0 million.

Our net cash inflow from operating activities for the year ended 30 June 2012 amounted to approximately HK$27.4 million, which was mainly attributable to the cash flows generated from operating activities amounting to approximately HK$32.9 million, as adjusted by the payment of interest expenses amounting to approximately HK$1.7 million and income tax expenses of approximately HK$3.8 million.

Cash generated from operating activities was approximately HK$0.8 million for the six months ended 31 December 2011, which was primarily attributable to our operating cash before changes in working capital of approximately HK$7.2 million, as adjusted by (i) an increase in trade and other receivables and prepayments of approximately HK$12.2 million due to the increase in sales of our industrial automation system and sludge treatment products; (ii) an increase in inventories of approximately HK$8.5 million for the purpose of coping with the subsequent production requirement; and (iii) a decrease in trade and other payables amounting to approximately HK$10.1 million for the settlement of amount due to suppliers and other creditors.

Our net cash outflow from operating activities for the six months ended 31 December 2011 amounted to HK$44,439 which was mainly attributable to the cash flows generated from operating activities amounting to approximately HK$0.8 million, as adjusted by the payment of interest expenses amounting to approximately HK$0.6 million and income tax expenses amounting to approximately HK$0.2 million.

Cash used in operating activities was approximately HK$4.3 million for the six months ended 31 December 2012, which was primarily attributable to our operating cash before changes in working capital of approximately HK$8.8 million, as adjusted by (i) an increase in inventories of approximately HK$3.2 million mainly due to increase in products delivered to our customers pending for on-site testing and inspection; and (ii) a decrease in trade and other payables amounting to approximately HK$10.3 million for the settlement of amount due to suppliers and other creditors.

Our net cash outflow from operating activities for the six months ended 31 December 2012 amounted to approximately HK$7.2 million which was mainly attributable to the cash flows used in operating activities amounting to approximately HK$4.3 million and the payment of interest expenses amounting to approximately HK$0.6 million and income tax expenses amounting to approximately HK$2.3 million. We had a negative net cashflow from operating activities during the six months ended 31 December 2012 mainly due to (i) an aggregate amount of payment of approximately HK$5.8 million was made to various professional parties in relation to the Listing; and (ii) the decrease in trade and other payables by approximately HK$10.3 million which was settled in accordance with credit terms granted by our suppliers.

Our net cashflow from operation activities changed from a net cash inflow of approximately HK$27.4 million for the year ended 30 June 2012 to a net cash outflow of approximately HK$7.2 million for the six months ended 31 December 2012. Such change was primarily due to a positive adjustment for the changes in working capital of approximately HK$5.7 million during the year ended 30 June 2012 while there was a negative adjustment for the changes in working capital of approximately HK$13.1 million during the year ended 30 June 2012. The positive changes in working capital for the year ended 30 June 2012 was primarily due to an increase of trade and other payables by approximately HK$9.9 million while the negative changes in working capital for the six months ended 31 December 2012 was primarily due to a decrease of trade and other payables by approximately HK$10.3 million as a result of the settlement of the amounts due to suppliers and other creditors.

Cash flows from investing activities

For the year ended 30 June 2011, our Group had net cash inflow from investing activities of approximately HK$10.8 million, which was primarily attributable to (i) the receipts of interest of approximately HK$0.2 million, (ii) the repayment of an advance we made to a third party amounting to approximately HK$17.6 million and; (iii) repayment from related parties for advances to them of approximately HK$41.5 million, partially offset by (i) acquisition of property, plant and equipment of approximately HK$3.9 million; and (ii) lending to several related parties amounting to approximately HK$44.6 million.

For the year ended 30 June 2012, our Group had net cash outflow from investing activities of approximately HK$0.1 million, which was primarily attributable to (i) acquisition of property, plant and equipment of approximately HK$10.4 million, and (ii) lending to related parties amounting to approximately HK$45.4 million; partially offset by (i) interest income of approximately HK$0.4 million; and (ii) repayment from related parties amounting to approximately HK$55.2 million.

For the six months ended 31 December 2011, our Group had net cash outflow from investing activities of approximately HK$2.2 million, which was primarily attributable to (i) the purchase of property, plant and equipment amounting to approximately HK$7.8 million and (ii) lending to related parties amounting to approximately HK$32.0 million; partially offset by (i) the receipt of interest income of approximately HK$0.2 million and (ii) repayment from related parties amounting to approximately HK$37.3 million.

For the six months ended 31 December 2012, our Group had net cash outflow from investing activities of approximately HK$0.3 million, which was primarily attributable to the purchase of property, plant and equipment amounted to approximately HK$0.4 million.

Cash flows from financing activities

For the year ended 30 June 2011, our Group had net cash outflow from financing activities of approximately HK$6.4 million, which was primarily attributable to (i) the repayment of bank borrowings of approximately HK$23.5 million; and (ii) repayment to a related party amounting to approximately HK$0.5 million; partially offset by proceeds raised from bank borrowings of approximately HK$17.6 million.

For the year ended 30 June 2012, our Group had net cash outflow from financing activities of approximately HK$3.4 million, which was primarily attributable to (i) repayment of bank borrowings of approximately HK$38.9 million; and (ii) dividend paid to Huazhang Overseas of approximately HK$12.7 million; and (iii) repayment to a related party amounting to approximately HK$2.5 million; partially offset by (i) proceeds raised from bank borrowings of approximately HK$45.0 million; and (ii) a borrowing from a related party of approximately HK$5.6 million which represented advances from Huazhang Overseas.

For the six months ended 31 December 2011, our Group had net cash outflow from financing activities of approximately HK$12.7 million, which was attributable to (i) repayment of bank borrowings amounting to approximately HK$26.8 million and (ii) dividend paid to Huazhang Overseas of approximately HK$12.7 million, which was partially offset by proceeds raised from bank borrowings of approximately HK$26.8 million.

For the six months ended 31 December 2012, our Group had net cash outflow from financing activities of approximately HK$13.3 million, which was primarily attributable to repayment of bank borrowings of approximately HK$24.7 million, which was partially offset by proceeds raised from bank borrowings of approximately HK$6.1 million and a borrowing of approximately HK$5.2 million from Huazhang Overseas.

SUMMARY OF OUR COMBINED BALANCE SHEETS

The following table sets out the combined balance sheets of our Group as at 30 June 2011, 30 June 2012 and 31 December 2012, which are derived from, and should be read in conjunction with the combined financial information set out in the accountant's report set out in Appendix I in this prospectus:

Combined balance sheets

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
ASSETS			
Non-current assets			
Land use rights	9,138,536	9,077,521	9,003,355
Property, plant and equipment	28,621,127	39,702,425	38,990,421
Deferred income tax assets	1,095,635	1,086,721	1,141,954
Trade and other receivables	30,873	294,122	–
Prepayments – non-current portion	1,245,190	352,450	408,137
	40,131,361	50,513,239	49,543,867
Current assets			
Inventories	104,687,797	111,170,507	115,128,642
Trade and other receivables	46,015,031	33,262,407	38,223,824
Prepayments	9,892,881	9,834,523	6,503,333
Restricted cash	551,946	1,527,484	1,535,716
Cash and cash equivalents	20,047,039	43,817,397	22,956,857
	181,194,694	199,612,318	184,348,372
Total assets	221,326,055	250,125,557	233,892,239
EQUITY			
Capital and reserves attributable to the owner of the Company			
Reserves	13,903,664	51,468,818	59,550,042
Retained earnings	21,522,218	26,866,952	30,670,277
Total equity	35,425,882	78,335,770	90,220,319

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	–	–	215,248
	–	–	215,248
Current liabilities			
Trade and other payables	167,863,089	147,170,666	137,290,303
Borrowings	18,037,084	24,619,121	6,166,369
	185,900,173	171,789,787	143,456,672
Total liabilities	185,900,173	171,789,787	143,671,920
Total equity and liabilities	221,326,055	250,125,557	233,892,239

KEY FINANCIAL RATIOS

The following table sets out key financial ratios of our Group during the Track Record Period:

	Year ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
Profitability ratios			
Return on assets[(1)] (%)	0.2	7.6	5.3
Return on equity[(2)] (%)	1.5	24.4	13.9
Liquidity ratios			
Current ratio[(3)]	1.0	1.2	1.3
Quick ratio[(4)]	0.4	0.5	0.5
Capital adequacy ratio			
Gearing ratio[(5)] (%)	33.7	23.9	6.4
Interest coverage[(6)]	2.2	15.5	14.5

Notes:

1. Return on assets is calculated based on the net profit attributable to the owner of our Company for the year divided by the total assets at the end of the respective year and multiplied by 100%. For the six months ended 31 December 2012, return on assets is calculated based on annualising the net profit attributable to the owner of our Company for the period by multiplying by two, divided by the total assets at the end of the respective period and then multiplied by 100%.

2. Return on equity is calculated based on the net profit attributable to the owner of our Company for the year divided by the total equity attributable to the owners of our Company at the end of the respective year multiplied by 100%. For the six months ended 31 December 2012, return on equity is calculated based on annualising the net profit attributable to the owner of our Company for the period by multiplying by two, divided by the total equity attributable to the owner of our Company at the end of the respective period and then multiplied by 100%.

3. Current ratio is calculated based on the total current assets at the end of the year/period divided by the total current liabilities at the end of the respective year/period.

4. Quick ratio is calculated based on the total current assets (excluding inventory) at the end of the year/period divided by the total current liabilities at the end of the respective year/period.

5. Gearing ratio is calculated based on total debt at the end of the year/period divided by total debt plus total equity at the end of the respective year/period multiplied by 100%. Total debt represents bank borrowings.

6. Interest coverage is calculated based on the net profit before interest and tax for the year/period divided by the interest expenses for the respective year/period.

Return on assets

Return on assets for the two years ended 30 June 2011 and 2012 was approximately 0.2% and 7.6% respectively. The higher return on assets for the year ended 30 June 2012 as compared with that for the year ended 30 June 2011 was due to the fact that the rate of increase in net profit exceeded the rate of increase in total assets. For the year ended 30 June 2012, our net profit and total asset increased by approximately 3,399.3% and 13.0% respectively as compared with that for the year ended 30 June 2011. The increase in our net profit was mainly due to the growth of our gross profit by 123.7% brought by the increase in our revenue and our control over our distribution costs, administrative expenses as well as research and development expenses, which in aggregate only increased by approximately at 44.9% during the same financial year.

Return on assets decreased to approximately 5.3% for the six months ended 31 December 2012. It was mainly attributable to the decrease in our net profit by approximately 34.5% from our net profit of approximately HK$19.1 million in the year ended 30 June 2012 to a net profit of approximately HK$12.5 million if the net profit for the six months ended 31 December 2012 were annualised, which outweighs the decrease in total assets as at 31 December 2012 by approximately 6.5% when compared to the total assets as at 30 June 2012.

Return on equity

Return on equity was approximately 1.5% and 24.4% for the two years ended 30 June 2011 and 2012 respectively. The significant increase in return on equity was primarily attributable to the substantial growth in net profit as discussed above.

Return on equity decreased to approximately 13.9% for the six months ended 31 December 2012. It was primarily a result of the decrease in our net profit by approximately 34.5% from the net profit of approximately HK$19.1 million in the year ended 30 June 2012, to a net profit of approximately HK$12.5 million if the net profit for the six months ended 31 December 2012 were annualised and the capitalisation of a loan from Huazhang Overseas which further increased our total equity attributable to the owner of our Company as at 31 December 2012 by approximately HK$5.2 million. As a result, the total equity attributable to the owner of our Company increased from approximately HK$78.3 million as at 30 June 2012 to approximately HK$90.2 million as at 31 December 2012.

Current ratio

As at 30 June 2011, 30 June 2012 and 31 December 2012, our current ratio was approximately 1.0, 1.2 and 1.3 respectively. The increase in current ratio as at 30 June 2012 and 31 December 2012 was mainly due to the capitalisation of loan borrowed from Huazhang Overseas amounting to approximately HK$35.2 million and HK$5.2 million on 30 June 2012 and on 31 December 2012 respectively.

Quick ratio

As at 30 June 2011, 30 June 2012 and 31 December 2012, our quick ratio was approximately 0.4, 0.5 and 0.5 respectively. The increase in quick ratio as at 30 June 2012 was mainly due to the same reason as above for the change in current ratio. Our quick ratio remained stable as at 31 December 2012.

Gearing ratio

Our gearing ratio as at 30 June 2011, 30 June 2012 and 31 December 2012 was approximately 33.7% and 23.9% and 6.4% respectively. The decrease of gearing ratio as at 30 June 2012 was a result of the capitalisation of loan amounting to approximately HK$35.2 million borrowed from Huazhang Overseas and our net profit generated in the year ended 30 June 2012. The gearing ratio further decreased as at 31 December 2012 mainly as a result of significant decrease in bank borrowings from HK$24.6 million as at 30 June 2012 to HK$6.2 million as at 31 December 2012. Such decrease was primarily due to the repayment of some of the bank borrowings by our Group during the six months ended 31 December 2012 as our Group completed major construction works and purchase of machineries for enhancement of our production process in the year ended 30 June 2012.

Interest coverage

Our Group's interest coverage was approximately 2.2 and 15.5 for the two years ended 30 June 2011 and 2012 respectively. The increase in interest coverage was primarily due to the significant increase in operating profit from approximately HK$1.5 million for the year ended 30 June 2011 by approximately 1,486.3% to approximately HK$24.0 million for the year ended 30 June 2012 due to the significant growth in revenue by 131.6% during the same period.

Our Group's interest coverage remained relatively stable at approximately 15.3 and 14.5 for the six months ended 31 December 2011 and 2012 respectively.

ANALYSIS OF SELECTED ITEMS OF THE COMBINED BALANCE SHEETS

Inventory

Our inventory comprises raw materials, work in progress and finished goods. The following table sets out our inventory positions as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Raw materials	19,591,924	30,231,314	29,217,716
Work in progress	46,329,086	47,006,534	36,992,854
Finished goods	38,766,787	33,932,659	48,918,072
	104,687,797	111,170,507	115,128,642

Raw materials mainly comprised parts and components such as inverters, low voltage components, modules and cabinets used in the assembly and manufacture of our products, and spare parts and components used as replacement parts in our after-sales services or as back-up supplies in case of urgent needs from our existing customers. Work in progress represented semi-finished products assembled at our production plant in Tongxiang. Finished goods represented our industrial automation systems and sludge treatment products which have been delivered to our customers but have not passed the final testing and inspection at the customers' sites. The value of inventory accounted for approximately 57.8%, 55.7% and 62.5% of our total current assets as at 30 June 2011, 30 June 2012 and 31 December 2012, respectively. The significant inventory balance was primarily due to our relatively long production, on-site installation and testing cycle as all of our delivered products which required on-site installation and testing had been recorded as finished goods in our inventory if these products had not yet passed the final testing and inspection at the customers' sites. As most of our systems and products are custom-built pursuant to our customers' requirements, we do not manufacture our systems and products in advance to meet future demand. All our work in progress and finished goods are manufactured based on the sales contract entered into with, as well as the design agreed by, our customers.

The inventory balance slightly increased by approximately HK$6.5 million from approximately HK$104.7 million as at 30 June 2011 to approximately HK$111.2 million as at 30 June 2012. Such increase was primarily due to the increase in raw materials of approximately HK$10.6 million which was partially offset by the decrease in finished goods by approximately HK$4.8 million as compared to the end of prior financial year. The decrease in finished goods was mainly due to the fact that the on-site testing and final inspection of more projects was completed in the year ended 30 June 2012. Despite the significant increase in our revenue during the year ended 30 June 2012, our inventory balance as at 30 June 2012 remained relatively stable as compared to the end of prior financial year mainly because our business was project-based and our inventory balance was more directly related to our sales orders on hand. As at 30 June 2011 and 2012, all of our sales orders on hand amounted to approximately HK$199.0 million and HK$232 million respectively, representing an increase of approximately 16.6%.

The inventory balance slightly increased by approximately 3.6% from approximately HK$111.2 million as at 30 June 2012 to approximately HK$115.1 million as at 31 December 2012. Such increase was mainly due to increase in finished goods by approximately HK$15.0 million. Our finished goods significantly increased by approximately 44.2% to approximately HK$48.9 million as at 31 December 2012. Such increase was primarily due to the slowdown in carrying out the process of on-site testing and inspection experienced by our Group towards the year end as our customers in the paper-making industry generally preferred to postpone such process when the Chinese New Year holiday was approaching.

The following table sets out details of our raw materials as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Raw Materials For Project Use	9,525,561	19,852,907	18,721,471
Spare Parts	10,066,363	10,378,407	10,496,245
	19,591,924	30,231,314	29,217,716

For illustration purposes, we have categorised our raw materials into two categories: (i) parts and components that are purchased for the assembly and manufacture of our industrial automation systems and sludge treatment products pursuant to sales contracts in relation to customers' projects ("Raw Materials For Project Use"); and (ii) spare parts and components used as replacement parts in our after-sales services or as back-up supplies in case of urgent needs from existing customers of our industrial automation systems and sludge treatment products ("Spare Parts").

Raw Materials For Project Use increased by approximately 108.4% from HK$9.5 million as at 30 June 2011 to HK$19.9 million as at 30 June 2012. The increase was mainly due to the increase in the number of sale contracts signed for our industrial automation systems and sludge treatment products in the year ended 30 June 2012 and the majority of which have been delivered after 30 June 2012. Raw Materials For Project Use remained relatively stable at approximately HK$18.7 million as at 31 December 2012, which was in line with our sales orders on hand as at the same date.

The paper-making process is often required to operate continuously for practical as well as economic reasons, and the shutting down and starting up of paper-making machine may result in loss of operating time and the production of off-quality products that may need to be reprocessed or disposed of. It is therefore important for paper-making companies to ensure that their paper-making machines can operate continuously without any disruptions as well as access to Spare Parts for timely repair in the event of a system failure or malfunction. As a result of the need for continuous production of our customers, it is our inventory policy to maintain Spare Parts that we consider sufficient for meeting the potential needs for replacement parts in our after-sales services and any urgent needs from our existing customers for repair and maintenance. If we can assist our customers to replace faulty parts with our Spare Parts in a timely manner, we can help them minimise potential losses caused by down time of machinery. The inventory level of our Spare Parts remained relatively stable at approximately HK$10.1 million, HK$10.4 million and HK$10.5 million as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively.

Provision for write-down of inventories

We have established policies to evaluate the amount of provision required for write-down of inventories. We will inspect and review the ageing and conditions of inventories. If we consider that the inventories have become obsolete or damaged, we will make provision for these items so as to reflect the net realisable value of these items in our books and records.

Our management considered these raw materials as obsolete when (i) they aged over one year and (ii) there was no utilisation plan for them as at the year/period end. As at 30 June 2011, 30 June 2012 and 31 December 2012, a batch of raw materials, with cost of approximately HK$8.5 million, HK$3.3 million and HK$2.0 million respectively, was considered obsolete.

We have provided for inventory write-down of approximately HK$1.8 million and HK$0.1 million for the year ended 30 June 2011 and 2012, respectively, and a reversal of inventory write-down of approximately HK$0.7 million for the six months ended 31 December 2012. Such amounts were included as part of our cost of sales for the year ended 30 June 2011 and 2012 and for the six months ended 31 December 2012 respectively. During the year ended 30 June 2012, we sold part of these underlying goods for which provision had already been made amounting to approximately HK$1.6 million to Independent Third Parties and had written off the provision for inventories by the same amount. We made provision for write-down of inventories amounting to approximately HK$3.8 million, HK$2.4 million and HK$1.6 million as at 30 June 2011 and 2012 and 31 December 2012 respectively for our obsolete raw materials. We had not made any provision for write-down of inventories for work in progress and finished goods, as these inventories have been secured by sales contracts with our customers and we did not encountered cancellation of orders by customers during the Track Record Period. Our Directors considered that the provision for write-down of inventories during the Track Record Period was sufficient.

The movements of our provision for write-down of inventories are as follows:

	Year ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
As at the beginning of the year/period	1,836,671	3,761,082	2,369,463
Provision for/(reversal of) inventories write-down	1,790,480	113,570	(744,492)
Written off provision for inventories write-down	–	(1,566,239)	–
Foreign exchange difference	133,931	61,050	10,764
As at the end of the year/period	3,761,082	2,369,463	1,635,735

Inventory turnover

The following table sets out a summary of our average inventory turnover days for the years/period indicated:

	Year ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
Average raw material turnover days *(Note 1)*	107	62	68
Average work in progress turnover days *(Note 2)*	169	103	90
Average finished good turnover days *(Note 3)*	117	80	89
Average inventory turnover days *(Note 4)*	393	245	247

Notes:

1. The average number of raw material turnover days is equal to average raw material before provision (raw material before provision at the beginning of the year/period plus raw material before provision at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

2. The average number of work in progress turnover days is equal to average work in progress (work in progress at the beginning of the year/period plus work in progress at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

3. The average number of finished goods turnover days is equal to average finished goods (finished goods at the beginning of the year plus finished goods at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

4. The average number of inventory turnover days is equal to average inventory before provision (inventory before provision at the beginning of the year/period plus inventory before provision at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

The average raw material turnover days decreased from 107 days for the year ended 30 June 2011 to 62 days for the year ended 30 June 2012 and then slightly increased to 68 days for the six months ended 31 December 2012. The decrease in average raw material turnover days for the year ended 30 June 2012 was primarily due to the increase in our production scale as a result of the increased number of sales orders obtained during the same year. The increase in the average raw material turnover days for the six months ended 31 December 2012 was primarily due to the relatively high level of raw materials we maintained as at the year end to fulfill our production schedules.

The average work in progress turnover days decreased from 169 days for the year ended 30 June 2011 to 103 days for the year ended 30 June 2012 and further decreased to 90 days for the six months ended 31 December 2012. The production lead-time for our systems or products may vary depending on the size and complexity of our projects which differ significantly depending on the type of systems or products provided as well as our clients' requirement. The decrease in average work in progress turnover days for the year ended 30 June 2012 was primarily due to the increased number of sales orders we need to meet during the same year. The further decrease in average work in progress turnover days for the six months ended 31 December 2012 was primarily due to the increased production efficiency of our sludge treatment products brought by our accumulation of experience in the previous years.

The average finished goods turnover days decreased from 117 days for the year ended 30 June 2011 to 80 days for the year ended 30 June 2012 and then increased to 89 days for the six months ended 31 December 2012. The time needed for accepting our systems or products may vary depending on the size and complexity of our projects as well as working progress of parties supplying other components in the projects as our systems or products are required to integrate with their components prior to on-site testing. Decrease in the average finished goods turnover days for the year ended 30 June 2012 was primarily a result of the completion of on-site testing and final inspection for more projects before 30 June 2012. Increase in average finished good turnover days for the six months ended 31 December 2012 was mainly attributable to the significant increase in our finished goods balance as at 31 December 2012. Such increase was primarily due to the slowdown in carrying out the process of on-site testing and inspection experienced by our Group towards the year end as our customers in the paper-making industry generally preferred to postpone such process when the Chinese New Year holiday was approaching.

The average inventory turnover days for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 was 393 days, 245 days and 247 days respectively. Our average inventory turnover days was relatively high primarily due to our accounting policy to record products delivered as our finished goods prior to satisfactory completion of on-site testing and final inspection, and our long average finished goods turnover days mainly attributable to the time taken from our product delivery to satisfactory completion of the on-site testing and final inspection for our products. Based on our Group's past experience, the above process took an average of 133 days and 285 days for our major industrial automation systems and sludge treatment products respectively.

As at 31 March 2013, 35.9%, 51.9% and 28.1% of our raw materials, work in progress and finished goods respectively as at 31 December 2012 had been subsequently used or settled.

Trade receivables

Trade receivables as at 30 June 2011, 30 June 2012 and 31 December 2012 mainly represented the outstanding amounts receivable by us from our customers less any provision for impairment of trade receivables.

The following table sets out an analysis of our trade receivables as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Trade receivables – due from third parties	23,220,935	24,671,572	40,271,306
Trade receivables – due from related parties	1,990,911	3,526,507	57,278
	25,211,846	28,198,079	40,328,584
Less: provision for impairment of trade receivables	(3,026,175)	(3,493,754)	(2,817,324)
Trade receivables – net	22,185,671	24,704,325	37,511,260

Our customers are normally required to make payment pursuant to the sales contracts for our industrial automation systems and sludge treatment products in the following stages: (i) a down payment of approximately 10% to 30% of the total contract value either upon signing of the relevant contract or within 30 days from the date of the contract; (ii) up to approximately 90% to 95% of the contract value upon delivery; and (iii) the remaining contract value of approximately 5% to 10% upon the expiry of the warranty period (which is usually for a period of either 18 months from the date of delivery or 12 months after successful completion of on-site testing, whichever is earlier).

For after-sales service, payments are mostly settled in advance or within seven days after such services are rendered.

Our total trade receivables consist of warranty deposits which represented 5% to 10% of the contract sum receivable from customers upon expiry of the warranty period and other trade receivables which represented the outstanding receivables, excluding warranty deposits, from customers in relation to the completed projects (i.e. products have been delivered and on-site testing and inspection have been completed and acceptance of products acknowledged by the customers) or in relation to our after-sales services. The table below sets out the aging breakdown of our warranty deposits, which are presented based on the commencement date of the warranty period, and other trade receivables, which are presented based on the contractual payment terms, as at the relevant end date of each of the reporting periods:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Warranty deposits			
Up to three months	2,032,890	6,668,215	7,063,399
Three months to six months	2,043,680	1,652,124	929,990
Six months to one year	1,687,308	2,725,965	7,039,550
One year to two years	3,291,517	3,470,137	4,047,472
Over two years	5,501,906	1,922,515	1,885,181
	14,557,301	16,438,956	20,965,592
Other trade receivables			
Up to three months	3,944,320	6,335,809	12,522,335
Three months to six months	955,258	1,000,651	2,204,239
Six months to one year	3,900,847	684,836	2,199,008
One year to two years	432,326	2,563,262	1,582,965
Over two years	1,421,794	1,174,565	854,445
	10,654,545	11,759,123	19,362,992

Our Group's trade receivables increased by approximately 11.8% from approximately HK$25.2 million as at 30 June 2011 to approximately HK$28.2 million as at 30 June 2012 and then further increased by approximately 43.0% to approximately HK$40.3 million as at 31 December 2012. The percentage of increase in our trade receivables as at 30 June 2012 was less than the percentage of increase in our revenue for the year ended 30 June 2012 primarily because our sales contracts for our industrial automation systems and sludge treatment products require customers to pay a substantial amount of contract sum by way of advance payment by the time of product delivery which is usually ahead of our revenue recognition upon completion of on-site testing and inspection and product acceptance by the customers. Please refer to the paragraphs headed "Salient terms of a typical contract entered into during the Track Record Period" in the section headed "Business" in this prospectus for details of the payment terms offered by our Group to its customers. Our total trade receivables increased significantly from approximately HK$28.2 million as at 30 June 2012 to approximately HK$40.3 million as at 31 December 2012 due to the increase in other trade receivables by approximately HK$7.6 million to approximately HK$19.4 million as at 31 December 2012 and the increase in warranty deposits by approximately HK$4.5 million to approximately HK$21.0 million as at 31 December 2012.

Other trade receivables increased by approximately 10.4% from approximately HK$10.7 million as at 30 June 2011 to approximately HK$11.8 million as at 30 June 2012 and then further increased by approximately 64.7% to approximately HK$19.4 million as at 31 December 2012. The increase in other trade receivables was mainly due to the increase in the number of our customers who had not settled the bills pursuant to contractual payment terms. Our Directors believe that these customers delayed payment to us because they preferred to have more flexibility in their own cash flow arrangements given the challenging economic conditions in the PRC in the second half of 2012. To closely monitor customers' payment status, our Directors review the outstanding balances of our trade receivables on a monthly basis and proactively seek timely settlement of payments by our customers. Up to 31 March 2013, approximately 26.1% of other trade receivables have been settled.

Our warranty deposits increased from approximately HK$14.6 million as at 30 June 2011 to approximately HK$16.4 million as at 30 June 2012 primarily due to increase in completion of sales contracts during the year ended 30 June 2012. Our overdue warranty deposits decreased by approximately HK$3.4 million to approximately HK$5.4 million as at 30 June 2012 as compared with the overdue warranty deposits of approximately HK$8.8 million as at 30 June 2011. Such decrease was mainly attributable to the incentive policy implemented by us in July 2011 to control our outstanding warranty deposits through which we encouraged our sales personnel to increase our effort in collecting outstanding warranty deposits by offering them an incentive bonus of 0.2% of the amount of warranty deposits recouped. Our warranty deposits increased by approximately HK$4.5 million to approximately HK$21.0 million as at 31 December 2012 primarily due to our revenue recorded as a result of completion of our sales contracts during the six months ended 31 December 2012. As at 30 June 2011, 30 June 2012 and 31 December 2012, our overdue warranty deposits was approximately HK$8.8 million, HK$5.4 million and HK$5.9 million respectively. The warranty deposits became overdue primarily due to the difficult financial situations encountered by some of our customers and maintaining our customer relationship. Our warranty deposits, which aged within 1 year as at 30 June 2011, 30 June 2012 and aged within 6 months as at 31 December 2012, respectively, represented approximately 6.6%, 5.1% and 7.2% of our revenue for the year ended 30 June 2011 and 2012 and 31 December 2012 respectively. Such percentage fall within the range of our warranty deposits which is between 5% and 10% of the contract sum.

Save as disclosed above, we had not encountered any difficulties in recouping the warranty deposits from our customers during the Track Record Period and up to the Latest Practicable Date.

The trade receivables due from related parties were resulted from trade-related activities. The terms for these trade receivables were in accordance with contractual terms similar to those offered to third parties and our Directors confirm that all such related party transactions were on normal commercial terms.

The following set out the details of the trade receivables due from related parties as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Huazhang Automation (Zhejiang)	1,619,640	3,526,507	57,278
Shanghai Yunjie Consultation	371,271	–	–
	1,990,911	3,526,507	57,278

As at 30 June 2011, the trade receivables due from related parties amounted to approximately HK$2.0 million and were fully settled in September 2011. As at 30 June 2012, the trade receivables due from a related party amounted to approximately HK$3.5 million and were fully settled in August 2012. As at 31 December 2012, the trade receivables due from a related party amounted to HK$57,278 and was settled in February 2013.

Trade receivable turnover days

The following table sets out our Group's trade receivables turnover days for the year/period indicated:

	Year ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
Warranty deposits turnover days *(Note 1)*	899	447	513
Other trade receivable turnover days *(Note 2)*	38	19	25
Trade receivable turnover days *(Note 3)*	85	42	52

Notes:

1. The number of warranty deposits turnover days is calculated as average warranty deposits (warranty deposits at the beginning of the year/period plus warranty deposits at the end of the year/period then divided by two) divided by revenue attributable to the warranty deposits for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

2. The number of other trade receivables turnover days is calculated as average other trade receivables (other trade receivables at the beginning of the year/period plus other trade receivables at the end of the year/period then divided by two) divided by revenue excluding that attributable to warranty deposits the for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

3. The number of trade receivables turnover days is calculated as average trade receivables (trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period then divided by two) divided by total revenue for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

Our trade receivables turnover days decreased from 85 days in the year ended 30 June 2011 to 42 days in the year ended 30 June 2012 and then increased to 52 days in the six months ended 31 December 2012. The decrease in the year ended 30 June 2012 was mainly due to our implementation of a new credit policy in July 2011 to encourage our sales personnel to recover outstanding warranty deposits from customers. Our warranty deposit turnover days during the Track Record Period was longer than the warranty period, which is usually for 18 months from the date of delivery or 12 months after completion of on-site testing, whichever is earlier, that we normally grant to our customers pursuant to the sales contracts. It was because we did not actively collect the warranty deposits from customers in order to maintain good business relationships with them, even though such warranty deposits were aged over one year. As the number of projects completed increased, our management became aware of the significant warranty deposit balances. As a result, to better control our credit risk, we implemented the new credit policy above in July 2011 and our warranty deposits turnover days decreased from 899 days in the year ended 30 June 2011 to 447 days in the year ended 30 June 2012. Meanwhile, the other trade receivable turnover days decreased from 38 days in the year ended 30 June 2011 to 19 days in the year ended 30 June 2012 due to our sales personnel's effort in recovering the outstanding debts.

However, the trade receivables turnover days increased in the six months ended 31 December 2012, which was due to the increase in warranty deposits turnover days and other trade receivable turnover days during the six months ended 31 December 2012 to 513 days and 25 days respectively. Such increase was primarily due to the increase in the number of our customers who had not settled the bills in accordance with the contractual payment terms. Our Directors believe that these customers delayed payment to us because they preferred to have more flexibility in their own cash flow arrangements given the challenging market condition in the PRC in the second half of 2012. To ensure recoverability of these trade receivables, our management closely monitors the ageing status of our trade receivables, payment history, subsequent settlement, on-going business relationship and financial condition of our customers. Our salespersons also regularly visit customers whose balances are overdue to understand their financial status and adopt an active but friendly approach for chasing the overdue balances. Our management may also consider issuing legal letters to reclaim the overdue balances where appropriate

Provision for impairment of trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. We will assess at the end of each reporting period whether there is objective evidence that a receivable is impaired. A receivable is impaired and impairment loss is recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition (a "loss" event) and that loss event (or events) has an impact on the estimated future cash flows of the receivable that can be measured reliably. Evidence of impairment may include indication that the debtors or a group of debtors are experiencing financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation.

We monitor the recoverability of our trade receivables on a regular basis. With respect to the overdue trade receivables, our salespersons regularly liaise with the relevant customers to collect these receivables. Moreover, our head of sales will pay regular visits to our customers to update them on the project status and to follow up directly with customers in respect of overdue payment.

As at 30 June 2011, 30 June 2012 and 31 December 2012, trade receivables of approximately HK$3.0 million, approximately HK$3.5 million and approximately HK$2.8 million were impaired respectively. The individually impaired receivables were mainly related to customers in difficult financial situations. The ageing analysis of these trade receivables is as follows:

	As at 30 June		**As at 31 December**
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
One year to two years	875,937	934,153	978,603
Over two years	2,150,238	2,559,601	1,838,721
	3,026,175	3,493,754	2,817,324

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

	Year ended 30 June		**Six months ended 31 December**
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
As at the beginning of the year/period	2,576,635	3,026,175	3,493,754
Provision for/(reversal of) receivables impairment	315,487	402,650	(693,390)
Foreign exchange difference	134,053	64,929	16,960
As at the end of the year/period	3,026,175	3,493,754	2,817,324

During the six months ended 31 December 2012, we reversed the provision for impairment of trade receivables of approximately HK$0.7 million as we managed to collect the receivables from a few customers for which provision was made in previous years. To assess the collectibility of our trade receivables, our management closely monitors the ageing status of our trade receivables, payment history, subsequent settlement, on-going business relationship and financial condition of our customers. Our salespersons also regularly visit customers whose balances are overdue to understand their financial status. Based on our past experience, our Directors believe that adequate provision was made for our trade receivables during the Track Record Period as our Group had not identified collectibility issues with regards to these balances which are considered fully recoverable.

As at 31 March 2013, approximately 7.6% and 26.1% of our warranty deposits and other trade receivables respectively as at 31 December 2012 have been settled, the detail is as follows:

Warranty deposits

	As at 31 December 2012	**Subsequent settlement up to 31 March 2013**
	HK$	*HK$*
Up to three months	7,063,399	80,333
Three months to six months	929,990	45,475
Six months to one year	7,039,550	564,223
One year to two years	4,047,472	304,125
Over two years	1,885,181	601,380
	20,965,592	1,595,536

Other trade receivables

	As at 31 December 2012	**Subsequent settlement up to 31 March 2013**
	HK$	*HK$*
Up to three months	12,522,335	3,911,777
Three months to six months	2,204,239	868,045
Six months to one year	2,199,008	153,159
One year to two years	1,582,965	117,161
Over two years	854,445	6,166
	19,362,992	5,056,308

Prepayments

Our prepayments mainly consist of prepayments for raw materials and prepayments for professional service fees. The following sets out the analysis of our prepayments as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Non-current			
Prepayments for operating lease payment – non-current portion	369,056	352,450	330,194
Prepayments for property, plant and equipment	876,134	–	77,943
	1,245,190	352,450	408,137
Current			
Prepayments for raw materials	9,001,165	7,546,375	1,518,066
Prepaid income tax	800,809	882,074	1,612,222
Prepayments for operating lease payment – current portion	90,907	92,736	16,102
Prepaid and deferred professional service fees	–	1,313,338	3,356,943
	9,892,881	9,834,523	6,503,333
	11,138,071	10,186,973	6,911,470

Our prepayments decreased by approximately 8.5% from approximately HK$11.1 million as at 30 June 2011 to approximately HK$10.2 million as at 30 June 2012. The decrease in prepayments was mainly caused by: (i) the decrease in prepayments for property, plant and equipment of approximately HK$0.9 million as these property, plant and equipment was delivered during the year ended 30 June 2012; (ii) the decrease in prepayments for raw materials from approximately HK$9.0 million as at 30 June 2011 to approximately HK$7.5 million as at 30 June 2012 due to the fact that more raw materials were received as at the same year end; and (iii) the prepayments for professional service fees relating to our Listing by approximately HK$1.3 million in the year ended 30 June 2012.

Our prepayments as at 31 December 2012 further decreased to approximately HK$6.9 million and the decrease was mainly caused by: (i) the decrease in prepayments for raw materials from approximately HK$7.5 million as at 30 June 2012 to approximately HK$1.5 million as at 31 December 2012; and partially offset by increase of prepaid and deferred professional service fees from approximately HK$1.3 million as at 30 June 2012 to approximately HK$3.4 million as at 31 December 2012.

Prepayments for raw materials represented the payment in advance to some of our suppliers which required down payments prior to delivery of raw materials to us. The prepayments for raw materials represented approximately 5.0%, 3.8% and 0.8% of the total current assets as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively. The significant balance of prepayments for raw materials at year/period ends was mainly to secure the supply of our raw materials, parts and components for ongoing projects. The decrease in balance from approximately HK$9.0 million as at 30 June 2011 to approximately HK$7.5 million as at 30 June 2012 was generally in line with increase in raw materials. The prepayments for raw materials further decreased to approximately HK$1.5 million as at 31 December 2012 primarily due to reduction in our purchase orders placed near the period end. As at 31 March 2013, approximately 37.3% of prepayments for raw materials as at 31 December 2012 have been settled.

Prepaid and deferred professional service fees of approximately HK$1.3 million as at 30 June 2012 and approximately HK$3.4 million as at 31 December 2012 represented the expenses in relation to the Listing for which the related services have not yet been performed or the related services have been performed and will be charged to equity upon Listing.

Other receivables

Our other receivables consist of amounts due from related parties and other receivables from third parties. The following sets out the analysis of our Group's other receivables as at the balance sheet dates indicated:

	As at 30 June		**As at 31 December**
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Amounts due from related parties	11,111,615	80,960	21,493
Other receivables from third parties	2,982,736	784,929	691,071
	14,094,351	865,889	712,564

Our Group's other receivables decreased by approximately 93.9% from approximately HK$14.1 million as at 30 June 2011 to approximately HK$0.9 million as at 30 June 2012, and further decreased to approximately HK$0.7 million as at 31 December 2012. The decrease was primarily due to the settlements made by both related parties and third parties during the year ended 30 June 2012 and the six months ended 31 December 2012.

The following sets out the details of the amounts due from related parties as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Zhu Gen Yi	–	–	21,493
Ms. Zhu	9,619,778 *(Note)*	–	–
Shanghai Yunjie Consultation	1,088,847	–	–
Hangzhou Rong Wei Industrial Investment Co., Ltd.	293,325	–	–
Huazhang Automation (Zhejiang)	79,363	80,960	–
Hangzhou Huazhang Engineering	30,302	–	–
	11,111,615	80,960	21,493

Note: The amount represented the remaining balance of the loan in an aggregate amount of RMB10 million granted to Ms. Zhu pursuant to the loan agreements entered into between Huazhang Technology and Ms. Zhu on 16 November 2010 and 18 January 2011 respectively.

As at 30 June 2011, the amount due from related parties amounted to approximately HK$11.1 million, among which approximately HK$11.0 million was fully settled in the year ended 30 June 2012. The amount of HK$80,960 due from Huazhang Automation (Zhejiang) as at 30 June 2012 was fully settled in the six months ended 31 December 2012. The amount of HK$21,493 as at 31 December 2012 due from Mr. Zhu Gen Yi will be settled before Listing.

During the Track Record Period, we provided loans to our related parties. The table below sets out the details of the loan amounts during the Track Record Period:

	For the year ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$* (unaudited)	*HK$*
Hangzhou Yiyi Consultation *(Note 1)*	20,152,464	485,779	487,116	–
Hangzhou Tiger Power Automation Company Limited *(Note 2)*	12,675,982	8,501,129	8,524,526	–
Ms. Zhu *(Note 3)*	11,737,020	–	–	–
Huazhang Automation (Zhejiang) *(Note 4)*	–	12,144,471	–	–
Tongxiang Modern Eco-Agriculture *(Note 5)*	–	24,288,941	23,016,221	–
Total	44,565,466	45,420,320	32,027,863	–

Notes:

1. The loan to Hangzhou Yiyi Consultation was for business advancement purpose and was unsecured, interest free and repayable on demand. The loan was fully repaid in December 2011.

2. The loan to Hangzhou Tiger Power Automation Company Limited was for business advancement purpose and was unsecured, interest free and repayable on demand. The loan was fully repaid in December 2011.

3. Ms. Zhu was a director of Huazhang Technology until 10 October 2012 when she resigned from the position due to her health problem. During the year ended 30 June 2011, Ms. Zhu made a request to the board of directors of Huazhang Technology for a loan from Huazhang Technology. Having considered Ms. Zhu's relationship with Huazhang Technology and the then available funds held by Huazhang Technology, Huazhang Technology entered into two loan agreements separately with Ms. Zhu on 16 November 2010 and 18 January 2011 for an aggregate amount of RMB10.0 million and at an interest rate of 5% per annum. To the best of our Directors' knowledge, the loan granted to Ms. Zhu was for the purpose of her personal financing. Our Directors confirmed that the interest payable by Ms. Zhu was subsequently waived. The outstanding balance of the loan was fully repaid by Ms. Zhu in August 2011.

4. The loan to Huazhang Automation (Zhejiang) was for business advancement purpose and was unsecured, interest-free and repayable on demand. The loan was fully repaid in March 2012.

5. The loans to Tongxiang Modern Eco-Agriculture were for business advancement purpose and were unsecured, interest-free and repayable on demand. The loans were fully repaid in February 2012.

6. We also provided a loan amounting to RMB15.0 million to a third party customer in the year ended 30 June 2010. Our Directors confirmed the loan granted to that customer was for the purpose of advancement to our business partner. The loan was unsecured, interest-free and repayable on demand, and was subsequently fully repaid in the year ended 30 June 2011.

As advised by our PRC Legal Advisers, the loan arrangements between our Group and individuals constitute private lending under the relevant PRC laws and regulations. If the interest rate of such loan does not exceed four times of the interest rate of bank loan stipulated by the People's Bank of China for the corresponding period, then it will not violate the relevant PRC laws and regulations. As such, provision of loans by us to Ms. Zhu was legitimate and did not contravene the PRC laws and regulations.

As advised by our PRC Legal Advisers, any inter-enterprise lending arrangements between non-bank institutions are prohibited by the General Principles of Lending of the People's Bank of China (中國人民銀行貸款通則) (the "General Lending Principles"). Therefore, provision of loan by us to third-party enterprises has contravened the regulations of General Lending Principles, and the relevant banking supervisory authority is entitled to impose penalties to our Group in an amount that is one to five times of the interest collected by us from the said loans. However, given that our Group has not charged any interest for the loans provided to abovementioned entities, we shall not be subject to any penalties or any other legal consequences for such inter-enterprise lending activities.

The other receivables from third parties mainly comprised the deposits that we have paid for project tenders and advances to our employees for the purpose of settling expenses incurred for on business operation. The other receivables from third parties amounted to approximately HK$3.0 million and HK$0.8 million as at 30 June 2011 and 2012 respectively. The decrease in other receivables from third parties was mainly attributable to the repayments by our employees amounting to approximately HK$1.2 million and repayments by our customers amounting to approximately HK$1.0 million. The other receivables from third parties as at 31 December 2012 further decreased to approximately HK$0.7 million due to decrease in deposit for tendering. All of the advances to our employees as at 30 June 2012 have been settled before 31 December 2012.

Trade and bills payables

Trade and bills payables as at 30 June 2011 and 2012 and 31 December 2012 mainly represented the outstanding amounts payable by us to our suppliers of raw materials and our bills payables.

The following table sets out our trade and bills payables as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Trade payables – due to third parties	14,440,020	15,126,400	10,779,992
Trade payables – due to related parties	10,435,579	19,461,417	4,182,465
Bills payable	156,321	1,545,227	8,659,523
	25,031,920	36,133,044	23,621,980

Our trade and bills payables increased by approximately 44.3% from approximately HK$25.0 million as at 30 June 2011 to approximately HK$36.1 million as at 30 June 2012. The increase was mainly due to the increase of trade payables to Huazhang Automation (Zhejiang), a related party of our Group. Our trade and bills payables fell to approximately HK$23.6 million as at 31 December 2012, which was mainly attributable to the decrease in trade payables to both third parties and Huazhang Automation (Zhejiang),

Trade payables due to third parties amounted to approximately HK$14.4 million, HK$15.1 million and HK$10.8 million as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively. The decrease in trade payables due to third parties as at 31 December 2012 was primarily due to increased usage of bills for settlements.

Trade payables due to related parties increased significantly from approximately HK$10.4 million as at 30 June 2011 to approximately HK$19.5 million as at 30 June 2012, primarily due to increase in purchase from Huazhang Automation (Zhejiang) to fulfill our production schedules during the year ended 30 June 2012. Trade payables due to related parties decreased to approximately HK$4.2 million as at 31 December 2012 primarily due to our relatively lower purchase volume near the end of the financial period.

Among the trade payables, warranty deposits payable to suppliers amounted to approximately HK$0.9 million, HK$2.0 million and HK$4.3 million as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively. The increase in warranty deposits payable to suppliers was primarily due to increase in purchase during the Track Record Period.

Up to 31 March 2013, approximately 73.6% of our gross trade payables as at 31 December 2012 had been settled. Our Directors confirm that all related party transactions were carried out on normal commercial terms

Trade payables turnover days

The following table sets out our Group's average number of trade payables turnover days for the year/period indicated:

	Year ended 30 June		**Six months ended 31 December**
	2011	**2012**	**2012**
Turnover of trade payables (days)	88	66	53

The average number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year/period plus trade payables at the end of the year/period divided by two) divided by total costs of sales for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012). Our trade payables turnover days decreased from 88 days for the year ended 30 June 2011 to 66 days for the year ended 30 June 2012 mainly due to the quicker settlement to our suppliers in light of improvement in our operating cash flow during the year ended 30 June 2012. The further decrease in trade payable turnover days to 53 days for the six months ended 31 December 2012 was mainly due to increase in settlement of trade payables by bills. Each of the average number of trade payables turnover days in the years ended 30 June 2011 and 2012 was longer than the credit terms of approximately 15 days to 60 days granted by our suppliers, primarily attributable to the fact that credit period commences upon receipt of invoices from our suppliers. Suppliers who offer us credit terms are generally our major suppliers with long years of relationship with us. Some of them did not deliver with their goods the corresponding invoices and thus their credit periods did not commence upon our recognition of trade payables when we received the goods from these suppliers. Our Directors confirmed that we had not encountered any disputes with suppliers regarding when credit periods commence during the Track Record Period and up to the Latest Practicable Date.

The following table sets out the ageing analysis of our trade payables (including the amounts due to related parties) as at the balance sheet dates:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Up to three months	22,063,814	32,356,979	12,375,677
Three months to six months	1,517,626	249,237	910,364
Six months to one year	979,058	1,428,736	624,604
One year to two years	38,791	337,404	719,551
Over two years	276,310	215,461	332,261
	24,875,599	34,587,817	14,962,457

Other payables

Our other payables mainly consisted of advances from customers and amounts due to related parties.

The following sets out the analysis of our Group's other payables as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Other taxes payable	1,005,644	1,908,860	2,249,523
Employee benefit payables	1,889,262	2,453,325	4,933,095
Advances from customers	105,864,057	101,701,793	99,643,170
Amounts due to related parties	32,112,773	–	–
Provision for warranty expenses	516,978	1,381,593	3,159,965
Payables for property, plant and equipment	201,899	1,577,295	1,955,610
Others	1,240,556	2,014,756	1,726,960
	142,831,169	111,037,622	113,668,323

Our Group's other payables decreased by approximately 22.3% from approximately HK$142.8 million as at 30 June 2011 to approximately HK$111.0 million as at 30 June 2012. The decrease was mainly due to (i) decrease in advances from customers of approximately HK$4.2 million from approximately HK$105.9 million in the year ended 30 June 2011 to approximately HK$101.7 million in the year ended 30 June 2012 and (ii) capitalisation of amount due to a related party in the year ended 30 June 2012 of approximately HK$35.2 million.

As at 31 December 2012, our Group's other payables increased to HK$113.7 million mainly due to (i) an increase in employee benefit payable of approximately HK$2.5 million as at 30 June 2012 to approximately HK$5.0 million as at 31 December 2012, and (ii) an increase in provision for warranty expenses from approximately HK$1.4 million as at 30 June 2012 to approximately HK$3.2 million as at 31 December 2012 as a result of the increase in revenue, partially offset by a decrease of advances from customers of approximately HK$2.1 million from approximately HK$101.7 million as at 30 June 2012 to approximately HK$99.6 million as at 31 December 2012.

Advances from customers

Advances from customers mainly represent the deposits received from customers. For details of our collection policy on customer's deposits, please refer to the paragraph headed "Customers – Payments" under the section headed "Business" in this prospectus.

As discussed above, we generally recognise revenue from sale contracts when our customers issue us a satisfaction certificate after the successful completion of on-site testing. Advances from customers represent the amount of revenue that can be recognised upon satisfaction of certain criteria subsequent to the financial year end.

Advances from customers amounted to approximately HK$105.9 million as at 30 June 2011 and amounted to approximately HK$101.7 million as at 30 June 2012, representing a decrease of approximately 3.9%. It was primarily attributable to increase in projects completed before the year ended 30 June 2012 which was generally in line with decrease in our finished goods. As at 31 December 2012, advances from customers remained relatively stable at approximately HK$99.6 million.

As at 31 March 2013, approximately 20.3% of the advances from customers as at 31 December 2012 was subsequently recognised as revenue.

Amounts due to related parties

The amounts due to related parties represented the loans from Huazhang Overseas and Mr. Zhu and were unsecured, interest-free and repayable on demand. As at 30 June 2011, the amounts due to related parties were approximately HK$32.1 million. In the year ended 30 June 2012, we borrowed approximately HK$5.6 million from Huazhang Overseas, repaid approximately HK$2.5 million to Mr. Zhu and capitalised the amounts due to Huazhang Overseas of approximately HK$35.2 million. There was no outstanding amount due to related parties as at 30 June 2012. During the six months ended 31 December 2012, Huazhang Overseas further advanced us HK$5.2 million to fund our daily operation. The amount was then capitalised on 31 December 2012 pursuant to relevant agreements. After this loan capitalisation, there was no outstanding amount due to related parties as at 31 December 2012.

CAPITAL EXPENDITURES

Our capital expenditures incurred during the Track Record Period primarily consisted of the purchase of property, plant and equipment. Historically, we funded our capital expenditures through internal resources, other borrowings and borrowings from banks. The following table sets out our capital expenditures for the year/period indicated:

	Year ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Machineries	1,207,433	4,474,082	576,803
Furniture, fittings and equipment	683,716	1,746,019	164,337
Construction in progress	6,689,417	6,584,743	–
	8,580,566	12,804,844	741,140

CAPITAL COMMITMENT

As at 30 June 2011 and 2012 and 31 December 2012, our Group had the following capital commitments which are not provided for in our Group's combined financial statements:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Property, plant and equipment	3,193,766	1,151,478	647,410

INDEBTEDNESS

As at 31 December 2012, our Group had outstanding indebtedness of approximately HK$6.2 million, representing secured short-term bank borrowings of approximately HK$6.2 million, which were repaid in January 2013.

The following table sets out our indebtedness as at the end of each reporting period:

	As at 30 June 2011	As at 30 June 2012	As at 31 December 2012	As at 31 March 2013
	HK$	*HK$*	*HK$*	*HK$*
Secured short-term bank borrowings	18,037,084	18,399,941	6,166,369	–
Unsecured short-term bank borrowings	–	6,219,180	–	–
	18,037,084	24,619,121	6,166,369	–

As at 30 June 2011 and 2012, the secured short-term bank borrowings were secured by the certain land use right and buildings of our Group and guaranteed by Mr. Zhu. As at 31 December 2012, the secured short-term bank borrowings were secured by certain land use rights and buildings of our Group. The carrying amounts of our borrowings were all denominated in RMB with fixed interest rates.

The weighted average effective interest rates at each balance sheet date were as followings:

	As at 30 June 2011	As at 30 June 2012	As at 31 December 2012	As at 31 March 2013
Bank borrowing – short-term	5.62%	7.00%	7.23%	6.30%

Save as described in this section, as at 31 March 2013, our Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other significant contingent liabilities.

Our Directors confirmed that during the Track Record Period and as of the Latest Practicable Date:

(i) we were not in breach of any covenants under our banking facilities or other payables and credit facilities;

(ii) we were not subject to any loan recall or early repayment request by our lenders;

(iii) we did not encounter any difficulty in obtaining external borrowings necessary for our operations;

(iv) there was no significant increase in the interest rates for our banking facilities; and

(v) there was no default in payment of bank borrowings.

Our Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 March 2013 and up to the date of this prospectus.

FINANCIAL AND CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group's activities expose it to a variety of financial risks such as market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk. Our Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group's financial performance.

Market risk

Foreign exchange risk

Other than Huazhang Technology, the functional currency of our Company and its other subsidiaries is HK$, since they are investment holding companies and their operation, financing and dividend income is denominated in HK$. The functional currency of Huazhang Technology is RMB, since majority of the Huazhang Technology's revenue is derived from operations in the PRC.

Our Group's exposure to foreign exchange risk is limited to Huazhang Technology's financing activities of issuing ordinary share, which are dominated in US dollars. Our Group does not have sales or purchase transactions (i.e. export or import of products) denominated in foreign currency, and Huazhang Technology's borrowings are dominated in RMB. The exchange rate of HK$ is pegged to USD. Given the general expectation of the strengthening of RMB, our Group has not used any financial instrument to hedge foreign exchange risk.

The results and financial position of Huazhang Technology are translated from the functional currency of RMB into the presentation currency of HK$. All resulting exchange differences are recognised as translation reserve in equity.

Cash flow and fair value interest rate risk

Our Group's exposure to changes in interest rates is mainly attributable to our bank deposits and borrowings. Bank deposits at variable rates expose our Group to cash flow interest rate risk while borrowings at fixed rates expose our Group to fair value interest rate risk. Our Group has not hedged its cash flow and fair value interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our 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.

Approximately 87.9%, 93.8% and 93.0% of our revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively, were generated from sales of industrial automation systems and sludge treatment products. We usually require a down payment of approximately 10% to 30% of the total contract value to be paid either upon signing of the relevant contract or within 30 days from the date of the contract; up to approximately 90% to 95% of the contract value upon delivery of the products to customer's site; and the remaining 5% to 10% of the contract value upon the expiry of the warranty period (which is usually for a period of either 18 months from the date of delivery or 12 months after on-site testing, whichever is earlier). In this connection, our credit risk in respect of trade and other receivables is limited as we are usually entitled to receive up to approximately 90% to 95% of the contract sum upon delivery of our products.

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, our Group aims at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

We monitor our current and expected liquidity requirements to ensure that adequate reserves of cash in and sufficient banking facilities from financial institutions were maintained in order to meet our liquidity requirements. We recorded current assets of approximately HK$199.6 million (including cash and cash equivalents of approximately HK$43.8 million and restricted bank balances of approximately HK$1.5 million) as at 30 June 2012 and approximately HK$184.3 million (including cash and cash equivalents of approximately HK$23.0 and restricted bank balances of approximately HK$1.5 million) as at 31 December 2012.

DIVIDEND

Following the Listing, our Shareholders will be entitled to receive dividends declared by our Company. There is no plan of dividend distribution in the foreseeable future for unremitted earnings of Huazhang Technology, our PRC subsidiary, that was earned on and after 1 January 2008 till 30 June 2012.

We intend to declare dividends of not less than 25% of our net profit for each of the financial years starting from the year ending 30 June 2013, subject to the approval of our board of Directors and Shareholders and factors including but not limited to:

- our results of operations;
- cash flows and financial condition;
- operating and capital requirements;
- amount of distributable profits;
- our Articles of Association, the Companies Law and other applicable PRC laws and regulations; and
- other factors that our Directors consider relevant.

Under the Articles of Association and the Companies Law, payment of dividends out of retained earnings is only allowed on the condition that we are able to pay our debts when they become due in the ordinary course of business at the time the proposed dividend is to be paid. Our Shareholders must approve in a general meeting any declaration of dividends, which must not exceed the amount recommended by our Directors. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Huazhang Electric declared dividends in the year ended 30 June 2012 in the sum of approximately HK$12.7 million to Huazhang Overseas. The amount was fully settled on 20 July 2011.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 26 June 2012 and has not carried on any business since the date of its incorporation. Accordingly, there were no retained earnings available for distribution to owner of our Company as at 31 December 2012, being the date to which our latest audited financial statements were made up.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particular of our property interests are set out in Appendix III to this prospectus. Cusham & Wakefield Valuation Advisory Services (HK) Limited, an independent property valuer, has valued our Group's property interests as at 31 March 2013 and is of the opinion that the aggregate value of our Group's property interests as at such date was approximately RMB69,370,000 (equivalent to approximately HK$86,582,626). The full text of the letter, summary of values and valuation certificates in connection with such property interests are set out in Appendix III to this prospectus.

A reconciliation of our Group's net book value of the relevant buildings and land use rights and the valuation of such property interests as required under Rule 8.30 of the GEM Listing Rules is set forth below:

	Buildings and land use rights
	HK$
Net book value as at 31 December 2012	36,460,032
Movement during the three months ended 31 March 2013	
– Depreciation and amortisation	(406,832)
– Exchange differences	147,864
Net book value as at 31 March 2013	36,201,064
Revaluation surplus	50,381,562
Valuation as at 31 March 2013	86,582,626

RECENT DEVELOPMENTS SUBSEQUENT TO 31 DECEMBER 2012

Based on our unaudited financial statements, our total revenue increased by approximately 13.5% from approximately HK$139.3 million for the nine months ended 31 March 2012 to approximately HK$158.1 million for the nine months ended 31 March 2013. The table below sets out the revenue, the corresponding amount as a percentage of our total revenue and the gross profit margin for each of our business segments for the periods indicated:

	Nine months ended					
	31 March 2012			**31 March 2013**		
			Gross profit margin			*Gross profit margin*
	HK$	*%*	*%*	*HK$*	*%*	*%*
Industrial automation systems	125,539,555	90.1	25.9	99,470,898	62.9	28.1
Sludge treatment products	5,484,202	3.9	20.6	43,852,302	27.7	25.1
After-sales services	8,313,186	6.0	42.1	14,817,392	9.4	40.6
	139,336,943	100.0	26.6	158,140,592	100.0	28.5

The financial information as shown above was extracted from the unaudited condensed combined financial statements for the nine months ended 31 March 2013 prepared by our Directors in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which were reviewed by the reporting accountant of our Company, with reference to the principles set out in Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The comparative financial information as shown above for the period from 1 July 2011 to 31 March 2012 has not been reviewed.

Revenue from sales of industrial automation systems decreased by approximately 20.8% for the nine months ended 31 March 2013 as compared to the same period in 2012. Such decrease was primarily attributable to the higher level of revenue recognised during the nine months ended 31 March 2012 due to delay in acceptance of our industrial automation systems in relation to seven of our sales contracts, which had an aggregate value of approximately HK35.6 million, to the nine months ended 31 March 2012. The gross profit margin of industrial automation systems increased from approximately 25.9% in the nine months ended 31 March 2012 to approximately 28.1% in the nine months ended 31 March 2013, which was due to the completion of three industrial automation system projects with a lower average profit margin of approximately 10.4% for the nine months ended 31 March 2012. We charged a lower profit margin in these projects as we treated these projects as opportunities to explore the industrial automation system market in the electricity industry, as well as to provide value-added on-site services to our customers.

Revenue contribution from our sales of sludge treatment products increased significantly to approximately 27.7% of our total revenue during the nine months ended 31 March 2013 from approximately 3.9% of our total revenue during the nine months ended 31 March 2012. Despite the significant growth in our sales of sludge treatment products, we currently have no intention to slow down the industrial automation business segment to divert its resources to the sludge treatment business segment. Our revenue from sales of sludge treatment products for the nine months ended 31 March 2013 increased by approximately 7.0 times as compared to the same period in 2012. Such significant increase was primarily because we received our first order for our sludge treatment products in March 2010 and first recognised revenue from sales of sludge treatment products in December 2010 after spending several years developing our sludge treatment products. Since then, sales of our sludge treatment products had been on an increasing trend over the Track Record Period. Through product demonstrations to our potential customers in addition to the marketing and promotional activities conducted by our salespersons, we have managed to secure more sales orders for our sludge treatment business which were subsequently delivered to our customers. We experienced an increase in sales of sludge treatment products by approximately HK$2.0 million in the three months ended 31 March 2013 as compared to the three months ended 31 March 2012. We completed 22 contracts in the three months ended 31 March 2013 while there were only two contracts completed in the three months ended 31 March 2012. The gross profit margin for our sludge treatment products increased from approximately 20.6% in the nine months ended 31 March 2012 to approximately 25.1% in the nine months ended 31 March 2013 primarily due to the completion of our major sludge treatment project with a relatively low gross margin of about 22% during the nine months ended 31 March 2012 which accounted for approximately 93.9% of our sales of sludge treatment products during the same period and shared a relatively higher production costs due to small scale of production in the three months ended 31 March 2012. As this major sludge treatment project was one of the relatively new sludge treatment projects obtained by our Group, some improvements and adjustments to certain parts and components of the sludge treatment products of this project were made subsequent to product delivery by our engineers as part of our product quality enhancement effort and were not specified in the relevant sales contracts. As such, the costs of sales incurred by our Group were higher than those originally anticipated, hence resulting in a lower gross margin for this project.

Our revenue from provision of after-sales services increased by approximately 78.2% for the nine months ended 31 March 2013 as compared to the same period in 2012 mainly as a result of the increase in the number of our completed sales contracts with expired warranty period. The gross profit margin for provision of after-sales services decreased from approximately 42.1% for the nine months ended 31 March 2012 to approximately 40.6% for the nine months ended 31 March 2013. Such decrease was due to an increase in the proportion of revenue from the sole supply of spare parts and components, which had a lower gross profit margin.

For the nine months ended 31 March 2012 and 2013, we did not experience significant fluctuations in the price paid for the parts and/or components with the same specifications within each of the major types of our raw materials used in our production.

Our trade receivables maintained at approximately HK$37.5 million and HK$37.5 million as at 31 December 2012 and 2013 respectively. As at 31 March 2013, approximately HK$6.7 million of our trade receivables as at 31 December 2012 have been settled.

Our bank borrowing amounted to approximately HK$6.2 million as at 31 December 2012 and we did not have any bank borrowing as at 31 March 2013 as our Group repaid the bank loan in January 2013. As at the Latest Practicable Date, unutilised banking facilities amounted to approximately HK$52.1 million.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since 31 December 2012, being the date to which our latest audited financial statements were prepared, and up to the date of this prospectus.

FUTURE PLANS

Please refer to the paragraph headed "Our business objective and strategies" under the section headed "Business" in this prospectus for a detailed description of our Group's future plans.

IMPLEMENTATION PLANS

Investors should note the implementation plans are drawn up based on the current economic status and the assumptions as set out in the paragraph headed "Bases and assumptions" below which are inherently subject to uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed "Risk factors" in this prospectus. Therefore, there is no assurance that our Group's business will materialise within the estimated time frame and that our Group's future plans will be accomplished at all.

	From the Latest Practicable Date to 30 June 2013	For the six months ending 31 December 2013	For the six months ending 30 June 2014	For the six months ending 31 December 2014	Total	Approximate percentage of net proceeds
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(%)*
Increase production capacity						
– Build a new production plant of approximately 11,000 sq.m. and improve the roads and increase the greenery in the factory area	11.2	6.9	–	–	18.1	30.4
– Improve the production process using the high/low voltage power supply systems; addition of new laboratory facilities; and addition of testing facilities	–	9.0	–	–	9.0	15.1
Subtotal	**11.2**	**15.9**	**–**	**–**	**27.1**	**45.5**
Cost saving construction						
– A new production line and numerical control centre equipment for production of cabinets	–	–	16.9	1.2	18.1	30.4
Subtotal	**–**	**–**	**16.9**	**1.2**	**18.1**	**30.4**
Continuous product development and innovation						
– Design and development of (i) the RGU; and (ii) newer models of our existing industrial automation systems	–	1.1	0.7	–	1.8	3.0
– Design and development of new sludge treatment products	1.1	1.0	0.8	0.9	3.8	6.4
– Software registration and standardisation	–	–	–	0.4	0.4	0.7
Subtotal	**1.1**	**2.1**	**1.5**	**1.3**	**6.0**	**10.1**

	From the Latest Practicable Date to 30 June 2013 (HK$ million)	For the six months ending 31 December 2013 (HK$ million)	For the six months ending 30 June 2014 (HK$ million)	For the six months ending 31 December 2014 (HK$ million)	Total (HK$ million)	Approximate percentage of net proceeds (%)
Increase market awareness and enhance image/ reputation						
– Placing advertisements in magazines for the paper-making industry	0.3	0.3	0.3	0.3	1.2	2.0
– Design and distribute marketing materials such as product brochures and corporate videos	0.3	–	0.3	–	0.6	1.0
– Participate in the Beijing and Shanghai paper-making equipment exhibition	–	0.5	–	0.5	1.0	1.7
– Organise marketing activities for both current and new products	–	0.4	0.2	0.5	1.1	1.9
Subtotal	**0.6**	**1.2**	**0.8**	**1.3**	**3.9**	**6.6**
Improve the current information management system						
– Upgrade the current ERP system	0.3	–	–	–	0.3	0.5
Subtotal	**0.3**	**–**	**–**	**–**	**0.3**	**0.5**
Total	**13.2**	**19.2**	**19.2**	**3.8**	**55.4**	**93.1**

Reasons for expansion of our production capacity for our industrial automation systems

We intend to expand our production capacity for our industrial automation systems in future. According to Euromonitor, the development of industrial automation systems is closely linked to the growth of the paper-making industry of the PRC, which has been growing rapidly and was in line with the GDP growth of the PRC over the past five years. According to the 2011 Annual Report of the PRC's Paper-Making Industry, the aggregate production output of paper and paperboard on the PRC achieved a CAGR of approximately 7.8% from 2007 to 2011. It is anticipated that the production volume of paper and paper board in the PRC will increase from approximately 99.3 million tonnes in 2011 to approximately 119.0 million tonnes by 2016. Given the steady growth of the paper-making industry of the PRC, Euromonitor predicted that the size of the industrial automation system market will reach approximately RMB3.4 billion by 2016, representing a CAGR of approximately 12.6% from 2011.

BASES AND ASSUMPTIONS

The implementation plans set forth by our Directors are based on the following bases and assumptions:

- there will be no significant economic changes in respect of inflation, interest rate, tax rate and currency exchange rate in China that will adversely affect our business;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our business strategies relate;

- there will be no material changes in the existing laws (whether in the PRC or any part of the world), policies or industry or regulatory treatment relating to manufacture, sales, import and/or export of industrial automation systems and/or sludge treatment products, or in the political, economic or market conditions in which we operate;

- there will be no changes in the funding requirement for each of the near term business strategies described in this prospectus from the amount as estimated by our Directors;

- there will be no material changes in the bases or rates of taxation applicable to our Group;

- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities;

- there will be no changes in the effectiveness of the licenses and permits obtained by our Group; and

- we will not be materially affected by the risk factors as set out in the section headed "Risk factors" in this prospectus.

In order to cope with our growth over the next few years, we intend to:

- explore market opportunities to sell our industrial automation systems in the paper-making industry as well as other industries, such as electricity and metallurgy. For our sludge treatment products, we plan to establish our presence in other industries, like municipal administration, coal mining, non-ferrous metals and chemical treatment. Therefore, we will increase our headcount for sales personnel. With the aim to achieve that, we have already hired four more sales personnel, two for the industrial automation department and two for the sludge treatment department. We plan to hire another three to four more sales personnel in the year 2013;

- implement the ISO management systems, namely (i) ISO9001 Quality Management System; (ii) ISO14001 Environment Management System; and (iii) OHSAS18001 Occupational Health and Safety Management System, for our Group's business operations. External reviews of the systems have been carried out and the relevant ISO Certifications have been obtained since December 2009 and February 2013;

- upgrade our in-house ERP system with the aim to enhance and to improve the overall efficiency and effectiveness of our procurement of sales orders, raw material and labour and financial management;

- procure more sales orders by increasing our sales headcount, increasing our Group's market awareness and enhancing our image/ reputation by adopting strategies, including but not limited to: (i) placing advertisements in magazines for the paper-making industry, (ii) participating in the Beijing and Shanghai paper-making equipment exhibition; and (iii) organising marketing activities for both our existing and new products;

- assess the production capacities of our existing suppliers regularly to ensure that they can fulfil the needs of our business expansion and meet our procurement orders in a timely manner. We also intend to negotiate with new potential suppliers to ensure the availability of alternate sources of raw materials, so as to minimise the effect on our business in the event of any interruptions in the supply of raw materials to us;

- hire additional manpower to cope with the future expansion of our business and increased production needs. We have hired 10 more technicians for our industrial automation department during recruitment fairs at tertiary institutions in Hangzhou in the past few months. Training will be provided to new employees to ensure that they possess the requisite technical skills for the production of our industrial automation systems and sludge treatment products; and

- enhance our internal control environment and procedures in accordance with the recommendations suggested by our internal control consultants.

USE OF PROCEEDS

We estimate that the aggregate net proceeds available to us from the Placing (after deducting underwriting fees and estimated expenses payable by us in connection with the Placing, and assuming a Placing Price of HK$1.20 per Placing Share will be approximately HK$59.5 million (assuming the Offer Size Adjustment Option is not exercised). We currently intend to apply such net proceeds for several purposes, including the development of both our industrial automation system business segment and sludge treatment products business segment, in the following manner:

- approximately 30.4% of the net proceeds, or HK$18.1 million will be used for increasing our production capacity by building a new production plant of approximately 11,000 sq.m. (which includes an industrial automation plant of approximately 6,000 sq.m. and a sludge treatment plant of approximately 5,000 sq.m.) and improvement of the roads and the greenery in the factory area;

- approximately 15.1% of the net proceeds, or HK$9.0 million will be used for improvement of the production process using the high/low voltage power supply systems, addition of new laboratory facilities and testing facilities;

- approximately 30.4% of the net proceeds, or HK$18.1 million will be used for a new production line and a control centre equipment for production of cabinets. Cabinet is one of the components of our industrial automation systems and we intend to make our own cabinets for our production use;

- approximately 10.1% of the net proceeds, or HK$6.0 million will be used for our product development and innovation. In respect of our industrial automation business, we have finalised the design, confirmed the main raw materials to be used for production and completed the system solution for our own RGU, which is one of the components currently used by our industrial automation systems. We also have plans to (i) further develop newer models of the distributed control system, the drive control system as well as the motor control centre; and (ii) complete the corresponding software registrations. In respect of our sludge treatment business, we have plans to design and develop various new products to cater for customers from other industries such municipal sludge treatment, coal and gas, nonferrous metals and chemical treatment. For further details on the RGU, please refer to the paragraph headed "Business objective and strategies – Develop new products and newer models of our existing products" under the section headed "Business" in this prospectus. We also have plans to further develop newer models of the drive control system, distributed control system and the motor control centre, as well as to complete the corresponding software registrations;

- approximately 6.6% of the net proceeds, or HK$3.9 million will be used for increasing the market awareness and enhancing the image and/or reputation of our Group. We intend to carry out the following marketing activities: (i) placing advertisements in magazines for the paper-making industry; (ii) design and distribute marketing materials such as product brochures and corporate videos; (iii) participate in the Beijing paper-making equipment exhibition; (iv) participate in the Shanghai paper-making equipment exhibition; (v) organise marketing activities for both current and new products;

- approximately 0.5% of the net proceeds, or HK$0.3 million will be used for improving our current information management system by upgrading the current ERP system; and

- approximately 6.9% of the net proceeds, or HK$4.1 million will be used for working capital and other general corporate purposes.

If the Offer Size Adjustment Option is exercised in full, the net proceeds from the Placing will increase to approximately HK$78.3 million. In such event, the net proceeds so increased will be used in the same proportions as disclosed above.

In the event that the net proceeds from the Placing is insufficient to finance the capital expenditure as mentioned above, the shortfall will be financed by internal resources of our Group.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments such as bank deposits or money market funds with licensed banks or financial institutions.

The following table is prepared on the basis that the Capitalisation Issue and the Placing become unconditional and issue of the Placing Shares pursuant thereto is made as described herein. This table does not take into account Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

Authorised share capital:

		HK$
8,000,000,000	Shares	80,000,000

Issued and to be issued, fully paid or credited as fully paid:

Shares		*HK$*
1	Share in issue as at the date of this prospectus	0.01
203,999,999	Shares to be issued pursuant to the Capitalisation Issue	2,039,999.99
68,000,000	Placing Shares to be issued pursuant to the Placing	680,000.00
272,000,000		2,720,000

RANKING

The Placing Shares and the Shares which may be issued under the Offer Size Adjustment Option will rank pari passu in all respects with all Shares now in issue or to be issued as mentioned herein, and will rank in full for all dividends or other distributions declared, made or paid on our Shares after the date of this prospectus save for any entitlement to the Capitalisation Issue.

Except as disclosed in this prospectus, no share or loan capital of our Company or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

SHARE OPTION SCHEMES

Our Company has conditionally adopted the Share Option Scheme on 6 May 2013. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE NEW SHARES

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

(i) 20% of the aggregate nominal value of the share capital of our Company in issue, excluding any Shares which may be issued pursuant to any Shares which may be issued upon exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme, immediately following completion of the Capitalisation Issue and the Placing; and

(ii) the aggregate nominal value of share capital of our Company repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below. The allotment and issue of Shares under a rights issue, scrip dividend scheme or similar arrangement, or of options which may be granted under the Share Option Scheme do not generally require the approval of our Shareholders of our Company in general meeting and the aggregate nominal value of our Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of such Shares.

This mandate will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company; or
- the expiration of the period within which our Company is required by the applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

Further details of this general mandate are set out in the paragraph headed "Written resolutions of our Shareholders passed on 6 May 2013" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon exercise of the Offer Size Adjustment Option and any options granted under the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or applicable laws of the Cayman Islands to be held; or

(iii) the revocation, variation or renewal by an ordinary resolution of our Shareholders in general meeting.

Further details of this general mandate is set out in the paragraph headed "Repurchase by our Company of its own securities" in Appendix V to this prospectus.

UNDERWRITERS

Sole Lead Manager

Guotai Junan Securities (Hong Kong) Limited

Underwriters

Ever-Long Securities Company Limited
Hong Kong International Securities Limited

UNDERWRITING ARRANGEMENTS

The Underwriting Agreement

In connection with the Placing, our Company had entered into the Underwriting Agreement, among other parties, with the Underwriters. Under the Underwriting Agreement, subject to the terms and conditions set out therein, the Underwriters would severally agree to procure subscribers for, or failing which, to themselves subscribe as principal for, the Placing Shares being offered pursuant to the Placing. The Underwriting Agreement is subject to various conditions, among others, the Stock Exchange granting listing of, and permission to deal in our Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the Capitalisation Issue, the exercise of the Offer Size Adjustment Option or any options granted under the Share Option Scheme). The Underwriting Agreement may be terminated for the reasons set out in "Grounds for termination" in this section. Potential investors should be reminded that in the event that the Sole Lead Manager exercises its termination rights as referred to below, the Placing will not proceed.

Grounds for Termination

The obligations of the Underwriters to subscribe or procure subscriptions for the Placing Shares under the Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

(1) there has come to the notice of the Sole Lead Manager or any Underwriters or the Sole Lead Manager or the Underwriters have reasonable cause to believe:

 (a) that any statement contained in this prospectus in relation to the Placing, considered by the Sole Lead Manager in its sole and absolute discretion, was when the same was issued, or has become untrue, incorrect or misleading in any material respect; or

 (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Lead Manager in its sole and absolute discretion to be material to the Placing; or

(c) any breach of any of the material obligations imposed upon any party to the Underwriting Agreement (other than on the Sole Sponsor, the Sole Lead Manager and the Underwriters) as determined by the Sole Lead Manager in its sole and absolute discretion; or

(d) any material adverse change or development involving a prospective change in the conditions, business affairs, prospects or the financial or trading position of the Group as a whole; or

(e) any material breach, as determined by the Sole Lead Manager in its sole and absolute discretion, of any of the warranties under the Underwriting Agreement; or

(f) any of the warranties under the Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or repeated as determined by the Sole Lead Manager in its sole and absolute discretion;

(2) there shall develop, occur, exist, continue to exist or come into effect:

(a) any event, or series of events, beyond the control of the Sole Lead Manager or the Underwriters (including, without limitation, acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, war, threat of war, acts of God, acts of terrorism, riot, public disorder, economic sanctions, outbreak of diseases or epidemics including SARS, avian influenza and such related/mutated forms or interruption or delay in transportation); or

(b) any change or development involving a prospective change, or any event or series of events currently in existence or otherwise, likely to result in any material adverse change or development (whether or not permanent), in local, national, regional or international, financial, economic, currency, legal, exchange control, political, military, industrial, fiscal, regulatory or market or other conditions, circumstances or matters and/or disaster or any monetary or trading settlement systems (including any moratorium or suspension on or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ National Market, the London Stock Exchange or any of the stock exchanges in the PRC, or a material fluctuation in the exchange rate of Hong Kong dollars against any foreign currency or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or

(c) any new law, policy, directive or regulation or change (whether or not forming part of a series of changes) or development in existing laws, policy, directive or regulations or in the interpretation or application thereof by any court or any government authority or other competent authority in Hong Kong or any other jurisdictions relevant to any member of the Group (the "**Specific Jurisdictions**"); or

(d) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by or for the United States or by the European Union (or any member thereof) or any other country or organisation on Hong Kong, the PRC, the United States or any of the Specific Jurisdictions; or

(e) a change or development occurs involving a prospective change in taxation or currency exchange control (or the implementation of any exchange control) or foreign investment regulations in Hong Kong, the PRC, the United States or any of the Specific Jurisdictions; or

(f) any change or development involving a prospective change, or a materialisation of , any of the risks set out in the section headed "Risk factors" in this prospectus; or

(g) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or

(h) a demand by any creditor for repayment or payment of any material indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or

(i) any material loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(j) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(k) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent authority) or the PRC or the Specific Jurisdiction; or

(l) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting Hong Kong, the PRC, the Cayman Islands, the BVI or any Specific Jurisdictions; or

(m) there is a change in the system under which the value of the HK$ is linked to that of the USD or the peg of RMB to a basket of currencies including USD; or

(n) any event, act or omission which gives rise to or is likely to give rise to any liability of any of the executive Directors and the Controlling Shareholders pursuant to the indemnity contained in the Underwriting Agreement,

which in the sole and absolute opinion of the Sole Lead Manager (for itself and on behalf of the Underwriters) (1) is or will have or could be expected to have a material adverse effect on the business, financial, trading or other condition or prospects of the Group; or (2) has or will have or could be expected to have an adverse effect on the success, marketability or pricing of the Placing or the level of interest under the Placing; or (3) is or will or may make it inadvisable, inexpedient or impracticable or not commercially viable (i) for the Placing to proceed; or (ii) for any material part of this Agreement to be performed or implemented as envisaged.

UNDERTAKINGS PURSUANT TO THE UNDERWRITING AGREEMENT

By our Company

Pursuant to the Underwriting Agreement, our Company has undertaken to the Sole Sponsor, the Sole Lead Manager and the Underwriters that it will, among other things, that:

(a) except pursuant to the Placing, the Capitalisation Issue, the exercise of the Offer Size Adjustment Option or to the options that may be granted under the Share Option Scheme, not without the prior written consent of the Sole Sponsor and the Sole Lead Manager (on behalf of the Underwriters), and subject always to the provisions of the GEM Listing Rules, offer, allot, issue or sell, or agree to offer, allot, issue or sell (conditionally or unconditionally) any Shares or securities convertible into or exchangeable for equity securities of the Company (whether or not of a class already listed), grant or agree to grant (conditionally or unconditionally) any option, warrant or other rights carrying the rights to subscribe for or otherwise acquire or convertible or exchangeable into Shares or other securities of the Company (whether or not of a class already listed), or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction at any time during the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**");

(b) not at any time during the First Six-Month Period, issue, or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing or announce any intention to enter into or effect any such transaction, except pursuant to the Placing, the Capitalisation Issue or the exercise of the subscription rights attaching to the Offer Size Adjustment Option or to the options that may be granted under the Share Option Scheme;

(c) not at any time during the period of six months commencing on the date on which the period referred to in paragraph (a) above expires (the "**Second Six-Month Period**"), do any of the acts set out in paragraphs (a) and (b) above or repurchase or agree to repurchase any Shares or securities of our Company, such that any of the Controlling Shareholders, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the GEM Listing Rules);

(d) in the event that our Company does any of the acts set out in paragraphs (a) or (b) above, after the expiry of the First Six-Month Period or the Second Six-Month Period, as the case may be, take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

By the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to the Sole Sponsor, the Sole Lead Manager (for itself and on behalf of the Underwriters), the Underwriters and our Company that:

(a) he or it shall comply with all the applicable restrictions and requirements under the GEM Listing Rules on the disposal by him or it or by any registered holder on his or its behalf, of any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or other securities of our Company in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly);

(b) neither him or it nor any of their respective associates (as defined in the GEM Listing Rules) or companies controlled by him or it has any present intention of disposing of any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or other securities of our Company in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) (or any beneficial interest therein);

(c) he or it shall not, without the prior written consent of our Company, the Sole Sponsor and the Sole Lead Manager, on behalf of the Underwriters, directly or indirectly, and shall procure that none of his or its associates (as defined in the GEM Listing Rules) or companies controlled by him or it or any nominee or trustee holding in trust for him or it shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of or enter into any agreements to sell, transfer or dispose of or otherwise create any options, warrants, rights, interests or encumbrances (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) on any of the Shares (or any interest in any Shares or any voting or other right attaching to any Shares) in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities at any time during the First Six-Month Period and subject always to compliance with the provisions of the GEM Listing Rules, and in the event of a disposal of any Shares or such securities or any interest therein at any time during the Second Six-Month Period, he or it shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of the Company or any interest therein.

(d) during the Second Six-Month Period, he or it will not enter into any of the transactions specified in paragraph (c) above if, immediately following such transfer or disposal, he or it will cease to be a controlling shareholder (as the term is defined in the GEM Listing Rules) of our Company; and

(e) until the expiry of the Second Six-Month Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Without prejudice to the above, each of the Controlling Shareholders has undertaken to the Sole Sponsor, the Sole Lead Manager (for itself and on behalf of the Underwriters), the other Underwriters and our Company that within the First Six-Month Period and the Second Six-Month Period he or it shall:

(a) if and when he or it pledges or charges, directly or indirectly, any Shares or other securities of our Company beneficially owned by him or it (or any beneficial interest therein), immediately inform our Company, the Sole Sponsor and the Sole Lead Manager in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

(b) if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any Shares or other securities in our Company (or any beneficial interest therein) pledged or charged by him or it will be disposed of, immediately inform our Company, the Sole Sponsor and the Sole Lead Manager in writing of such indications.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of announcement in accordance with the GEM Listing Rules.

COMMISSION AND EXPENSES

The Underwriters are expected to receive a commission of 3% of the aggregate Placing Price of all the Placing Shares. The Sole Sponsor will, in addition, receive an advisory fee to the Placing. The aggregate fees and commission, together with the Stock Exchange listing application fee, Stock Exchange trading fee and SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Placing, are currently estimated to be approximately HK$22.1 million in aggregate (assuming that the Offer Size Adjustment Option is not exercised and based on a Placing Price of HK$1.2 per Placing Share), which will be borne by our Company.

SOLE SPONSOR'S AND UNDERWRITERS' INTERESTS IN OUR COMPANY

Save as disclosed in this prospectus and as contemplated pursuant to the Underwriting Agreement, none of the Sole Sponsor or the Underwriters has any shareholding in any member of our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company.

MINIMUM PUBLIC FLOAT

Our Directors and the Sole Lead Manager will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23(9) of the GEM Listing Rules after completion of the Placing.

INDEMNITY

Each of our Company and the Controlling Shareholders has agreed jointly and severally to indemnify the Sole Sponsor, the Sole Lead Manager and the Underwriters for certain losses arising from their performance of their obligations under the Underwriting Agreement and any breach by our Company pursuant to the terms of the Underwriting Agreement.

INDEPENDENCE OF SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to the sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

PLACING PRICE AND PRICE PAYABLE ON SUBSCRIPTION

The Placing Price is HK$1.20 per Placing Share. Subscribers, when subscribing for our Shares, shall pay the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. Investors shall pay HK$4,848.4 for every board lot of 4,000 Shares.

The level of indications of interests in the Placing and the basis of allocations of the Placing Shares will be announced on GEM Website at **www.hkexnews.hk** and our Company's website at **www.hzeg.com** at or before 9:00 a.m. on Wednesday, 15 May 2013.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

(a) the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and the Shares to be issued as described in this prospectus on GEM (including any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option, the Capitalisation Issue or any options to be granted under the Share Option Scheme); and

(b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Sole Lead Manager (for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise),

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event on or before the day which is 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by our Company on GEM Website at **www.hkgem.com** and our website at **www.hzeg.com** on the next business day following such lapse.

BASIS OF ALLOCATION

Allocation of the Placing Shares to selected individual, professional and institutional investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of our Company and Shareholders as a whole. In particular, the Placing Shares will be allocated in accordance with Rule 11.23(8) of the GEM Listing Rules, which provides that not more than 50% of our Shares in public hands at the time of Listing will be owned by the three largest public Shareholders.

Save with the prior written consent of the Stock Exchange, no allocation will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

THE PLACING

The number of Placing Shares being offered under the Placing will be 68,000,000 Shares, representing 25% of the enlarged issued share capital of our Company immediately after the Capitalisation Issue and completion of the Placing (assuming the Offer Size Adjustment Option is not exercised). If the Offer Size Adjustment Option is exercised in full, the Placing Shares will represent approximately 27.7% of the enlarged issued share capital immediately after completion of the Placing and the exercise of the Offer Size Adjustment Option as set out below. Subject to the terms and conditions of the Underwriting Agreement, the Placing Shares are expected to be fully underwritten by the Underwriters.

The Underwriters or agents nominated by them on behalf of our Company will conditionally place the Placing Shares at the Placing Price plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy with professional, institutional and private investors. Conditionally upon complying with the relevant rules and regulations, the Placing Shares can be placed with private investors in Hong Kong. Professional and/or institutional investors generally include dealers, brokers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreement, our Company will grant to the Sole Lead Manager the Offer Size Adjustment Option, which is exercisable by the Sole Lead Manager (for itself and on behalf of the Underwriters) prior to 6:00 p.m. on the Business Day immediately before the date of allotment results announcement with respect to the level of indication of interest in the Placing, in writing, to require our Company to allot and issue up to 10,200,000 additional Shares at the Placing Price, representing 15% of the total number of Shares initially available for subscription under the Placing. Any such additional Shares may be issued to cover any excess demand in the Placing at the absolute discretion of the Sole Lead Manager.

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Sole Lead Manager to meet any excess demand in the Placing. The Offer Size Adjustment Option will not be associated with any price stabilisation activities of the Shares in the secondary market after the listing of the Shares on GEM and will not be subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong). No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Placing which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

Our Company will disclose in its allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. The allotment results announcement will be published on the GEM website and our Company's website.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If Stock Exchange grants the listing of, and permission to deal in, our Shares on GEM and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN OUR SHARES

Dealings in our Shares on GEM are expected to commence at 9:00 a.m. on Thursday, 16 May 2013. Shares will be traded in board lots of 4,000 Shares and are fully transferable.

The following is the text of a report received from the reporting accountant of our Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to our Directors and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

9 May 2013

The Directors
Huazhang Technology Holding Limited
Guotai Junan Capital Limited

Dear Sirs,

We report on the financial information of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the combined balance sheets as at 30 June 2011, 2012 and 31 December 2012, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 9 May 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 26 June 2012 as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed "Reorganisation" below, which was completed on 3 May 2013, the Company became the holding company of the subsidiaries now comprising the Group ("Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 26 of Section II below. All of these companies are private companies or if incorporated or established outside Hong Kong, have substantially the same characteristic as a Hong Kong incorporated private company.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 26 of Section II.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The Underlying Financial Statements have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司) in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA under separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.3 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.3 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.3 of Section II below, a true and fair view of the combined state of affairs of the Group as at 30 June 2011, 2012 and 31 December 2012, and of the Group's combined results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 31 December 2011 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 1.3 of section II below and the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 1.3 of section II below, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 30 June 2011, 2012 and 31 December 2012 and for each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012 (the "Financial Information"), presented on the basis set out in Note 1.3 of section II below:

(a) COMBINED BALANCE SHEETS

		As at 30 June		As at 31 December
	Note	**2011**	**2012**	**2012**
		HK$	*HK$*	*HK$*
ASSETS				
Non-current assets				
Land use rights	*6*	9,138,536	9,077,521	9,003,355
Property, plant and equipment	*7*	28,621,127	39,702,425	38,990,421
Deferred income tax assets	*16*	1,095,635	1,086,721	1,141,954
Trade and other receivables	*8*	30,873	294,122	–
Prepayments – non-current portion	*9*	1,245,190	352,450	408,137
		40,131,361	50,513,239	49,543,867
Current assets				
Inventories	*10*	104,687,797	111,170,507	115,128,642
Trade and other receivables	*8*	46,015,031	33,262,407	38,223,824
Prepayments	*9*	9,892,881	9,834,523	6,503,333
Restricted cash	*11*	551,946	1,527,484	1,535,716
Cash and cash equivalents	*11*	20,047,039	43,817,397	22,956,857
		181,194,694	199,612,318	184,348,372
Total assets		221,326,055	250,125,557	233,892,239

	Note	As at 30 June 2011	As at 30 June 2012	As at 31 December 2012
		HK$	HK$	HK$
EQUITY				
Capital and reserves attributable to the owner of the Company				
Reserves	*13*	13,903,664	51,468,818	59,550,042
Retained earnings	*12*	21,522,218	26,866,952	30,670,277
Total equity		35,425,882	78,335,770	90,220,319
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	*16*	–	–	215,248
Current liabilities				
Trade and other payables	*14*	167,863,089	147,170,666	137,290,303
Borrowings	*15*	18,037,084	24,619,121	6,166,369
		185,900,173	171,789,787	143,456,672
Total liabilities		185,900,173	171,789,787	143,671,920
Total equity and liabilities		221,326,055	250,125,557	233,892,239
Net current (liabilities)/assets		(4,705,479)	27,822,531	40,891,700
Total assets less current liabilities		35,425,882	78,335,770	90,435,567

(b) COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 30 June		Six months ended 31 December	
	Note	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$* (*Unaudited*)	*HK$*
Revenue	*17*	99,115,212	229,520,229	103,252,990	119,650,158
Cost of sales	*19*	(70,354,673)	(165,171,426)	(76,382,302)	(85,136,466)
Gross profit		28,760,539	64,348,803	26,870,688	34,513,692
Distribution costs	*19*	(6,424,408)	(12,224,321)	(5,905,752)	(6,884,292)
Administrative expenses	*19*	(16,616,931)	(22,123,362)	(10,263,200)	(13,739,971)
Research and development expenses	*19*	(5,799,664)	(7,437,497)	(4,595,582)	(5,780,912)
Other income	*18*	1,595,800	1,474,156	1,076,399	373,169
Other losses		–	(607)	–	–
Operating profit		1,515,336	24,037,172	7,182,553	8,481,686
Finance income	*22*	218,467	414,721	223,356	114,557
Finance costs	*22*	(775,937)	(1,580,076)	(482,951)	(594,373)
Finance costs – net	*22*	(557,470)	(1,165,355)	(259,595)	(479,816)
Profit before income tax		957,866	22,871,817	6,922,958	8,001,870
Income tax expense	*23*	(412,516)	(3,788,448)	(1,145,000)	(1,753,328)
Profit for the year/period, all attributable to the owner of the Company		545,350	19,083,369	5,777,958	6,248,542

		Year ended 30 June		Six months ended 31 December	
	Note	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Other comprehensive income for the year/period					
Currency translation differences		3,122,283	1,315,342	1,493,915	436,007
Other comprehensive income for the year/period, net of tax		3,122,283	1,315,342	1,493,915	436,007
Total comprehensive income for the year/period, all attributable to the owner of the Company		3,667,633	20,398,711	7,271,873	6,684,549
Dividends	*25*	–	12,713,596	12,713,596	–
Earnings per share	*24*	N/A	N/A	N/A	N/A

(c) COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owner of the Company		
	Reserves	**Retained Earnings**	**Total Equity**
	HK$	*HK$*	*HK$*
Balance at 1 July 2010	10,639,038	21,119,211	31,758,249
Comprehensive income			
Profit for the year	–	545,350	545,350
Translation differences	3,122,283	–	3,122,283
Total comprehensive income	3,122,283	545,350	3,667,633
Transactions with owners			
Profit appropriation to statutory reserves *(Note 13)*	142,343	(142,343)	–
Balance at 30 June 2011	13,903,664	21,522,218	35,425,882
Balance at 1 July 2011	13,903,664	21,522,218	35,425,882
Comprehensive income			
Profit for the year	–	19,083,369	19,083,369
Translation differences	1,315,342	–	1,315,342
Total comprehensive income	1,315,342	19,083,369	20,398,711
Transactions with owners			
Capitalisation of loan from the former parent company *(Note 1.2(b))*	35,224,773	–	35,224,773
Profit appropriation to statutory reserves *(Note 13)*	1,025,039	(1,025,039)	–
Dividends declared *(Note 25)*	–	(12,713,596)	(12,713,596)
Total transactions with owners	36,249,812	(13,738,635)	22,511,177
Balance at 30 June 2012	51,468,818	26,866,952	78,335,770

	Attributable to the owner of the Company		
	Reserves	Retained Earnings	Total Equity
	HK$	*HK$*	*HK$*
Balance at 1 July 2012	51,468,818	26,866,952	78,335,770
Comprehensive income			
Profit for the period	–	6,248,542	6,248,542
Translation differences	436,007	–	436,007
Total comprehensive income	436,007	6,248,542	6,684,549
Transactions with owners			
Capitalisation of loan from the former parent company *(Note 1.2(f))*	5,200,000	–	5,200,000
Profit appropriation to statutory reserves *(Note 13)*	2,445,217	(2,445,217)	–
Balance at 31 December 2012	59,550,042	30,670,277	90,220,319
(Unaudited):			
Balance at 1 July 2011	13,903,664	21,522,218	35,425,882
Comprehensive income			
Profit for the period	–	5,777,958	5,777,958
Translation differences	1,493,915	–	1,493,915
Total comprehensive income	1,493,915	5,777,958	7,271,873
Transactions with owners			
Profit appropriation to statutory reserves *(Note 13)*	1,025,039	(1,025,039)	–
Dividends declared *(Note 25)*	–	(12,713,596)	(12,713,596)
Balance at 31 December 2011	16,422,618	13,561,541	29,984,159

(d) COMBINED CASH FLOW STATEMENTS

	Note	Year ended 30 June 2011	Year ended 30 June 2012	Six months ended 31 December 2011	Six months ended 31 December 2012
		HK$	HK$	HK$ (Unaudited)	HK$
Cash flows from operating activities					
Cash generated from/(used in) operations	27(a)	12,495,065	32,931,316	789,486	(4,297,783)
Interest paid		(959,411)	(1,716,098)	(627,566)	(594,373)
Income tax paid		(1,121,031)	(3,822,164)	(206,359)	(2,306,686)
Net cash inflow/(outflow) from operating activities		10,414,623	27,393,054	(44,439)	(7,198,842)
Cash flows from investing activities					
Purchase of property, plant and equipment		(3,918,855)	(10,366,708)	(7,778,132)	(440,768)
Interest received	22	203,660	414,721	223,356	94,942
Repayment of loan from a third party	27(b)	17,625,331	–	–	–
Loan to related parties	29	(44,565,466)	(45,420,320)	(32,027,863)	–
Repayment of loan from related parties		41,504,882	55,244,544	37,342,616	–
Net cash inflow/(outflow) from investing activities		10,849,552	(127,763)	(2,240,023)	(345,826)
Cash flows from financing activities					
Proceeds from borrowings		17,605,530	45,019,553	26,791,368	6,149,797
Repayments of borrowings		(23,474,041)	(38,862,306)	(26,791,368)	(24,685,284)
Dividends paid to the former owners of Hua Zhang Electric Holding Company Limited	25	–	(12,713,596)	(12,713,596)	–
Loan from a related party	29	–	5,612,000	2,500,000	5,200,000
Repayment of loan to related parties		(498,567)	(2,500,000)	(2,500,000)	–
Net cash outflow from financing activities		(6,367,078)	(3,444,349)	(12,713,596)	(13,335,487)

	Note	Year ended 30 June		Six months ended 31 December	
		2011	2012	2011	2012
		HK$	*HK$*	*HK$* (*Unaudited*)	*HK$*
Net increase/(decrease) in cash and cash equivalents		14,897,097	23,820,942	(14,998,058)	(20,880,155)
Effect of foreign exchange rate changes		14,807	(50,584)	(18,924)	19,615
Cash and cash equivalents at beginning of the year/period		5,135,135	20,047,039	20,047,039	43,817,397
Cash and cash equivalents at end of the year/period	*11*	20,047,039	43,817,397	5,030,057	22,956,857

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

1.1 General information of the Group

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

The Company is an investment holding company. The Company and its subsidiaries now comprising the Group are principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products and the provision of after-sales service (the "Listing Business") in the People's Republic of China (the "PRC"). The ultimate controlling parties of the Group are Mr. Zhu Gen Rong ("Mr. Zhu"), Mr. Wang Ai Yan ("Mr. Wang"), Mr. Liu Chuan Jiang ("Mr. Liu"), and Ms. Zhu Ling Yun ("Ms. Zhu") (the "Persons Acting in Concert", or "Controlling Shareholders").

1.2 The Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the Listing Business was operated through Hua Zhang Electric Holding Company Limited ("Huazhang Electric") and its PRC subsidiary, Zhejiang Huazhang Technology Limited ("Huazhang Technology"), and was controlled by the Controlling Shareholders through Huazhang Overseas Holding, Inc. ("Huazhang Overseas"). Pursuant to the Reorganisation, the Listing Business was transferred to the Company principally through the following steps:

(a) In March and April 2012, Huazhang Electric disposed to a third party of all its 94.55% equity interest in Tongxiang Baimadun Travel Development Company Limited ("Tongxiang Baimadun") and 100% equity interest in Tongxiang Modern Eco-Agriculture Development Company Limited ("Tongxiang Modern Eco-Agriculture"), Tongxiang Baimadun and Tongxiang Modern Eco-Agriculture were engaged in non-equipment manufacturing related businesses ("Non-listing Business") during the Relevant Periods.

(b) Pursuant to the board resolution of Huazhang Electric on 30 June 2012, Huazhang Electric capitalised Hong Kong Dollars ("HK$") 35,224,773 payables to Huazhang Overseas, which was satisfied by the issuance of one (1) ordinary share of Huazhang Electric at the par value of HK$1 per share to Huazhang Overseas at a premium of HK$35,224,772.

(c) In 26 June 2012, the Company was incorporated and became a wholly-owned subsidiary of Florescent Holdings Limited through a series of transactions.

(d) In 8 June 2012, Likwin Limited ("Likwin") was duly incorporated in the BVI as a company with limited liability with 1 Share being allotted and issued at par to the Company as the initial subscriber.

(e) Lian Shun Limited ("Lian Shun") is a company incorporated on 25 May 2012 and 100% owned by the Controlling Shareholders and Qunyu Limited ("Qunyu") is a company incorporated on 10 April 2012 and 100% owned by the non-controlling shareholders.

(f) Pursuant to the board resolution of Huazhang Electric on 31 December 2012, Huazhang Electric capitalised HK$5,200,000 payables to Huazhang Overseas, which was satisfied by the issuance of one (1) ordinary share of Huazhang Electric at the par value of HK$1 per share to Huazhang Overseas at a premium of HK$5,199,999.

(g) On 3 May 2013, Likwin acquired 3,000,001 shares of Huazhang Electric from Huazhang Overseas and 1 share of Huazhang Electric from Mr. Zhu, representing the entire issued share capital of Huazhang Electric, through a share swap, which was satisfied by a consideration of procuring Florescent Holdings Limited, Likwin's ultimate holding company, to allot and issue 77.9% of its issued share capital to Lian Shun and 22.1% of its issued share capital to Qunyu.

Upon completion of the Reorganisation on 3 May 2013, the Company became the holding company of the Group.

The Company's direct and indirect interests in its subsidiaries as at the date of this report are set out in Note 26.

1.3 Basis of presentation

As set out above, the Reorganisation involved the demerging of the Non-listing Business as described in Note 1.2, and insertion of the Company and its other subsidiaries owned by the Controlling Shareholders, as holding companies of Huazhang Electric for the purpose of Listing. During the demerging process, assets, liabilities, revenues and expenses were specifically identified between Listing and Non-listing Business as if the demergers were taken place on 1 July 2010 or such later date when they became controlled by the Controlling Shareholders. The Financial Information have not included the assets, liabilities and results of the operations that were unrelated to the Listing Business and were not transferred to the Company pursuant to Reorganisation as described in Note 1.2 above, on the basis that these assets, liabilities, revenue, operating expenses and companies are engaged in dissimilar businesses from that of the Group, have separate management personnel and accounting records and have been financed and operated historically as if they were autonomous.

The Financial Information present the financial position, results and cash flows of the companies now comprising the Group as if the current group structure of the Listing Business had been in existence since 1 July 2010, or if established after 1 July 2010, the later of their respective dates of establishment or the dates when they became controlled by the Controlling Shareholders.

The net assets of the companies now comprising the Group are combined using the existing book values from the Controlling Shareholders' perspective. For the purpose of this report, the Financial Information of the Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial information are set out below. These policies have been consistently applied to the Relevant Periods.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the HKFRSs issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of the combined financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial information are disclosed in Note 4 below.

New standards and amendments to standards have been issued but are not effective for the financial year beginning 1 July 2012 and have not been early adopted are as below:

		Effective for accounting period beginning on or after
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (revised 2011)	Separate financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKAS 28 (revised 2011)	Investments in associates and joint ventures	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015
HKFRS 1 (Amendment)	Government loans	1 January 2013

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2011 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. These improvements are effective for annual periods beginning on or after 1 January 2013, while early adoption is permitted.

Amendment to HKFRS 1	First time adoption of HKFRS
Amendment to HKAS 1	Presentation of financial statements
Amendment to HKAS 16	Property, plant and equipment
Amendment to HKAS 32	Financial instruments: Presentation
Amendment to HKAS 34	Interim financial reporting

Management is in the process of making an assessment of the impact of these new standards and amendments to standards on the financial statement of the Group in the initial application. The adoption of above is not expected to have a material effect on the Group's operating results or financial position.

2.2 Consolidation and combination

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Different methods of accounting are used for acquisition of subsidiaries through common control and non-common control business combinations, as described below.

(i) Business combinations under common control

The Group applies merger accounting to account for the business combinations (including acquisition of subsidiaries) under common control, where all assets and liabilities are recorded at predecessor carrying amounts, as if the existing group structure had been in existence throughout the Relevant Periods, and the Listing Business have been combined from the date when they first came under the control of the controlling party, where differences between consideration payable and the net assets value are taken to the merger reserve.

(ii) Business combinations under non-common control

Except for the Reorganisation, the Group uses the acquisition method of accounting to account for business combinations. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

If the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interests in the acquiree (collectively the "Sum of Consideration") is more than the fair value of the identifiable net assets acquired, the excess is recorded as goodwill. If the Sum of Consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the combined statement of comprehensive income.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors (the "Board") that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's functional currency and presentation currency is HK$, and the combined financial information is presented in HK$.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined statements of comprehensive income within 'finance income or costs'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as translation differences in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

2.5 Property, plant and equipment

Property, plant and equipment include buildings, machineries and furniture, fittings and equipment. All property, plant and equipment is stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statement of comprehensive income during the financial period in which they are incurred.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

–	Buildings	20 years
–	Machineries	10 years
–	Furniture, fittings and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income/(losses)' in the combined statements of comprehensive income.

2.6 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the rights to use certain land and the premiums paid for such rights are recorded as land use rights, which are amortised over the use terms of between 34 to 50 years using the straight-line method.

2.7 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(a) Classification

The Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the combined balance sheets date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the combined balance sheets (Notes 2.11 and 2.12).

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs and then subsequently carried at amortised cost using the effective interest method.

2.9 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss 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 been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statements of comprehensive income. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statements of comprehensive income.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific-unit-cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalents.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in the combined statement of comprehensive income in the period in which they are incurred.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the combined balance sheets date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the combined balance sheets date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits – pension obligations

The Group entities in the PRC participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefits expenses when incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group.

2.19 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Government grants

Government grants are recognised at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the combined statements of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

2.21 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 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 service

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

(c) Operating lease rental income

Rental income from operating leases is recognised in the combined statement of comprehensive income 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.

(d) Interest income

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

(e) Dividend income

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

2.22 Operating leases

(a) A Group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the combined statements of comprehensive income on a straight-line basis over the period of the lease.

(b) A Group company is the lessor

Properties leased out under operating leases are included in 'property, plant and equipment' in the combined balance sheets (Note 7). See Note 2.21 for the recognition of rental income.

2.23 Dividend distribution

Dividend distribution to the owner 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 owners.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

Functional currency of the Company and most of its subsidiaries, except for Huazhang Technology is HK$, since they are investment holding companies and their operation, financing and dividend income is in HK$. The functional currency of Huazhang Technology is Renminbi ("RMB"), since majority of Huazhang Technology's revenue is derived from operations in Mainland China.

The Group's exposure to foreign exchange risk is limited to Huazhang Technology's financing activities of issuances of ordinary share, which are dominated in United States Dollars ("USD"). The Group doesn't have sales or purchase transactions (i.e., export or import of products) denominated in foreign currency, and Huazhang Technology's borrowings are dominated in RMB. The exchange rate of HK$ is pegged to USD. Given the general expectations about the strengthening of RMB, the Group has not used any financial instrument to hedge foreign exchange risk.

The results and financial position of Huazhang Technology are translated from the functional currency RMB into the presentation currency HK$. All resulting exchange differences are recognised as translation reserve in equity.

At 30 June 2011, 2012 and 31 December 2011 and 2012, if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, the translation reserve of each year end would have changed as follows:

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Owners' equity increase/(decrease)				
– Strengthened 5%	156,114	65,767	74,696	21,800
– Weakened 5%	(156,114)	(65,767)	(74,696)	(21,800)

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Bank deposits at variable rates expose the Group to cash flows interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in Note 11 and 15.

As at 30 June 2011, 2012 and 31 December 2011 and 2012, if average interest rates on borrowings which bear fixed rates had been 10% higher/lower with all other variables held constant, the post-tax profit for the year would change as follows:

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Post-tax profit increase/(decrease)				
– 10% higher	(65,955)	(130,007)	(39,442)	(50,522)
– 10% lower	65,955	130,007	39,442	50,522

(b) 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 of 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.

(c) 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 at maintaining flexibility in funding by maintaining 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 combined balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
As at 30 June 2011				
Borrowings*	18,290,940	–	–	18,290,940
Trade and other payables	58,571,348	–	–	58,571,348
	76,862,288	–	–	76,862,288
As at 30 June 2012				
Borrowings*	24,963,871	–	–	24,963,871
Trade and other payables	39,634,295	–	–	39,634,295
	64,598,166	–	–	64,598,166
As at 31 December 2012				
Borrowings *	6,456,342	–	–	6,456,342
Trade and other payables	27,152,607	–	–	27,152,607
	33,608,949	–	–	33,608,949

* The borrowings include future interest payable.

3.2 Capital risk 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 combined balance sheets. Total capital is calculated as 'equity' as shown in the combined balance sheets plus total debt.

During the Relevant Periods, the Group's strategy is to maintain the gearing ratio below 50%. The gearing ratio at 30 June 2011, 2012 and 31 December 2012 were as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	
Total debt – total borrowings *(Note 15) (a)*	18,037,084	24,619,121	6,166,369
Total equity	35,425,882	78,335,770	90,220,319
Total capital *(b)*	53,462,966	102,954,891	96,386,688
Gearing ratio *((a)/(b))*	34%	24%	6%

The decrease of gearing ratio during the Relevant Periods is a result of equity increase resulting from the capitalisation of loan from the former parent company (Note 1.2(b)) and profit gained during the year ended 30 June 2012, and the six months ended 31 December 2012. Repayment of bank borrowings contributed to the decrease of the gearing ratio as well for the six months ended 31 December 2012.

3.3 Fair value estimation

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents and restricted cash) and short term liabilities (including trade and other payables and short term borrowings) are assumed to approximate their fair values due to their short-term maturities. 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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.

4.1 Critical accounting estimates and assumptions

(a) Carrying value of non-current assets

Non-current assets, including land use rights and property, plant and equipment are carried at cost less accumulated amortisation. 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 non-current 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.

(b) Useful lives of property, plant and equipment

The management determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment 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.

(c) Impairment of trade receivables

Over 30%, 15% and 10% of the trade receivables were past due over one year but not considered as impaired as at 30 June 2011, 2012 and 31 December 2012 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 receivable and impairment charge in the period in which such estimate has been changed.

(d) 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 balance sheet date.

(e) 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.

(f) 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.

4.2 Critical judgements in applying the Group's accounting policies

Revenue recognition in respect of sales of goods

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 (Note 3.1(b)). 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 may be related to products delivered in earlier periods.

The Group determines whether the 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 designed by the Group directly 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 and revenue is recognised applying the percentage of completion method. 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. During the Relevant Periods, all the sales of the industrial automation systems and sludge treatment products made by the Group are recognised as sales of goods under HKAS 18 Revenue.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

The Board considers the business from a product perspective. The Board assesses the performance of the operating segments based on a measure of segment profit or loss.

The reportable operating segments derive their revenue primarily from the research and development, supply and sale of (i) industrial automation systems, (ii) sludge treatment products and (iii) provision of after-sales service.

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 returns.

Revenue from one customer of the industrial automation systems segment represents HK$10,057,239 of the Group's total revenue for the year ended 30 June 2011. Revenue from two customers of the industrial automation systems segment represents HK$59,163,241 of the Group's total revenue for the year ended 30 June 2012. Revenue from two customers of the sludge treatment segment represents HK$26,574,447 of the Group's total revenue for the six months ended 31 December 2012, and revenue from two customers of the industrial automation systems segment represents HK$37,019,707 (unaudited) of the Group's total revenue for the six months ended 31 December 2011.

The Board assesses the performance of the operating segments based on a measure of adjusted operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the combined financial information. The common administrative expenses, other losses, other income, financing (including finance costs and interest income) and income taxes are managed on a group basis and are not allocated to operating segments.

Segment assets consist primarily of land use rights, property, plant and equipment, inventories, trade and other receivables and prepayment. They exclude deferred income tax assets and prepaid tax, restricted cash and the cash and cash equivalents.

Segment liabilities comprise operating liabilities. They exclude borrowings, tax liabilities and other payables due to related parties.

Revenue

Turnover of the Group consists of the following revenues for the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012.

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Sales of industrial automation systems	84,716,265	200,760,826	92,367,906	69,381,447
Sales of sludge treatment products	2,362,602	14,465,470	5,455,220	41,839,930
Provision of after-sales service	12,036,345	14,293,933	5,429,864	8,428,781
	99,115,212	229,520,229	103,252,990	119,650,158

The segment results for the year ended 30 June 2011:

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	84,716,265	2,362,602	12,036,345	99,115,212
Segment cost of sales	(62,322,733)	(1,767,725)	(6,264,215)	(70,354,673)
Segment gross profit	22,393,532	594,877	5,772,130	28,760,539
Segment results	13,611,793	(7,318,940)	5,456,050	11,748,903
Common administrative expenses				(11,829,367)
Other income				1,595,800
Finance costs – net				(557,470)
Profit before income tax				957,866
Income tax expense				(412,516)
Profit for the year				545,350

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	1,992,724	5,904,126	–	683,716	8,580,566
Depreciation of property, plant and equipment	599,997	242,018	–	533,672	1,375,687
Amortization of land use rights	64,968	86,198	–	77,733	228,899

The segment assets and liabilities as at 30 June 2011 are as follows:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Total assets	146,057,537	12,907,993	10,066,363	52,294,162	221,326,055
Total liabilities	(107,804,248)	(24,218,915)	–	(53,877,010)	(185,900,173)

The segment results for the year ended 30 June 2012:

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	200,760,826	14,465,470	14,293,933	229,520,229
Segment cost of sales	(145,916,569)	(10,637,530)	(8,617,327)	(165,171,426)
Segment gross profit	54,844,257	3,827,940	5,676,606	64,348,803
Segment results	39,569,610	(7,155,329)	5,303,180	37,717,461
Common administrative expenses				(15,153,838)
Other losses				(607)
Other income				1,474,156
Finance costs – net				(1,165,355)
Profit before income tax				22,871,817
Income tax expense				(3,788,448)
Profit for the year				19,083,369

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	1,081,201	7,022,388	–	4,701,255	12,804,844
Depreciation of property, plant and equipment	823,139	676,421	–	904,382	2,403,942
Amortization of land use rights	68,805	91,289	–	82,324	242,418

The segment assets and liabilities as at 30 June 2012 are as follows:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Total assets	108,515,713	56,812,792	10,378,407	74,418,645	250,125,557
Total liabilities	(118,750,364)	(25,383,709)	–	(27,655,714)	(171,789,787)

The segment results for the six months ended 31 December 2012:

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	69,381,447	41,839,930	8,428,781	119,650,158
Segment cost of sales	(49,081,870)	(30,949,432)	(5,105,164)	(85,136,466)
Segment gross profit	20,299,577	10,890,498	3,323,617	34,513,692
Segment results	11,073,015	4,560,581	3,275,942	18,909,538
Common administrative expenses				(10,801,021)
Other income				373,169
Finance costs – net				(479,816)
Profit before income tax				8,001,870
Income tax expense				(1,753,328)
Profit for the period				6,248,542

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	–	576,803	–	164,337	741,140
Depreciation of property, plant and equipment	596,579	574,597	–	493,454	1,664,630
Amortization of land use rights	34,842	46,228	–	41,689	122,759

The segment assets and liabilities as at 31 December 2012 are as follows:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Total assets	119,596,047	53,290,562	12,131,886	48,873,744	233,892,239
Total liabilities	(117,159,467)	(17,080,798)	–	(9,431,655)	(143,671,920)

The segment results for the six months ended 31 December 2011 (Unaudited):

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	92,367,906	5,455,220	5,429,864	103,252,990
Segment cost of sales	(68,986,312)	(4,247,071)	(3,148,919)	(76,382,302)
Segment gross profit	23,381,594	1,208,149	2,280,945	26,870,688
Segment results	16,193,397	(5,691,850)	2,239,686	12,741,233
Common administrative expenses				(6,635,079)
Other income				1,076,399
Finance costs – net				(259,595)
Profit before income tax				6,922,958
Income tax expense				(1,145,000)
Profit for the period				5,777,958

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	1,081,572	6,150,349	–	1,442,500	8,674,421
Depreciation of property, plant and equipment	450,985	310,753	–	264,714	1,026,452
Amortization of land use rights	36,583	41,188	–	43,772	121,543

6 LAND USE RIGHTS

Land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in the PRC and are held on leases with remaining periods of between 32 to 42 years.

Movements in land use rights are as follows:

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* (*Unaudited*)	*HK$*
At beginning of year/period				
Cost	9,491,214	9,956,519	9,956,519	10,156,817
Accumulated amortisation	(556,205)	(817,983)	(817,983)	(1,079,296)
Net book amount	8,935,009	9,138,536	9,138,536	9,077,521
Opening net book amount	8,935,009	9,138,536	9,138,536	9,077,521
Amortisation for the year/period *(Note 19)*	(228,899)	(242,418)	(121,543)	(122,759)
Foreign exchange difference	432,426	181,403	234,250	48,593
Closing net book amount	9,138,536	9,077,521	9,251,243	9,003,355
At end of year/period				
Cost	9,956,519	10,156,817	10,213,445	10,211,556
Accumulated amortisation	(817,983)	(1,079,296)	(962,202)	(1,208,201)
Net book amount	9,138,536	9,077,521	9,251,243	9,003,355

Amortisation expense has been charged to "administrative expenses" in the combined statements of comprehensive income.

Pursuant to the mortgage loan agreement entered into between Huazhang Technology and China Construction Bank Corporation Tongxiang Branch (the "Bank"), the land use rights of the property held under State-owned Land Use Rights Certificate, Tong Guo Yong (2011) Di No. 18713 is subject to a mortgage. The mortgage of the land use rights has not been registered in the record of the State-owned Land Resources Bureau of Tongxiang, but the Group pledged the land use rights certificate at the Bank. The land use rights that have been pledged as securities for bank borrowings are as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Cost of land use rights	3,858,754	3,936,382	3,957,744
Net book value of land use rights	3,216,241	3,201,316	3,178,659

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machineries	Furniture, fittings and equipment	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1 July 2010					
Cost	21,234,582	1,354,886	1,027,818	13,698	23,630,984
Accumulated depreciation	(2,700,757)	(335,631)	(347,565)	–	(3,383,953)
Net book amount	18,533,825	1,019,255	680,253	13,698	20,247,031
Year ended 30 June 2011					
Opening net book amount	18,533,825	1,019,255	680,253	13,698	20,247,031
Additions	–	1,207,433	683,716	6,689,417	8,580,566
Depreciation *(Note 19)*	(1,041,798)	(142,149)	(191,740)	–	(1,375,687)
Foreign exchange difference	883,080	76,081	45,410	164,646	1,169,217
Closing net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
At 30 June 2011					
Cost	22,275,603	2,658,339	1,778,683	6,867,761	33,580,386
Accumulated depreciation	(3,900,496)	(497,719)	(561,044)	–	(4,959,259)
Net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Year ended 30 June 2012					
Opening net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Additions	–	4,474,082	1,746,019	6,584,743	12,804,844
Transfers	10,565,660	–	2,955,236	(13,520,896)	–
Depreciation *(Note 19)*	(1,375,398)	(517,430)	(511,114)	–	(2,403,942)
Foreign exchange difference	462,098	83,265	66,641	68,392	680,396
Closing net book amount	28,027,467	6,200,537	5,474,421	–	39,702,425
At 30 June 2012					
Cost	33,395,663	7,230,903	6,563,008	–	47,189,574
Accumulated depreciation	(5,368,196)	(1,030,366)	(1,088,587)	–	(7,487,149)
Net book amount	28,027,467	6,200,537	5,474,421	–	39,702,425

	Buildings	Machineries	Furniture, fittings and equipment	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Six months ended 31 December 2012					
Opening net book amount	28,027,467	6,200,537	5,474,421	–	39,702,425
Additions	–	576,803	164,337	–	741,140
Depreciation *(Note 19)*	(719,904)	(343,880)	(600,846)	–	(1,664,630)
Foreign exchange difference	149,114	34,045	28,327	–	211,486
Closing net book amount	27,456,677	6,467,505	5,066,239	–	38,990,421
At 31 December 2012					
Cost	33,575,647	7,848,229	6,763,159	–	48,187,035
Accumulated depreciation	(6,118,970)	(1,380,724)	(1,696,920)	–	(9,196,614)
Net book amount	27,456,677	6,467,505	5,066,239	–	38,990,421
(Unaudited): At 30 June 2011					
Cost	22,275,603	2,658,339	1,778,683	6,867,761	33,580,386
Accumulated depreciation	(3,900,496)	(497,719)	(561,044)	–	(4,959,259)
Net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Six months ended 31 December 2011					
Opening net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Additions	–	3,601,169	1,442,500	3,630,752	8,674,421
Transfers	8,391,603	–	–	(8,391,603)	–
Depreciation *(Note 19)*	(599,856)	(202,963)	(223,633)	–	(1,026,452)
Foreign exchange difference	574,698	99,600	47,147	115,794	837,239
Closing net book amount	26,741,552	5,658,426	2,483,653	2,222,704	37,106,335
At 31 December 2011					
Cost	31,350,298	6,374,570	3,285,695	2,222,704	43,233,267
Accumulated depreciation	(4,608,746)	(716,144)	(802,042)	–	(6,126,932)
Net book amount	26,741,552	5,658,426	2,483,653	2,222,704	37,106,335

Depreciation expense have been charged to the combined statements of comprehensive income as follows:

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Cost of sales	426,263	847,761	362,214	532,056
Administrative expenses	888,794	1,480,808	633,859	1,074,307
Research and development expenses	60,630	75,373	30,379	58,267
	1,375,687	2,403,942	1,026,452	1,664,630

During the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012, the Group has capitalised amounting to HK$183,474, HK$186,606, HK$163,539 and nil, respectively on qualifying assets. Borrowing costs were capitalised at the weighted average rate of 5.62%, 7.00%, 7.54% and nil for the Relevant Periods.

Buildings that have been pledged as securities for bank borrowings are as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Cost of buildings	11,730,921	20,173,288	20,282,011
Net book value of buildings	8,827,518	16,396,001	16,028,020

8 TRADE AND OTHER RECEIVABLES

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Warranty receivables – due from third parties (i)	14,557,301	16,438,956	20,965,592
Other trade receivables – due from third parties	8,663,634	8,232,616	19,305,714
Other trade receivables – due from related parties *(Note 29)*	1,990,911	3,526,507	57,278
	25,211,846	28,198,079	40,328,584
Less: provision for impairment of trade receivables	(3,026,175)	(3,493,754)	(2,817,324)
Trade receivables – net	22,185,671	24,704,325	37,511,260
Bills receivable	9,765,882	7,986,315	–
Trade and bills receivables	31,951,553	32,690,640	37,511,260
Other receivables due from related parties *(Note 29)*	11,111,615	80,960	21,493
Others	2,982,736	784,929	691,071
	14,094,351	865,889	712,564
Total trade and other receivables	46,045,904	33,556,529	38,223,824
Less: trade receivables – non-current portion	(30,873)	(294,122)	–
	46,015,031	33,262,407	38,223,824

(i) Warranty receivables represent the approximately 5% to 10% of the contract value which will be collected 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 on-site testing, whichever is earlier).

As at 30 June 2011, 2012 and 31 December 2012, the ageing analysis of the warranty receivables and other trade receivables (including non-current portion) is as follows:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Warranty receivables			
Up to 3 months	2,032,890	6,668,215	7,063,399
3 months to 6 months	2,043,680	1,652,124	929,990
6 months to 1 year	1,687,308	2,725,965	7,039,550
1 year to 2 years	3,291,517	3,470,137	4,047,472
Over 2 years	5,501,906	1,922,515	1,885,181
	14,557,301	16,438,956	20,965,592

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Other trade receivables			
Up to 3 months	3,944,320	6,335,809	12,522,335
3 months to 6 months	955,258	1,000,651	2,204,239
6 months to 1 year	3,900,847	684,836	2,199,008
1 year to 2 years	432,326	2,563,262	1,582,965
Over 2 years	1,421,794	1,174,565	854,445
	10,654,545	11,759,123	19,362,992

As at 30 June 2011, 2012 and 31 December 2012, trade receivables of HK$16,421,793, HK$13,658,022 and HK$22,478,321 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Past due within 3 months	3,944,320	6,335,810	12,522,335
Past due in 3 months to 6 months	955,258	1,000,651	2,204,239
Past due in 6 months to 1 year	3,900,847	684,836	2,199,008
1 year to 2 years	2,847,906	5,099,246	4,651,834
Over 2 years	4,773,462	537,479	900,905
	16,421,793	13,658,022	22,478,321

As at 30 June 2011, 2012 and 31 December 2012, trade receivables of HK$3,026,175, HK$3,493,754 and HK$2,817,324 were impaired. The amount of the provision was HK$3,026,175, HK$3,493,754 and HK$2,817,324 as at 30 June 2011, 2012 and 31 December 2012 respectively. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. The ageing of these trade receivables is as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
1 year to 2 years	875,937	934,153	978,603
Over 2 years	2,150,238	2,559,601	1,838,721
	3,026,175	3,493,754	2,817,324

Movements on the Group's provision for impairment of trade receivables are as follows:

	Years ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
At 1 July	2,576,635	3,026,175	3,493,754
Provision for/(reversal of) receivables impairment *(Note 19)*	315,487	402,650	(693,390)
Foreign exchange difference	134,053	64,929	16,960
At 30 June/31 December	3,026,175	3,493,754	2,817,324

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the combined statements of comprehensive income.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Years ended 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
RMB	45,724,302	33,556,529	38,223,824
USD	321,602	–	–
	46,045,904	33,556,529	38,223,824

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

9 PREPAYMENTS

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Non-current			
Prepayments for operating lease payment – non-current portion	369,056	352,450	330,194
Prepayments for property, plant and equipment	876,134	–	77,943
	1,245,190	352,450	408,137
Current			
Prepayments for raw materials	9,001,165	7,546,375	1,518,066
Prepaid income tax	800,809	882,074	1,612,222
Prepayments for operating lease payment – current portion	90,907	92,736	16,102
Prepaid and deferred professional service fees	–	1,313,338	3,356,943
	9,892,881	9,834,523	6,503,333
	11,138,071	10,186,973	6,911,470

10 INVENTORIES

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Raw materials	19,591,924	30,231,314	29,217,716
Work in progress	46,329,086	47,006,534	36,992,854
Finished goods	38,766,787	33,932,659	48,918,072
	104,687,797	111,170,507	115,128,642

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK$70,167,255, HK$163,940,057 and HK$84,631,892, which included provision for write-down of inventories of HK$1,790,480, HK$113,570 for the years ended 30 June 2011, 2012 respectively and the reversal of inventory provision HK$744,492 for the six months ended 31 December 2012 (Note 19).

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

	Years ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
At 1 July	1,836,671	3,761,082	2,369,463
Provision for/(reversal of) write-down of inventories *(Note 19)*	1,790,480	113,570	(744,492)
Written-off provision for inventories write-down	–	(1,566,239)	–
Foreign exchange difference	133,931	61,050	10,764
At 30 June/31 December	3,761,082	2,369,463	1,635,735

As at 30 June 2011, a batch of raw materials with cost of HK$8,519,178 was considered as obsolete. A provision of HK$3,761,082 was made as at 30 June 2011. The Group provided for inventory write-down of HK$1,790,480 for the year ended 30 June 2011. The amount charged has been included in 'cost of sales' in the combined statement of comprehensive income.

As at 30 June 2012, a batch of raw materials with cost of HK$3,321,889 was considered as obsolete. A provision of HK$2,369,463 was made as at 30 June 2012. The Group wrote-off a provision of HK$1,566,239 previously made at 30 June 2011 during the year ended 30 June 2012 as the Group has sold part of these underlying goods to third parties. The Group further provided for inventory write-down of HK$113,570 for the year ended 30 June 2012. The amount charged has been included in 'cost of sales' in the combined statement of comprehensive income for the year ended 30 June 2012.

As at 31 December 2012, a batch of raw materials with cost of HK$1,984,292 was considered as obsolete. A provision of HK$1,635,735 was made as at 31 December 2012. The Group reversed HK$744,492 of a previous inventory write-down in December 2012 as the Group has utilised all of these raw materials. The amount reversed has been included in 'cost of sales' in the combined statement of comprehensive income for the six months ended 31 December 2012.

11 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Cash at bank and on hand *(a)*	20,598,985	45,344,881	24,492,573
Less: Restricted cash *(b)*	(551,946)	(1,527,484)	(1,535,716)
Cash and cash equivalents	20,047,039	43,817,397	22,956,857

(a) All cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates.

(b) Restricted cash represents cash set aside as deposits for issuance of trade facilities such as bills payable and letter of credit.

Cash and cash equivalents are denominated in the following currencies:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
RMB	19,896,590	42,079,570	21,638,448
HK$	144,423	766,419	1,312,514
USD	6,026	5,899	5,895
EURO	–	965,509	–
	20,047,039	43,817,397	22,956,857

All restricted cash is denominated in RMB.

12 RETAINED EARNINGS

	Years ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
At 1 July	21,119,211	21,522,218	21,522,218	26,866,952
Profit for the year/period	545,350	19,083,369	5,777,958	6,248,542
Dividends declared *(Note 25)*	–	(12,713,596)	(12,713,596)	–
Appropriation to statutory reserves *(Note 13)*	(142,343)	(1,025,039)	(1,025,039)	(2,445,217)
At 30 June/31 December	21,522,218	26,866,952	13,561,541	30,670,277

13 RESERVES

	Merger reserve (I)	Statutory reserves (II)	Translation differences	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 July 2010	3,000,000	1,645,276	5,993,762	10,639,038
Translation differences	–	–	3,122,283	3,122,283
Appropriation to statutory reserves *(Note 12)*	–	142,343	–	142,343
At 30 June 2011	3,000,000	1,787,619	9,116,045	13,903,664
At 1 July 2011	3,000,000	1,787,619	9,116,045	13,903,664
Translation differences	–	–	1,315,342	1,315,342
Capitalisation of loan from the former parent company *(Note 1.2(b))*	35,224,773	–	–	35,224,773
Appropriation to statutory reserves *(Note 12)*	–	1,025,039	–	1,025,039
At 30 June 2012	38,224,773	2,812,658	10,431,387	51,468,818
At 1 July 2012	38,224,773	2,812,658	10,431,387	51,468,818
Translation differences	–	–	436,007	436,007
Capitalisation of loan from the former parent company *(Note 1.2(f))*	5,200,000	–	–	5,200,000
Appropriation to statutory reserves *(Note 12)*	–	2,445,217	–	2,445,217
At 31 December 2012	43,424,773	5,257,875	10,867,394	59,550,042
(Unaudited):				
At 1 July 2011	3,000,000	1,787,619	9,116,045	13,903,664
Translation differences	–	–	1,493,915	1,493,915
Appropriation to statutory reserves *(Note 12)*	–	1,025,039	–	1,025,039
At 31 December 2011	3,000,000	2,812,658	10,609,960	16,422,618

(I) Merger reserve

The merger reserve represents: (i) the combined share capital of the companies now comprising the Group after elimination of intra-group investments; and (ii) capitalised amount of loans from the former parent company, Huazhang Overseas.

(II) Statutory reserves

Pursuant to the Company Law of the PRC and the Articles of Association of Huazhang Technology, a subsidiary of the Company in the PRC, it is required to appropriate 10% of each year's net profit according to the PRC accounting standard and regulations (after offsetting previous years' losses) to statutory surplus reserve until such reserve reached 50% of its registered capital; after the appropriation to statutory surplus reserve, the subsidiary in the PRC can appropriate profit, subject to respective owners' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to owners. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the PRC subsidiary. The statutory surplus reserve can be transferred to paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of its registered capital.

14 TRADE AND OTHER PAYABLES

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Trade payables – due to third parties	14,440,020	15,126,400	10,779,992
Trade payables – due to related parties *(Note 29)*	10,435,579	19,461,417	4,182,465
Bills payable	156,321	1,545,227	8,659,523
	25,031,920	36,133,044	23,621,980
Other taxes payable	1,005,644	1,908,860	2,351,866
Employee benefit payables	1,889,262	2,453,325	4,933,095
Accrued operating expenses	15,800	90,800	49,600
Advances from customers *(a)*	105,864,057	101,701,793	99,643,170
Amounts due to related parties *(Note 29)*	32,112,773	–	–
Provision for warranty expenses	516,978	1,381,593	3,159,965
Payables for property, plant and equipment	201,899	1,577,295	1,955,610
Payables for professional service fees	–	–	942,282
Others	1,224,756	1,923,956	632,735
	142,831,169	111,037,622	113,668,323
	167,863,089	147,170,666	137,290,303

(a) Advances from customers represent the down payment from the customers according to the contract payment schedule. The Group usually requires a down payment of approximately 10% to 30% of the total contract value to be paid upon signing of 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, but before the completion of the installation and debugging.

At 30 June 2011, 2012 and 31 December 2012, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) is as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Up to 3 months	22,063,814	32,356,979	12,375,677
3 months to 6 months	1,517,626	249,237	910,364
6 months to 1 year	979,058	1,428,736	624,604
1 year to 2 years	38,791	337,404	719,551
Over 2 years	276,310	215,461	332,261
	24,875,599	34,587,817	14,962,457

15 BORROWINGS

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Current			
– Secured short-term bank borrowings (i)	18,037,084	18,399,941	6,166,369
– Unsecured short-term bank borrowings	–	6,219,180	–
	18,037,084	24,619,121	6,166,369

(i) As at 30 June 2011 and 2012, these short-term bank borrowings are secured by the land use rights (Note 6) and buildings of the Group (Note 7), and is guaranteed by Mr. Zhu, a related party (Note 29).

As at 31 December 2012, these short-term bank borrowings are secured by the land use rights (Note 6) and buildings of the Group (Note 7).

The carrying amounts of the Group's borrowings are all denominated in RMB.

The weighted average effective interest rates at each balance sheet date were as follows:

	As at 30 June		As at 31 December
	2011	2012	2012
Bank borrowings – short-term	5.62%	7.00%	7.23%

The fair value of current bank borrowings approximate their carrying amount.

16 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. As at 30 June 2011, 2012 and 31 December 2012, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Deferred tax assets:			
– to be recovered after more than 12 months	–	–	–
– to be recovered within 12 months	1,095,635	1,086,721	1,141,954
	1,095,635	1,086,721	1,141,954
Deferred tax liabilities:			
– to be recovered after more than 12 months	–	–	–
– to be recovered within 12 months	–	–	215,248
	–	–	215,248

The gross movement on the deferred income tax account is as follows:

	Provision for warranty expenses	Provision for impairment	Withholding tax on unremitted earnings of Huazhang Technology	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 July 2010	48,395	661,996	–	710,391
Credited to the combined statement of comprehensive income *(Note 23)*	26,139	315,895	–	342,034
Foreign exchange difference	3,012	40,198	–	43,210
At 30 June 2011	77,546	1,018,089	–	1,095,635
At 1 July 2011	77,546	1,018,089	–	1,095,635
Credited/(Charged) to the combined statement of comprehensive income *(Note 23)*	126,857	(157,503)	–	(30,646)
Foreign exchange difference	2,835	18,897	–	21,732
At 30 June 2012	207,238	879,483	–	1,086,721
At 1 July 2012	207,238	879,483	–	1,086,721
Credited/(Charged) to the combined statement of comprehensive income *(Note 23)*	264,926	(215,682)	(214,671)	(165,427)
Foreign exchange difference	1,830	4,159	(577)	5,412
At 31 December 2012	473,994	667,960	(215,248)	926,706
(Unaudited):				
At 1 July 2011	77,546	1,018,089	–	1,095,635
Credited/(Charged) to the combined statement of comprehensive income *(Note 23)*	188,572	(176,635)	–	11,937
Foreign exchange difference	4,433	23,992	–	28,425
At 31 December 2011	270,551	865,446	–	1,135,997

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 30 June 2011, 2012 and 31 December 2012, the Group did not recognise deferred income tax assets of HK$4,198, HK$222,631 and HK$543,239 in respect of tax losses amounting to HK$25,446, HK$1,349,280 and HK$3,292,357 arising from Huazhang Electric, a company incorporated in Hong Kong, as the management did not expect the tax losses can be realised in the foreseeable future. There is no expiry date for the tax losses of Huazhang Electric.

No deferred tax liabilities for unremitted earnings of the PRC subsidiary that earned on and after 1 January 2008 till 30 June 2012 (the "Unremitted Earnings") have been recognised as there is no plan of the dividends distribution in the foreseeable future for the Unremitted Earnings, which are intended to be reinvested in PRC permanently. As at 30 June 2011 and 2012, the undistributed profit of the PRC subsidiary subject to local tax authority's review was HK$2,138,309 and HK$21,545,919, respectively. The corresponding unrecognised deferred income tax liabilities were HK$213,831 and HK$2,154,592 as at 30 June 2011 and 2012 respectively.

The Company intends to declare dividends of 25% of the net profit for each of the financial year starting from the year ending 30 June 2013, subject to the approval of the Board of Directors and Shareholders. The remaining 75% of the net profit is intended to be reinvested in PRC permanently. As at 31 December 2012, unremitted earnings of the PRC subsidiary subject to local tax authority's review was HK$28,387,148, the corresponding unrecognised deferred income tax liabilities was HK$2,838,715.

17 REVENUE

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Revenue from sales of industrial automation systems	84,716,265	200,760,826	92,367,906	69,381,447
Revenue from sales of sludge treatment products	2,362,602	14,465,470	5,455,220	41,839,930
Revenue from provision of after-sales service	12,036,345	14,293,933	5,429,864	8,428,781
	99,115,212	229,520,229	103,252,990	119,650,158

18 OTHER INCOME

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Government grants	998,579	960,722	768,521	46,000
Operating lease income	597,221	391,990	307,878	81,177
Others	–	121,444	–	245,992
	1,595,800	1,474,156	1,076,399	373,169

19 EXPENSES BY NATURE

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Raw materials used	121,014,193	148,734,138	75,069,847	82,919,790
Change in inventories of finished goods and work in progress *(Note 10)*	(60,030,015)	4,156,680	(5,269,310)	(4,971,733)
Employee benefit expenses *(Note 20)*	21,543,621	28,002,950	16,045,173	17,522,010
Amortisation of land use rights *(Note 6)*	228,899	242,418	121,543	122,759
Depreciation of property, plant and equipment *(Note 7)*	1,375,687	2,403,942	1,026,452	1,664,630
Transportation expenses	1,863,135	3,466,593	2,063,788	2,190,546
Utilities	202,201	444,822	154,439	303,916
Travelling expenses	2,943,878	3,605,827	2,025,045	2,175,476
Advertising costs	253,631	303,861	300,514	236,817
Provision for/(reversal of) impairment of trade receivables *(Note 8)*	315,487	402,650	(208,230)	(693,390)
Provision for/(reversal of) write-down of inventories *(Note 10)*	1,790,480	113,570	(969,336)	(744,492)
Miscellaneous tax charges other than value added tax and income tax	578,913	1,822,904	610,605	648,414
Warranty expenses	1,845,897	4,755,445	2,246,435	2,331,773
Office expenses	1,351,292	2,599,633	1,610,971	1,406,857
Entertainment expenses	1,598,486	1,731,574	909,891	769,961
Auditors' remuneration	164,318	85,011	136,392	59,736
Professional service fees	–	2,193,887	–	4,684,906
Other expenses	2,155,573	1,890,701	1,272,617	913,665
Total cost of sales, distribution costs and administrative expenses	99,195,676	206,956,606	97,146,836	111,541,641

20 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Wages and salaries	10,775,819	15,006,605	8,495,196	9,276,214
Bonus	3,875,731	4,336,970	1,913,327	2,459,919
Social security costs	3,300,528	4,227,068	2,673,628	2,981,378
Other benefits	3,591,543	4,432,307	2,963,022	2,804,499
	21,543,621	28,002,950	16,045,173	17,522,010

21 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the year ended 30 June 2011 is set out as follows:

Name	Fees	Salary	Bonus	Other Benefits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	873,234	145,539	57,724	1,076,497
Mr. Jin Hao	–	380,279	266,474	61,239	707,992
Mr. Zhong Xin Gang	–	93,896	11,737	17,555	123,188
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	1,347,409	423,750	136,518	1,907,677

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the year ended 30 June 2012 is set out as follows:

Name	Fees	Salary	Bonus	Other Benefits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	903,549	188,239	57,942	1,149,730
Mr. Jin Hao	–	429,914	457,892	63,881	951,687
Mr. Zhong Xin Gang	–	291,467	48,578	57,339	397,384
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	1,624,930	694,709	179,162	2,498,801

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the six months ended 31 December 2012 is set out as follows:

Name	Fees	Salary	Bonus	Other Benefits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	458,820	152,940	31,001	642,762
Mr. Jin Hao	–	222,010	74,003	34,275	330,288
Mr. Zhong Xin Gang	–	159,107	56,736	34,768	250,611
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	839,937	283,679	100,044	1,223,661

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the six months ended 31 December 2011 (Unaudited) is set out as follows:

Name	Fees	Salary	Bonus	Other Benefits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	442,044	73,674	29,220	544,938
Mr. Jin Hao	–	192,503	134,894	31,000	358,397
Mr. Zhong Xin Gang	–	142,595	11,883	28,417	182,895
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	777,142	220,451	88,637	1,086,230

(i) The chief executive of the Company is Mr. Zhu, who is one of the directors.

(ii) Mr. Kong Chi Mo, Mr. Dai Tian Zhu and Ms. Chen Jin Mei were appointed as directors on 6 May 2013.

For the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012 include two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012 are as follows:

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Fees	–	–	–	–
Salary	1,380,274	1,457,336	698,715	814,323
Bonus	212,440	285,395	107,540	165,274
Other benefits	176,221	196,851	89,205	71,255
	1,768,935	1,939,582	895,460	1,050,852

The emoluments fell within the following bands:

	Number of individuals Years ended 30 June		Number of individuals Six months ended 31 December	
	2011	2012	2011	2012
			(Unaudited)	
Emolument bands (in HK$)				
HK$200,001 – HK$500,000	–	–	3	3
HK$500,001 – HK$1,000,000	3	3	–	–

For the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012, 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.

22 FINANCE COSTS – NET

	Years ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Finance costs				
– Interest expenses on bank borrowings	959,411	1,716,098	627,566	594,373
– Net foreign exchange loss	–	50,584	18,924	–
	959,411	1,766,682	646,490	594,373
Less: amounts capitalised on qualifying assets *(Note 7)*	(183,474)	(186,606)	(163,539)	–
	775,937	1,580,076	482,951	594,373
Finance income				
– Interest income on bank deposits	(203,660)	(414,721)	(223,356)	(94,942)
– Net foreign exchange gain	(14,807)	–	–	(19,615)
	(218,467)	(414,721)	(223,356)	(114,557)
Net finance costs	557,470	1,165,355	259,595	479,816

23 INCOME TAX EXPENSE

	Years ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Current income tax				
– PRC enterprise income tax	754,550	3,757,802	1,156,937	1,587,901
Deferred income tax *(Note 16)*	(342,034)	30,646	(11,937)	165,427
Income tax expense	412,516	3,788,448	1,145,000	1,753,328

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profit tax rate is 16.5% for the Relevant Periods.

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

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

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

Huazhang Technology is qualified as a foreign investment manufacturing enterprise. Huazhang Technology's applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, Huazhang Technology obtained qualification as High and New Technology enterprise in Calendar Year 2008 and 2011 respectively, with validation period of three years each. The applicable EIT rate of Huazhang Technology will be 15% from 2008 till 2013. For the Relevant Periods, the applicable income tax rate of Huazhang Technology is 15%.

(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.

No deferred tax liabilities for the Unremitted Earnings of the PRC subsidiary that earned on and after 1 January 2008 till 30 June 2012 have been recognised as there is no plan of the dividends distribution in the foreseeable future for the Unremitted Earnings, which are intended to be reinvested in PRC permanently.

The Company intends to declare dividends of 25% of the net profit for each of the financial year starting from the year ending 30 June 2013, subject to the approval of the Board of Directors and Shareholders. The remaining 75% of the net profit is intended to be reinvested in PRC permanently. As at 31 December 2012, unremitted earnings of PRC subsidiary subject to local tax authority's review was HK$27,986,026. The corresponding unrecognised deferred income tax liabilities were HK$2,798,603.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined entities as follows:

	Years ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Profit before income tax	957,866	22,871,817	6,922,958	8,001,870
Tax calculated at tax rates applicable to profits in the respective jurisdiction	241,629	5,832,643	1,731,782	2,280,318
Tax effects of:				
Effect of preferential tax rate	(275,011)	(2,525,632)	(763,333)	(1,168,886)
Expenses not deductible for tax purposes	441,700	258,806	174,527	98,657
Tax losses for which no deferred income tax asset was recognised *(Note 16)*	4,198	222,631	2,024	543,239
Tax charges	412,516	3,788,448	1,145,000	1,753,328

24 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the group reorganisation and the preparation of the results for each of the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012 on a combined basis as disclosed in Note 1.3 above.

25 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

Dividends during each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012 represented dividends declared by the companies now comprising the Group to the then owners of the respective companies for each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012, after elimination of intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

26 GROUP ENTITIES

Particulars of the companies now comprising the Group are as follows:

					Effective interest held *			
					As at 30 June		As at 31 December	
Company name	Place and date of incorporation	Legal status	Registered or authorised capital	Issued and fully paid share capital	2011	2012	2012	Principal activities
Huazhang Technology	PRC, 19 July 2001	Foreign investment enterprise	USD5,300,000	USD5,300,000	100%	100%	100%	Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales service
Huazhang Electric	Hong Kong, 25 March 1993	Investment enterprise	HK$5,000,000	HK$3,000,002	100%	100%	100%	Investment holding
Likwin	BVI, 8 June 2012	Investment enterprise	USD50,000	USD1	N/A	N/A	N/A	Investment holding

* Likwin is directly held by the Company, all other subsidiaries now comprising the Group are indirectly held by the Company.

The companies that have statutory audited financial statements during the Relevant Periods and the name of the auditors are as follows:

Company name	Financial years ended	Name of statutory auditor
Huazhang Technology	31 December 2010 and 2011	China Audit International Certified Public Accountants
	31 December 2012	Qiuzhen Certified Public Accountants

Company name	Financial years ended	Name of statutory auditor
Huazhang Electric	30 June 2011 and 2012	Bentleys C.P.A. Company Limited

Except for the above companies, no audited statutory financial statements were prepared for other group entities as they were either not required to issue audited financial statements under the local statutory requirements or were newly established that their first statutory audits are not yet to come.

The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

27 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from/(used in) operations

	Years ended 30 June		Six months ended 31 December	
Cash generated from operations	**2011**	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Profit before income tax	957,866	22,871,817	6,922,958	8,001,870
Adjustments for:				
– Depreciation of property, plant and equipment *(Notes 7)*	1,375,687	2,403,942	1,026,452	1,664,630
– Amortisation of land use rights *(Notes 6)*	228,899	242,418	121,543	122,759
– Provision for/(reversal of) impairment of receivables *(Note 8)*	315,487	402,650	(208,230)	(693,390)
– Provision for/(reversal of) write-down of inventories *(Note 10)*	1,790,480	113,570	(969,336)	(744,492)
– Finance income *(Note 22)*	(218,467)	(414,721)	(223,356)	(114,557)
– Finance costs *(Note 22)*	775,937	1,580,076	482,951	594,373
Changes in working capital:				
– Restricted cash	786,925	(975,538)	(14,243)	(8,232)
– Inventories	(65,506,983)	(6,657,330)	(8,457,068)	(3,224,407)
– Trade and other receivables and prepayments	(1,254,201)	3,506,004	12,202,889	384,732
– Trade and other payables	73,243,435	9,858,428	(10,095,074)	(10,281,069)
Cash generated from/(used in) operations	12,495,065	32,931,316	789,486	(4,297,783)

(b) Repayment of loan from a third party

This represents Huazhang Technology's collection of loan from a third party with amount of HK$17,625,331. The loan is unsecured, bears no interest and is repayable on demand. The loan has been fully repaid in the year ended 30 June 2011.

(c) Non-cash transactions

The principal non-cash transaction during the Relevant Periods is the capitalisation of loan from the former parent company, Huazhang Overseas discussed in Note 1.2(b) and Note 1.2(f).

28 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	Years ended 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Property, plant and equipment	3,193,766	1,151,478	647,410

(b) Operating lease commitments

The Group leases an office and motor vehicles under non-cancellable operating lease agreements. The lease terms are within 1 year, and the majority of lease agreements are renewable at the end of the lease period at market rate.

	Years ended 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
No later than 1 year	90,907	92,736	227,052

29 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 2011, 2012 and six months ended 31 December 2011, 2012, and balances arising from related party transactions as at 30 June 2011, 2012 and 31 December 2012.

(a) Name and relationship with related parties

Company name	Relationships
Mr. Zhu (i)	Person Acting in Concert, key management, owner of the Company
Mr. Wang (i)	Person Acting in Concert
Mr. Liu (i)	Person Acting in Concert, key management
Ms. Zhu (i)	Person Acting in Concert
Mr. Tang Zhi Chao	Key management
Mr. Zhong Xin Gang	Key management
Mr. Jin Hao	Key management
Mr. So, Alan Wai Shing	Key management
Mr. Zhu Genyi	Brother of Mr. Zhu
Huazhang Overseas	The former parent company, controlled by the Controlling Shareholders
Zhejiang Huazhang Automation Equipment Company Limited ("Huazhang Automation (Zhejiang)")	30% of its indirect interests held by Huazhang Overseas
Hangzhou Yiyi Corporate Management Consultation Limited ("Hangzhou Yiyi Consultation") (formerly known as Hangzhou Huazhang Electric Engineering Company Limited) (ii)	39.5% of its direct interests held by Mr. Zhu
Shanghai Yunjie Corporate Management Consultation Limited ("Shanghai Yunjie Consultation") (formerly known as Shanghai Huazhang Electric Control Engineering Company Limited) (iii)	45% of its direct interests held by Mr. Zhu
Hangzhou Rong Wei Industrial Investment Company Limited ("Hangzhou Rong Wei")	Controlled by the owner of the Company, and was deregistered in April 2012
Hangzhou Tiger Power Automation Company Limited ("Hangzhou Tiger Power")	25% of its direct interests held by Mr. Zhu
Tongxiang Modern Eco-Agriculture	Subsidiary of Huazhang Electric before 10 April 2012

(i) Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu form the Persons Acting in Concert.

(ii) Pursuant to the equity transfer agreement entered into between Mr. Zhu and Mr. Wang on 15 August 2012, Mr. Zhu transferred the 39.5% equity interest in Hangzhou Yiyi Consultation to Mr. Wang. Hangzhou Yiyi Consultation ceased to be the related party of the Group since 15 August 2012.

(iii) Pursuant to the equity transfer agreement entered into between Mr. Zhu and Mr. Wang on 28 August 2012, Mr. Zhu transferred the 45% equity interest in Shanghai Yunjie Consultation to Mr. Wang. Shanghai Yunjie Consultation ceased to be the related party of the Group since 28 August 2012.

(b) Transactions with related parties

Continuing transactions

(i) Sales of goods and services

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Automation (Zhejiang)	10,079,567	5,805,000	2,668,138	2,725,958

(ii) Purchases of goods and services

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Automation (Zhejiang)	54,885,790	67,909,396	31,647,703	31,196,439

(iii) Rental income

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Automation (Zhejiang)	129,107	165,110	80,374	81,177

(iv) Key management compensation

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Salaries	2,727,683	3,157,266	1,276,224	1,654,260
Bonus	636,190	980,104	294,719	448,953
Other benefits	312,739	376,013	149,501	171,299
	3,676,612	4,513,383	1,720,444	2,274,512

(v) Dividend declared to the owner of Huazhang Electric

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Overseas	–	12,713,596	12,713,596	–

Non-continuing transactions

(i) Rental income

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Hangzhou Rong Wei	230,809	119,411	115,404	–
Hangzhou Yiyi Consultation	29,577	–	–	–
	260,386	119,411	115,404	–

(ii) Loan from a related party

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Overseas	–	5,612,000	2,500,000	5,200,000

(iii) Loan to related parties

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Hangzhou Yiyi Consultation	20,152,464	485,779	487,116	–
Hangzhou Tiger Power	12,675,982	8,501,129	8,524,526	–
Ms. Zhu	11,737,020	–	–	–
Huazhang Automation (Zhejiang)	–	12,144,471	–	–
Tongxiang Modern Eco-Agriculture	–	24,288,941	23,016,221	–
	44,565,466	45,420,320	32,027,863	–

(c) Balances with related parties

(i) Due from related parties (Note 8):

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Included in trade receivables			
Huazhang Automation (Zhejiang)	1,619,640	3,526,507	57,278
Shanghai Yunjie Consultation	371,271	–	–
	1,990,911	3,526,507	57,278

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Included in other receivables			
Ms. Zhu	9,619,778	–	–
Shanghai Yunjie Consultation	1,088,847	–	–
Hangzhou Rong Wei	293,325	–	–
Huazhang Automation (Zhejiang)	79,363	80,960	–
Hangzhou Yiyi Consultation	30,302	–	–
Mr. Zhu Genyi	–	–	21,493
	11,111,615	80,960	21,493

(ii) Due to related parties (Note 14):

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Included in trade payables			
Huazhang Automation (Zhejiang)	10,430,769	19,461,417	4,182,465
Hangzhou Yiyi Consultation	4,810	–	–
	10,435,579	19,461,417	4,182,465

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Included in other payables			
Huazhang Overseas	29,631,671	–	–
Mr. Zhu	2,481,102	–	–
	32,112,773	–	–

The receivables from and payables to related parties as at 30 June 2012 and 31 December 2012 arise mainly from ordinary course of businesses. The receivables from and payables to related parties as at 30 June 2011 arise mainly from fund advances among the companies now comprising the Group and related parties, which have been subsequently settled.

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

The payables are unsecured, bear no interest and are repayable on demand.

(d) Borrowings secured by a related party

Bank borrowings of HK$18,037,084 and HK$18,399,941 as at 30 June 2011 and 2012 respectively are guaranteed by Mr. Zhu (Note 15), which has been released as at 31 July 2012.

30 SUBSEQUENT EVENTS

(a) Increase of authorised share capital

Pursuant to a shareholder's resolution dated 6 May 2013, the authorised share capital of the Company increased from HK$380,000 to HK$80,000,000 divided into 8,000,000,000 ordinary shares of par value HK$0.01 each.

(b) Capitalisation issue

Pursuant to a shareholder's resolution dated 6 May 2013, conditional on the share premium account of the Company being credited as a result of the Placing described in the Prospectus, the Company will capitalise an amount of HK$2,039,999.99, standing to the credit of its share premium account by applying such sum to pay up in full at par a total of 203,999,999 shares for allotment and issue to Florescent Holdings Limited, the sole shareholder prior to the Listing of the Company.

Save as disclosed in Note 1 and Note 21 to this report, there are no other material subsequent events undertaken by the Company or by the Group after 31 December 2012.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2012 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2012.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this Appendix II is included herein for illustrative purposes only and does not form part of the accountant's report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set out in Appendix I to this prospectus.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the accountant's report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted net tangible assets of our Group which has been prepared in accordance with paragraph 7.31 of the Listing Rules for the purpose of illustrating the effect of the Placing as if it had been taken place on 31 December 2012 and based on the audited combined net tangible assets attributable to equity holders of our Company as at 31 December 2012 as shown in the accountant's report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Placing been completed as at 31 December 2012 or at any further date.

	Audited combined net tangible assets attributable to owner of our Company as at 31 December 2012	Estimated net proceeds from the Placing	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company as at 31 December 2012	Unaudited pro forma adjusted net tangible assets per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on the Placing Price of HK$1.20 per Share	90,220.3	66,417.3	156,637.6	0.58

Notes:

1. The audited combined net tangible assets attributable to owner of our Company as at 31 December 2012 is based on the audited combined net assets of our Group extracted from the accountant's report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Placing are based on the Placing Price of HK$1.20 per share, after deduction of the underwriting fees and related expenses and takes no account of any shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate. For the purpose of this pro forma financial information, the net proceeds from the Placing represents the gross proceeds less the total estimated listing-related expenses except for those already incurred and charged to the combined statements of comprehensive income up to 31 December 2012 of HK$6.9 million.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 272,000,000 Shares are in issue assuming that the Placing and the Capitalisation Issue have been completed on 31 December 2012, but takes no account of any shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate.

4. No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2012.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF HUAZHANG TECHNOLOGY HOLDING LIMITED

We report on the unaudited pro forma financial information of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-2 under the heading of "Unaudited Pro Forma Adjusted Net Tangible Assets" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 9 May 2013 (the "Prospectus"), in connection with the proposed placing of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed placing might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective responsibilities of directors of the Company and the reporting accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no

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independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at 31 December 2012 with the accountant's report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the adjusted net tangible assets of the Group as at 31 December 2012 or any future date.

OPINION

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 9 May 2013

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent valuer, in connection with its valuation as at 31 March 2013 of the property interests of our Group.

9 May 2013

Cushman & Wakefield Valuation Advisory Services (HK) Limited
Company Licence No. C-002429

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The Board of Directors
Huazhang Technology Holding Limited
Unit No. 5A, 8th Floor
Tower 1, South Seas Centre
75 Mody Road
Kowloon
Hong Kong

Dear Sirs,

PRELIMINARY

In accordance with your instructions to value the properties in which Huazhang Technology Holding Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in The People's Republic of China ("The PRC"). We confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 31 March 2013 (the "valuation date").

BASIS OF VALUATION

Our valuations of the property interests represent the "market value" which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

The valuation has been prepared in accordance with the requirements set out in the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited including but not limited to the provision of Chapter 8; the International Valuation Standards (2011) published by the International Valuation Standards Council and effective from 1 June 2011; and The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors effective from 1 January 2013.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

As the properties are held under long term land use rights, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the land use rights.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and/or official plans handed to us by the Group are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

SITE INSPECTION

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspections, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

VALUATION METHODOLOGIES

In the valuation of the property interests in Group I (property interests owned and occupied by the Group in the PRC), whereas applicable, we have adopted the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant markets.

In valuing the property interests of Property No.3 in Group I with proper title certificates, due to the nature of the buildings and structures that were constructed, there are no readily identifiable market comparable transactions. In the course of our valuation, we have considered their values on the basis of their depreciated replacement costs.

The Depreciated Replacement Cost method when used must always subject to adequate potential profitability of the business (or to service potential of the entity from the use of assets as a whole) paying due regard to the total assets employed.

Depreciated Replacement Cost is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization.

The Depreciated Replacement Cost of the property generally provides the most reliable indication of value for the property in the absence of a known market based on comparable sales.

We have attributed no commercial value to the property interest in Group II, which is leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, identification of the properties and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

TITLE INVESTIGATIONS

We have been, in some instances, provided by the Group with extracts of the title documents including State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interests in the PRC, and have made relevant enquiries. However, we have not searched the original documents to verify the existing titles to the property interests and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the PRC Legal Advisers – ETR Law Firm, concerning the validity of the Group's titles to the property interests in the PRC.

CURRENCY & EXCHANGE RATE

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB). The exchange rate adopted in our valuations is approximately Renminbi Yuan (RMB)1 = HK$1.25 which was approximately the prevailing exchange rate as at the valuation date.

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Cushman & Wakefield Valuation Advisory Services (HK) Limited
Vincent K. C. Cheung
Registered Professional Surveyor (GP)
BSc (Hons) MBA MRICS MHKIS
National Director, Valuation & Advisory, Greater China

Note: Mr. Vincent K. C. Cheung holds a Master of Business Administration and he is a Registered Professional Surveyor with 16 years' experience in real estate industry and assets valuations sector. His experience on valuations covers Hong Kong, Macau, Taiwan, South Korea, Mainland China, Vietnam, Cambodia and other overseas countries. Mr. Cheung is a member of The Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. Mr. Cheung is one of the valuers on the "list of property valuers for undertaking valuation for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers" as well as a Registered Business Valuer of the Hong Kong Business Valuation Forum.

SUMMARY OF VALUES

Group I – Property interests owned and occupied by the Group in the PRC

No.	Property	Market Value in existing state as at 31 March 2013 *RMB*	Interest attributable to the Group	Market Value in existing state as at 31 March 2013 attributable to the Group *RMB*
1.	Units 1206-1210 Weixing Building No. 252 Wensan Road Xihu District Hangzhou City Zhejiang Province The PRC	6,400,000	100%	6,400,000
2.	Unit 801 Block B Changdi Huoju Building No. 259 Wensan Road Xihu District Hangzhou City Zhejiang Province The PRC	15,140,000	100%	15,140,000
3.	An industrial facility located at Zhenhua Road Second Industrial Zone Tongxiang Economic Development Area Tongxiang Jiaxing City Zhejiang Province The PRC	47,830,000	100%	47,830,000
	Sub-total	**69,370,000**		**69,370,000**

SUMMARY OF VALUE

Group II – Property interest leased and occupied by the Group in Hong Kong

No.	Property	Market Value in existing state as at 31 March 2013 *RMB*	Interest attributable to the Group	Market Value in existing state as at 31 March 2013 attributable to the Group *RMB*
4.	Portion A of Unit 5 on 8th Floor of Tower I South Seas Centre No. 75 Mody Road Tsim Sha Tsui Kowloon Hong Kong	No commercial value	100%	Nil
	Sub-total:	**Nil**		**Nil**
	Grand Total:	**69,370,000**		**69,370,000**

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2013
1. Units 1206-1210 Weixing Building No. 252 Wensan Road Xihu District Hangzhou City Zhejiang Province The PRC	The property comprises five conjoining office units on Level 12 of a 23-storey office tower (plus a basement level) which was completed in about 1997. The gross floor area of the property is approximately 422.27 square metres. The land use rights of the property were granted for a term expiring on 5 August 2044 for composite uses.	The property is currently occupied by the Group for office purposes.	RMB6,400,000 *(100% interest attributable to the Group: RMB6,400,000)*

Notes:

1. The property was inspected by Mr. Vincent K. C. Cheung and Mr. Kit K. H. Cheung on 18 July 2012. Mr. Vincent K. C. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS), Member of the Hong Kong Institute of Surveyors (HKIS) as well as Registered Professional Surveyors (General Practice Division), with 16 years' experience in real estate valuations. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with 4 years' experience in real estate valuations.

2. Pursuant to a Deed of Registration, No. 2010A0001192625 dated 4 June 2010 and issued by the Finance Bureau of Hangzhou, the property was acquired by Zhejiang Huazhang Technology Limited ("Huazhang Technology") on 12 May 2010 at a consideration of RMB4,230,000.

3. Pursuant to a State-owned Land Use Rights Certificate, Hang Xi Guo Yong (2010) Di No. 008188 dated 10 June 2010 and issued by the People's Government of Hangzhou, the land use rights of the property with an apportioned site area of 51.10 square metres were granted to Huazhang Technology for a term expiring on 5 August 2044 for composite uses.

4. Pursuant to a Building Ownership Certificate, Hang Fang Quan Zheng Xi Yi Zi Di No. 10830366 dated 25 May 2010 and issued by the Real Estate Administration Bureau of Hangzhou, the building ownership rights of the property with a gross floor area of 422.27 square metres were vested in Huazhang Technology.

5. Huazhang Technology is an indirect wholly-owned subsidiary of the Company.

6. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:

   a. Huazhang Technology legally obtains the land use rights; the land use rights of the property are currently not subject to any mortgage or third party rights, nor subject to any dispute, legal enforcement on expropriation, forfeiture, freezing, disposal or other procedures or situations having significant negative impact on the ownership. Huazhang Technology has the legal rights to occupy, use, transfer, let or mortgage the land use rights of the property; and

   b. Huazhang Technology is the legal owner of the buildings pursuant to the aforesaid Building Ownership Certificate and has the rights to occupy, use, transfer, let or mortgage the buildings in accordance with the stated uses. The buildings are currently not subject to any mortgage or third party rights, nor subject to any legal proceedings, administrative charges, forfeiture, disposal or other disputes.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2013
2. Unit 801 Block B Changdi Huoju Building No. 259 Wensan Road Xihu District Hangzhou City Zhejiang Province The PRC	The property comprises an office unit on Level 8 of a 20-storey office tower (plus two basement levels) which was completed in about 2003. The gross floor area of the property is approximately 750.42 square metres. The land use rights of the property were granted for a term expiring on 17 June 2049 for composite uses.	The property is currently occupied by the Group for office purposes.	RMB15,140,000 *(100% interest attributable to the Group: RMB15,140,000)*

Notes:

1. The property was inspected by Mr. Vincent K. C. Cheung and Mr. Kit K. H. Cheung on 18 July 2012. Mr. Vincent K. C. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS), Member of the Hong Kong Institute of Surveyors (HKIS) as well as Registered Professional Surveyors (General Practice Division), with 16 years' experience in real estate valuations. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with 4 years' experience in real estate valuations.

2. Pursuant to a Deed of Registration, No. 2010A0001192616 dated 4 June 2010 and issued by the Finance Bureau of Hangzhou, the property was acquired by Huazhang Technology on 12 May 2010 at a consideration of RMB8,250,000.

3. Pursuant to a State-owned Land Use Rights Certificate, Hang Xi Guo Yong (2010) Di No. 008187 dated 10 June 2010 and issued by the People's Government of Hangzhou, the land use rights of the property with an apportioned site area of 92.20 square metres were granted to Huazhang Technology for a term expiring on 17 June 2049 for composite uses.

4. Pursuant to a Building Ownership Certificate, Hang Fang Quan Zheng Xi Yi Zi Di No. 10830365 dated 25 May 2010 and issued by the Real Estate Administration Bureau of Hangzhou, the building ownership rights of the property with a gross floor area of 750.42 square metres were vested in Huazhang Technology.

5. Huazhang Technology is an indirect wholly-owned subsidiary of the Company.

6. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:

   a. Huazhang Technology legally obtains the land use rights; the land use rights of the property are currently not subject to any mortgage or third party rights, nor subject to any dispute, legal enforcement on expropriation, forfeiture, freezing, disposal or other procedures or situations having significant negative impact on the ownership. Huazhang Technology has the legal rights to occupy, use, transfer, let or mortgage the land use rights of the property; and

   b. Huazhang Technology is the legal owner of the buildings pursuant to the aforesaid Building Ownership Certificate and has the rights to occupy, use, transfer, let or mortgage the building in accordance with the stated uses. The buildings are currently not subject to any mortgage or third party rights, nor subject to any legal proceedings, administrative charges, forfeiture, disposal or other disputes.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2013 *RMB*
3. An industrial facility located at Zhenhua Road Second Industrial Zone Tongxiang Economic Development Area Tongxiang Jiaxing City Zhejiang Province The PRC	The property comprises an industrial facility formed by a land parcel with a site area of approximately 41,540.37 square metres, on which are erected nine buildings and various ancillary structures which were completed in various stages between 2005 and 2012. The total gross floor area of the buildings is approximately 23,056.45 square metres (please refer to Notes 3 to 8 below). The buildings comprise an office, three production workshops, a canteen/dormitory, a dormitory, two guardhouses and a power generation room. The property improvements mainly comprise rain sheds, carports, roads and boundary walls. The land use rights of the property were granted for a term expiring on 8 May 2052 for industrial uses (please refer to Note 2 below).	The property is currently occupied by the Group for production, ancillary office and dormitory purposes.	47,830,000 *(100% interest attributable to the Group: RMB47,830,000)*

Notes:

1. The property was inspected by Mr. Vincent K. C. Cheung and Mr. Kit K. H. Cheung on 19 July 2012. Mr. Vincent K. C. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS), Member of the Hong Kong Institute of Surveyors (HKIS) as well as Registered Professional Surveyors (General Practice Division), with 16 years' experience in real estate valuations. Mr. Kit K. H. Cheung is a Member of the Royal Institution of Chartered Surveyors (RICS) and a Member of the Hong Kong Institute of Surveyors (HKIS), with 4 years' experience in real estate valuations.

2. Pursuant to a State-owned Land Use Rights Certificate, Tong Guo Yong (2013) Di No. 01277 dated 15 January 2013 and issued by the People's Government of Tongxiang, the land use rights of the property with a site area of 41,540.37 square metres were granted to Huazhang Technology for a term expiring on 8 May 2052 for industrial uses.

3. Pursuant to six Building Ownership Certificates issued by the Planning and Construction Bureau of Tongxiang, the building ownership rights of five buildings of the property with a total gross floor area of 22,975.31 square metres were legally vested in Huazhang Technology with details as follows:

Certificate No. (Tong Fang Quan Zheng Tong Zi Di)	Date of Registration	Building	Gross Floor Area *(sq.m.)*	No. of Storey
No. 00219520	23-Sep-2011	Production Workshop # 2	11,016.96	1-storey
No. 00221610	18-Oct-2011	Office	5,328.70	2-storey
No. 00221611	18-Oct-2011	Production Workshop # 1	2,851.25	1-storey
No. 00221612	18-Oct-2011	Canteen/ Dormitory	1,231.07	3-storey
No. 00221613	18-Oct-2011	Dormitory	1,245.64	4-storey
No. 00258845	9-Jan-2013	Production Workshop # 3	1,301.69	1-storey
Total:			**22,975.31**	

4. Pursuant to a Construction Land Use Planning Permit, No. Shi (02)043033 dated 28 March 2002 and issued by the Planning and Construction Bureau of Tongxiang, the proposed land use of the subject site with a site area of 41,474.57 square metres for factory and ancillary uses was approved.

5. Pursuant to a Notice on Change of Planning Parameters, Tong Fei Bian Gui (2011) No. 12 dated 30 March 2011 and issued by the Planning and Construction Bureau of Tongxiang, the maximum plot ratio of the subject site was permitted to increase from 0.84 to 0.93; and the maximum site coverage was permitted to increase from 42.75% to 46.64%.

6. Pursuant to a Construction Project Planning Permit, No. 3304832011KFQ053 dated 27 May 2011 and issued by the Planning and Construction Bureau of Tongxiang, the proposed development of production workshop # 3 of the property with a planned gross floor area of 1,301.69 square metres was approved.

7. Pursuant to a Construction Works Commencement Permit, No. 330425201108300201 dated 30 August 2011 and issued by the Planning and Construction Bureau of Tongxiang, the construction works of production workshop # 3 of the property with a planned gross floor area of 1,301.69 square metres was approved to commence.

8. In the course of our valuation, we have attributed no commercial value to three buildings with a total gross floor area of approximately 81.14 square metres as they are yet to be granted with proper title certificate. For reference purposes, we are of the opinion that the value of the buildings (excluding the land), assuming they have been granted with the proper title certificate and are freely transferable as at the valuation date, would be RMB80,000.

   Details of the three buildings are listed as follows:

Building	Gross Floor Area *(sq.m.)*	No. of Storey
Guardhouse # 1	33.08	1-storey
Guardhouse # 2	35.81	1-storey
Power Generation Room	12.25	1-storey
Total:	**81.14**	

9. Pursuant to a Highest Loan Mortgage Agreement, No. 63722792502011091 entered into between China Construction Bank Corporation Tongxiang Branch ("mortgagor") and Huazhang Technology ("mortgagee"), the land use rights of the property held under State-owned Land Use Rights Certificate, Tong Guo Yong (2011) Di No. 18713; and the building ownership rights of the buildings held under Building Ownership Certificates, Tong Fang Quan Zheng Tong Zi Di Nos. 00219520, 00221610, 00221611, 00221612 and 00221613 are together subject to a mortgage in favour of the mortgagor for a term of two years commencing on 25 October 2011 and expiring on 24 October 2013 at a consideration of RMB48,110,000.

10. Huazhang Technology is an indirect wholly-owned subsidiary of the Company.

11. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:

    a. The mortgage of the land use rights of the property of the aforesaid Highest Loan Mortgage Agreement has not been registered in the record of the State-owned Land Resources Bureau of Tongxiang.

    b. The building ownership rights of the property are subject to a mortgage and registered in the record of Real Estate Administrative Bureau of Tongxiang.

    c. Huazhang Technology legally obtains the land use rights; the land use rights of the property are currently not subject to any dispute, nor legal enforcement on expropriation, forfeiture, freezing, disposal or other procedures or situations having significant negative impact on the ownership. Huazhang Technology has the legal rights to occupy, use, transfer, let or mortgage the land use rights of the property; and

    d. Huazhang Technology is the legal owner of the buildings pursuant to the aforesaid Building Ownership Certificate and has the rights to occupy, use, transfer, let or mortgage the buildings in accordance with the stated uses. The buildings are currently not subject to any legal proceedings, administrative charges, forfeiture, disposal or other disputes. For those buildings which are yet to be granted with proper title certificate, Huazhang Technology can only owns the building ownerships rights of such buildings completely and effectively upon acquiring the requisite Building Ownership Certificates for the buildings. There is no legal impediment for Huazhang Technology to acquire Building Ownership Certificates of the two guardhouses.

VALUATION CERTIFICATE

Group II – Property interest leased and occupied by the Group in Hong Kong

	Property	**Description and tenure**	**Particulars of occupancy**	**Market Value in existing state as at 31 March 2013** *RMB*
4.	Portion A of Unit 5 on 8th Floor of Tower I South Seas Centre No. 75 Mody Road Tsim Sha Tsui Kowloon Hong Kong	The property comprises an office unit on 8th of a 13-storey office tower plus two basement levels within a commercial development known as "South Seas Centre" which was completed in about 1982. The gross floor area and the saleable area of the property are approximately 1,527 square feet and 1,166 square feet, respectively. The property is currently leased by Hua Zhang Electric Holding Company Limited ("Huazhang Electric") for a term commencing on 1 December 2012 and expiring on 30 November 2015 at a monthly rent of HK$17,306 inclusive of rates but exclusive of management fee, air-conditioning charges and all other outgoings.	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:

1. Pursuant to a tenancy agreement dated 27 September 2012 and entered into between Fu An International Investments Limited and Huazhang Electric, the property was leased to Huazhang Electric for a term commencing on 1 December 2012 and expiring on 30 November 2015 (both dates inclusive) at a monthly rent of HK$17,306 inclusive of rates but exclusive of management fee, air-conditioning charges and all other outgoings.

2. The registered owner of the property is Fu An International Investments Limited registered vide Memorial No. 12083102300011 dated 15 August 2012. The consideration of the property was HK$13,880,000.

3. The property is subject to the following:

   a. Occupation Permit No. K6/82 registered vide Memorial No. UB2221695 dated 24 February 1982;

   b. Deeds of Mutual Covenant registered vide Memorial No. UB2280641 dated 4 May 1982 and registered vide Memorial No. UB2318649 dated 4 May 1982;

   c. Certified True Copy of Certificate of Compliance from the Director of Public Works to Wu Wing International Co. Ltd. registered vide Memorial No. UB2866103 dated 30 March 1982;

   d. Certified True Copy of Certificate of Compliance from the Registrar General's (Land Officer) to Wu Wing International Co. Ltd. registered vide Memorial No. UB2866104 dated 1 April 1982; and

   e. Letter of Compliance registered vide Memorial No.11040800581088 dated 9 March 2011.

4. The tenancy agreement of the property has been duly stamped.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 June 2012 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 6 May 2013. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. Our Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which our Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with our Company or any of its subsidiaries.

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which our Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where our Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which our Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of our Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. Our Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of our Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Our Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

Our Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(c) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as our Directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of our Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and our Directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and our Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of our Directors and the auditors;

(cc) the election of our Directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of our Directors and of the auditors;

(ff) the granting of any mandate or authority to our Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to our Directors to repurchase securities of our Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as our Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by our Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of our Company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of our Company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, our Company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if its directors consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of such company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our Company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of our Company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of our Company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of our Company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, our Company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of such company, its directors resolve to hold such shares in the name of our Company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, our Company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, our

Company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of our Company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of our Company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of our Company's assets (including any distribution of assets to members on a winding up) may be made to our Company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of our Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of our Company to challenge (a) an act which is ultra vires our Company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of our Company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of our Company in issue, appoint an inspector to examine into the affairs of our Company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that our Company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of our Company's affairs in the future, (b) an order requiring our Company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of our Company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of our Company by other shareholders or by our Company itself and, in the case of a purchase by our Company itself, a reduction of our Company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of our Company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by our Company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by our Company; and (iii) the assets and liabilities of our Company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of our Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 19 July 2012.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. Our Company shall cause to be kept at the place where our Company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of our Company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that our Company is to be dissolved, or, our Company does not commence business for a year from its incorporation (or suspends its business for a year), or, our Company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of our Company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, our Company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of our Company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for our Company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of our Company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge our Company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of our Company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of our Company has been disposed of, and thereupon call a general meeting of our Company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by our Company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES

1. Incorporation and registration under Part XI of the Companies Ordinance

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 26 June 2012. Our Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our Company has established a principal place of business in Hong Kong at Unit No. 5A, 8th Floor, Tower 1, South Seas Centre, 75 Mody Road, Kowloon, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 14 September 2012, with Mr. So, Alan Wai Shing of Flat C, 23rd Floor, Block 8, Laguna City, 25 Laguna Street, Cha Kwo Ling, Kowloon, Hong Kong appointed as the authorised representative of our Company for acceptance of service of process in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to the Companies Law. Its constitution comprises the Memorandum of Association and Articles of Association. A summary of various provisions of the Memorandum of Association and Articles of Association and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital

The authorised share capital of our Company as at the date of its incorporation was HK$380,000 divided into 38,000,000 shares of HK$0.01 each. Following its incorporation, one subscriber's Share was allotted and issued, nil paid, to Codan Trust Company (Cayman) Limited on 26 June 2012. The one Share was transferred to Mr. Zhu on 26 June 2012 and then from Mr. Zhu to Florescent Holdings on 13 July 2012. On 3 May 2013, the nil-paid Share was fully paid up by Florescent Holdings.

Pursuant to written resolutions of our Shareholders passed on 6 May 2013, the authorised share capital of our Company was increased from HK$380,000 to HK$80,000,000 by the creation of an additional 7,962,000,000 Shares.

Immediately following the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option), the authorised share capital of the Company will be HK$80,000,000 divided into 8,000,000,000 Shares, of which 272,000,000 will be allotted and issued fully paid or credited as fully paid and 7,728,000,000 Shares will remain unissued. Other than pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option, our Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as aforesaid, there has been no alteration in the share capital of our Company since incorporation.

3. Written resolutions of our sole Shareholder passed on 6 May 2013

Pursuant to the written resolutions of our sole Shareholder passed on 6 May 2013:

(a) the authorised share capital of our Company was increased from HK$380,000 to HK$80,000,000 by the creation of an additional 7,962,000,000 Shares of HK$0.01 each ranking pari passu in all respects with the then existing Shares;

(b) the Memorandum of Association and Articles of Association were conditionally approved and adopted;

(c) conditional on the Stock Exchange granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus:

(i) the Placing and the Offer Size Adjustment Option were approved and our Directors were authorised to allot and issue the Placing Shares and the Shares which may be required to be allotted and issued upon the exercise of the Offer Size Adjustment Option; and

(ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;

(iii) conditional on the share premium account of our Company being credited as a result of the issue of Placing Shares pursuant to the Placing, our Directors were authorised to capitalise the amount of HK$2,039,999.99 from the amount standing to the credit of the share premium account of our Company to pay up in full at par 203,999,999 Shares for allotment and issue to Florescent Holdings;

(iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than pursuant to Shares issued as a result of a rights issue, scrip dividend or upon the exercise of the options to be granted pursuant to the Share Option Scheme or similar arrangement, Shares with an aggregate nominal value not exceeding (i) 20% of the aggregate nominal value of the share capital of our Company in issue and to be issued as mentioned herein and (ii) the aggregate nominal amount of Shares repurchased under the authority granted to our Directors as referred to in paragraph (e) below, until whichever is the earliest of:

(1) the conclusion of the next annual general meeting of our Company;

(2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held; or

(3) the revocation or variation by an ordinary resolution of our Shareholders in a general meeting; and

(v) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or other stock exchange on which Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose with an aggregate nominal value of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued as mentioned herein, until whichever is the earliest of:

(1) the conclusion of the next annual general meeting of our Company;

(2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable law of Cayman Islands to be held; or

(3) the revocation or variation by an ordinary resolution of our Shareholders in a general meeting.

Immediately following the Placing becoming unconditional and the issue of Shares as mentioned herein being made, but taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme and the Offer Size Adjustment Option, the authorised share capital of our Company will be HK$80,000,000 divided into 8,000,000,000 Shares and the issued share capital will be HK$2,720,000 divided into 272,000,000 Shares, all fully paid or credited as fully paid and 7,728,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and no issue of Shares which would effectively alter the control of our Company will be made without the prior approval of members in a general meeting.

4. Corporate reorganisation

Our Group underwent the Reorganisation in preparation for the Listing which involved the following steps:

(a) On 26 June 2012, our Company was duly incorporated in the Cayman Islands as an exempted company with one Share being allotted and issued nil-paid to Codan Trust Company (Cayman) Limited as the initial subscriber. On 26 June 2012, Codan Trust Company (Cayman) Limited transferred its one Share to Mr. Zhu. On 13 July 2012, Mr. Zhu transferred one Share to Florescent Holdings. On 3 May 2013, the nil paid Share was fully paid up by Florescent Holdings.

(b) On 8 June 2012, Likwin was duly incorporated in the BVI as a company with limited liability with one Share being allotted and issued at par to our Company as the initial subscriber.

(c) On 3 May 2013, Florescent Holdings, through Likwin, acquired 3,000,001 shares of Huazhang Electric from Huazhang Overseas and 1 share of Huazhang Electric from Mr. Zhu, representing its entire issued share capital, in the consideration of which Florescent Holdings allotted and issued 778 Shares to Lian Shun and 221 Shares to Qunyu and to procure Mr. Zhu to transfer 1 Share of Florescent Holdings to Lian Shun.

(d) Conditional on the share premium account of our Company being credited as a result of the Placing, an amount of HK$2,039,999.99 which will then be standing to the credit of the share premium account of our Company be capitalised and applied to pay up in full at par a total of 203,999,999 shares for allotment and issue to Florescent Holdings.

A diagram showing our Group structure after the Reorganisation and immediately upon completion of the Capitalisation Issue and the Placing (assuming that the Offer Size Adjustment Option is not exercised and no Share has been allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) is set out in the section headed "History, corporate structure and Reorganisation" of this prospectus.

5. Changes in share capital of subsidiaries of our Company

Our Company's subsidiaries are referred to in the accountant's report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

The following sets out the changes to the share capital made by the subsidiaries of our Company during the two years preceding the date of this prospectus:

(a) Likwin

(1) Likwin was incorporated under the laws of the BVI with limited liability on 8 June 2012 and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.00.

(2) On 13 July 2012, one fully paid share was allotted and issued to our Company and Likwin became a direct wholly-owned subsidiary of our Company. Likwin is an investment holding company.

(b) Huazhang Electric

(1) On 30 June 2012, the authorised share capital of Huazhang Electric was further increased to HK$5,000,000 divided into 5,000,000 ordinary shares of HK$1.00 each, and one share of Huazhang Electric was allotted to Huazhang Overseas on the same day for the purpose of capitalising the loan owed to Huazhang Overseas amounting to approximately HK$35,200,000.

(2) On 31 December 2012, one additional share of Huazhang Electric was allotted to Huazhang Overseas for the purpose of capitalising the loan due to Huazhang Overseas amounting to approximately HK$5,200,000. As a result of the aforesaid allotments, 3,000,002 ordinary shares of Huazhang Electric were beneficially owned by Huazhang Overseas.

(3) On 3 May 2013, Huazhang Overseas transferred all its interests in Huazhang Electric to Likwin in consideration of the allotment and issue of shares by Florescent Holdings to Lian Shun and Qunyu, all credited as fully paid. There was no change as to both the ultimate beneficial owners of Huazhang Electric and their respective effective interest in Huazhang Electric before and after the said acquisition.

In addition to the alterations mentioned above and in the section headed "Further information about our Company – Corporate reorganisation" in this Appendix, there was no other alteration in the share capital of each of our Company's subsidiaries took place during the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of its own securities

The following paragraphs include information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company our own securities. The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction. Our Company's sole listing will be on the Stock Exchange.

Pursuant to a resolution in writing passed by our sole Shareholder on 6 May 2013, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange, or on any other stock exchange on which our Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of our Company in issue and to be issued as mentioned in this prospectus, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or applicable laws of Cayman Islands to be held, or when revoked or varied by ordinary resolution of our shareholders, whichever shall first occur.

(b) Source of funds

Under the GEM Listing Rules and the Companies Ordinance, the shares which are proposed to be purchased by a company must be fully paid up, and any repurchases must be financed out of funds legally available for such purpose in accordance with the memorandum and Articles of Association and applicable laws of Cayman Islands.

(c) Trading restrictions

Our Company may repurchase up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Placing (excluding Shares which may fall to be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme). Our Company may not issue or announce a proposed issue of our Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing our Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the minimum percentage required by the Stock Exchange. The broker appointed by our Company to effect a repurchase of our Shares is required to disclose to the Stock Exchange any information with respect to a Share repurchase as the Stock Exchange may require.

(d) Status of repurchased securities

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed. Under the laws of Cayman Islands, a company repurchased shares may be treated as cancelled and, if so cancelled, the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(e) Suspension of repurchase

Securities repurchases are prohibited after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In addition, the Stock Exchange reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has breached the GEM Listing Rules.

(f) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:00 a.m. on the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a company's annual report and accounts are required to disclose details regarding repurchases of securities made during the financial year under review, including the number of securities repurchased each month (whether on the Stock Exchange or otherwise) and the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(g) Connected persons

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of such company or any of its subsidiaries or any of their associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his securities to our Company on the Stock Exchange.

Reasons for repurchases

Repurchases of our Shares shall only be made when our Directors believe that it is in the best interests of our Company and its shareholders to have general authority from shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and Shareholders.

Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of Cayman Islands.

No connected person (as defined in the GEM Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so.

If as a result of a securities repurchase a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders of our Company acting in concert could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. Our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No repurchase of Shares has been made by our Company within six months prior to the date of this prospectus.

Exercise of the Repurchase Mandate and our Share capital

Exercise in full of the Repurchase Mandate, on the basis of 272,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Placing, but taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme could accordingly result in up to 27,200,000 Shares being repurchased by our Company during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the section headed "Further information about our Company – Written resolutions of our sole Shareholder passed on 6 May 2013" in this Appendix.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contacts in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) the Underwriting Agreement;

(b) the reorganisation agreement dated 3 May 2013 and entered into by Huazhang Overseas, Mr. Zhu, Likwin, Florescent Holdings and our Company in relation to the acquisition of the entire interest of Huazhang Electric by Likwin;

(c) the deed of indemnity dated 6 May 2013 and entered into by Florescent Holdings, Lian Shun, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu in favour of our Group;

(d) the deed of non-competition dated 6 May 2013 and entered into by Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang) in favour of our Group. Details of the deed of non-competition are set out in the paragraph headed "Non-competition Undertaking by Huazhang Automation (Hong Kong) and Huazhang Automation (Zhejiang)" under the section headed "Relation with Controlling Shareholders" in this prospectus; and

(e) the deed of non-competition dated 6 May 2013 and entered into by Florescent Holdings, Lian Shun, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu in favour of our Group. Details of the deed of non-competition are set out in the paragraph headed "Non-competition undertaking by Controlling Shareholders" under the section headed "Relationship with Controlling Shareholders" in this prospectus.

2. Intellectual property rights

(a) Patents

As at the Latest Practicable Date, our Group had registered the following patents in the PRC:

INVENTIONS

The following patents (inventions) are valid as at the Latest Practicable Date:

	Patent number	Description of patent	Publication date (year.month.day)	Expiry date (year.month.day)
1	200310103994.1	Paper-making technical method of using filter aid at press part of paper machine	2005.10.05	2023.11.05
2	200410042480.4	Spraying method with controllable spraying amount	2006.06.21	2024.05.25
3	200410042481.9	Filtered fabrics performance on-line detecting method	2006.03.29	2024.05.25
4	200410037156.3	Diaphragm filtering board feeding hole clamping head and diaphragm filtering board feeding hole	2010.05.12	2024.06.03
5	200410096788.7	Method for removing ink from waste paper by firing	2007.03.28	2024.12.07
6	200510061674.3	Positive pressure method for detecting filter fabric performance	2009.08.12	2025.11.21
7	200610049365.9	Spraying device	2007.12.19	2026.01.25
8	200610050778.9	Belt type filter press	2007.12.19	2026.05.15
9	200610052111.2	Paper surface sizing method by multilayer spraying	2009.07.01	2026.06.22
10	200710068378.5	On-line detection method and apparatus for chain cloth performance	2009.11.11	2027.04.28
11	200710068654.8	Method and equipment for solid-liquid separation	2009.11.11	2027.05.17
12	200710069980.0	Crawler blotter press	2009.06.03	2027.07.09
13	200710161155.3	Dewatering process for using filtration aid in band filter	2009.12.16	2027.12.12
14	200810059009.4	Band press filter with mud fixing belt	2010.12.29	2028.01.01

	Patent number	Description of patent	Publication date (year.month.day)	Expiry date (year.month.day)
15	200810059406.1	Error correcting device of band type filter press	2010.07.14	2028.01.16
16	200810059637.2	Strap filter-press dehydration technique and device	2010.06.09	2028.01.29
17	200810059917.3	Sludge concentration bridging dehydration method	2010.02.24	2028.03.03
18	200810061663.9	Circular press dewatering method	2010.06.02	2028.05.20
19	200810062895.6	Sludge calorific value control method	2010.07.28	2028.07.03
20	200810120188.8	Method for burning sludge of chain furnace	2010.12.29	2028.07.24
21	200810120296.5	Filling material duty cycle operation method for auxiliary sludge dewatering	2010.12.29	2028.08.17
22	200810121386.6	Lining band type filter press with press rolls for fixing mud	2010.06.09	2028.10.08
23	200810162447.3	Pressure filter without filter cloth	2012.03.14	2028.11.12
24	200910096884.4	Sewage sludge drying method and drying machine	2011.01.05	2029.03.18
25	200910097435.1	Burr type electrode applied to electroosmotic dehydration	2011.01.05	2029.04.01
26	200910098471.x	Plate-type sludge dewatering machine and dewatering method therefor	2011.04.13	2029.05.10
27	200910098914.5	Method for controlling flow of distributed control system of paper machine	2011.10.12	2029.05.24
28	200910153487.6	Motor control method based on DCS system	2011.09.07	2029.10.11
29	200910154748.6	Megawatt-level permanent magnet direct-drive wind-force generating converter and control method	2010.05.19	2029.12.02
30	201010510955.3	Group control system for multi-path start-stop control	2011.02.02	2030.10.18

As at the Latest Practicable Date, our Group had applied for registration of the following patents:

	Application number	Description of patent	Date of application (year.month.day)
1	201010240753.1	Transmission control method for rewinding machine	2010.07.03
2	201110001889.1	Sliding compression continuous solid-liquid separator	2011.01.06
3	201110001890.4	Slide pressurising mechanism used in slide pressurising continuous solid-liquid separating machine	2011.01.06
4	201110001888.7	Multistage press-filtering slide-pressing continuous solid-liquid separator	2011.01.06
5	201110001891.9	Vertical sliding compression mechanism in sliding compression continuous solid-liquid separator	2011.01.06
6	201110001892.3	Arc sliding-pressurising continuous solid-liquid separating machine	2011.01.06
7	201110001887.2	Arc-shaped sliding pressurising mechanism in sliding pressurising continuous solid-liquid separating machine	2011.01.06
8	201210166083.2	Filter press fully extendable discharge device	2012.05.30

UTILITY MODELS

The following patents (utility models) are valid as at the Latest Practicable Date:

	Patent number	Description of patent	Publication date (year.month.day)	Expiry date (year.month.day)
1	200620107924.2	Filtering belt with enclosure edge for belt-type pressure filter	2007.10.03	2016.09.20
2	200720109283.9	Solid-liquid separation equipment	2008.05.21	2017.05.17
3	200820084193.3	Highly reliable diaphragm boss surface supporting structure	2008.12.24	2018.03.20
4	200820084194.8	Nail-fixing septum filter board	2009.04.08	2018.03.20
5	200820084195.2	High strength diaphragm boss surface support structure	2008.12.24	2018.03.20
6	200820084196.7	Nail head-nail shaft type constant temperature diaphragm filter plate	2008.12.24	2018.03.20
7	200820084197.1	High strength diaphragm filter plate	2008.12.24	2018.03.20

	Patent number	Description of patent	Publication date (year.month.day)	Expiry date (year.month.day)
8	200820084198.6	Constant temperature type diaphragm filter plate boss jointing construction	2008.12.24	2018.03.20
9	200820084199.0	Expansion fastening type diaphragm filter plate	2008.12.24	2018.03.20
10	200820084200.X	Pouring and injecting nail head type barrier diaphragm strainer plate	2009.03.04	2018.03.20
11	200820084401.X	Nail head-nail shaft combined type diaphragm filter plate	2008.12.24	2018.03.20
12	200820084402.4	Nail shaft fastening type diaphragm filter plate	2008.12.24	2018.03.20
13	200820084418.5	High-reliability diaphragm filter board	2008.12.24	2018.03.20
14	200820085011.4	Fabric treating equipment	2009.01.14	2018.04.10
15	200820086878.1	Flow guiding device used for belt type filter-pressing dehydration plant	2009.03.04	2018.05.20
16	200820086879.6	Circulating squeeze dewatering device	2009.06.03	2018.05.20
17	200820164682.X	Sludge pressure conveyor device	2009.07.01	2018.09.11
18	200820165414.X	Maintenance device of sludge-collecting press roller	2009.09.02	2018.10.08
19	200820165412.0	Maintenance device of solid mud extraction roll	2009.10.07	2018.10.08
20	200920119688.X	Filter press plate with inclined feeding pipe	2010.03.03	2019.05.10
21	200920119691.1	Filter-press plate with elastic body	2010.03.24	2019.05.10
22	200920119689.4	Press filter plate with liner net	2010.05.12	2019.05.10
23	200920119690.7	Filter press plate with sealing plug	2010.06.02	2019.05.10
24	200920199359.0	Motor device based on DCS system	2010.08.04	2019.10.28
25	200920201385.2	Megawatt-level permanent magnetic direct-drive wind power generation current transformer	2010.10.06	2019.12.02
26	201020301351.3	Electric control cabinet	2010.10.06	2020.01.23
27	201020179083.2	Alternating current variable frequency transmission device	2010.12.29	2020.04.29

	Patent number	Description of patent	Publication date (year.month.day)	Expiry date (year.month.day)
28	201020566090.8	Multiple process units control system in paper industry	2011.08.24	2020.10.18
29	201020599284.8	SS device for multiple motors	2011.07.13	2020.11.08
30	201120002686.X	Sliding-pressurising mechanism in sliding-pressurising continuous solid-liquid separating machine	2011.08.17	2021.01.05
31	201120002687.4	Multi-stage pressure filtration and slide pressurisation continuous solid-liquid separation machine	2011.11.16	2021.01.05
32	201120002681.7	Curved sliding compression continuous solid-liquid separator	2011.09.07	2021.01.05
33	201120002682.1	Pressure adjusting mechanism in continuous solid and liquid separator for planar sliding pressurising	2011.09.07	2021.01.05
34	201120002683.6	Slipping sticky tape used in sliding pressing continuous solid and liquid separator	2011.09.07	2021.01.05
35	201120002685.5	Continuous solid-liquid separator pressurising by sliding	2011.09.07	2021.01.05
36	201120002691.0	Vertical-type sliding-pressurising mechanism in sliding-pressurising continuous solid-liquid separating machine	2011.09.07	2021.01.05
37	201120002684.0	Driving roller device used in curve sliding pressurising continuous solid liquid separator	2011.09.07	2021.01.05
38	201120002689.4	Arc-shaped sliding-pressurising mechanism in sliding-pressurising continuous solid-liquid separating machine	2011.09.07	2021.01.05
39	201120002692.5	Sliding adhesive tape positioning mechanism used in sliding compression continuous solid and liquid separator	2011.09.07	2021.01.05
40	201120002693.X	Pressure-regulation mechanism used in curve-surface sliding pressurisation continuous solid-liquid separator	2011.09.07	2021.01.05

	Patent number	Description of patent	Publication date (year.month.day)	Expiry date (year.month.day)
41	201220239872.x	Filter cloth suspension mechanism for filter press full-stretchable discharge device	2013.01.02	2022.05.24
42	201220239873.4	Filter cloth suspension mechanism used in full curve unloading device of press filter	2013.01.02	2022.05.24
43	201220239874.9	Full-varicose discharging device of pressure filter	2013.01.02	2022.05.24

COMPUTER SOFTWARE COPYRIGHTS

The following computer software copyrights were valid as at the Latest Practicable Date:

	Registration number	Date of registration (year.month.day)	Description of the computer software
1	2008SR17571	2008.08.28	VBA Application Development System
2	2011SR082157	2011.11.14	Rewinder electric system software
3	2012SR074571	2012.08.14	Huazhang centre winding device diameter calculation software

(b) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademark in the PRC:

	Reference number	Trademark	Jurisdiction/ Place of registration	Class	Validity period
1.	No. 1493871		PRC	9	From 21 December 2000 to 20 December 2020
2.	No. 4128554	VPAK	PRC	9	From 28 September 2006 to 27 September 2016

As at the Latest Practicable Date, our Company had applied for registration of the following trademarks:

No.	Application number	Trademark	Jurisdiction/ place of registration	Class	Date of application (year.month.day)	Date of publication (year.month.day)
1.	302385955	华章科技 HUAZHANG TECHNOLOGY	Hong Kong	9, 11, 16, 42	2012.09.21	2013.02.22
2.	302385964		Hong Kong	9, 11, 16, 42	2012.09.21	2013.02.22
3.	302385946	华章科技 HUAZHANG TECHNOLOGY	Hong Kong	9, 11, 16, 42	2012.09.21	2013.02.22

Notes:

Class 9: Automation units and devices for machines.

Class 11: Sludge treatment machinery.

Class 16: Printed matter; printed publications; prospectuses.

Class 42: Industrial research and design in relation to sludge treatment machinery and automation units and devices for machines.

If no notice of opposition is filed within 3-month period from the date of publication, the trademark will proceed to registration.

(c) Domain name

As at the Latest Practicable Date, our Group has registered the following domain names:

Domain name	Current registrant	Registration date	Expiry date
hzeg.com	Huazhang Electric	1 March 2000	1 March 2015

Save as aforesaid, there are no other trade or service marks, patents, copyright, other intellectual or industrial property rights which are material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

1. Disclosure of Interests

(a) Save as disclosed herein and in the section headed "Further information about the business of our Group" in this Appendix, none of our Directors has any direct or indirect interest in the promotion of our Company or in any assets acquired or disposed of by or leased to any member of our Group or which are proposed to be acquired or disposed of by or leased to any member of our Group within the two years immediately preceding the date of this prospectus.

(b) Save as disclosed in the section headed "Further information about the business of our Group" in this Appendix, none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group.

2. Particulars of service agreements

Each of Mr. Zhu, Mr. Zhong Xin Gang and Mr. Jin Hao, being executive Directors, has entered into a service agreement with our Company for an initial term of three years commencing from the Listing Date, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below, plus a discretionary bonus determined by the Board every year. The current basic annual salaries of the executive Directors are as follows:

Name of Directors	*HK$*
Mr. Zhu	100,000
Mr. Zhong Xin Gang	40,000
Mr. Jin Hao	50,000

Each of the above remunerations is determined by our Company with reference to duties and level of responsibilities of each Director and the remuneration policy of our Company and the prevailing market conditions.

In respect of the aforesaid service contracts, each executive Director has undertaken not to resign or terminate their contracts during the initial term of three years.

Further, each of Mr. Dai Tian Zhu, Ms. Chen Jin Mei and Mr. Kong Chi Mo, being all the independent non-executive Directors, has entered into a letter of appointment with the Company on 6 May 2013. Each letter of appointment is for an initial term commencing on the date of the letter of appointment and shall continue thereafter until 30 June 2015 unless terminated by either party giving at least one month's notice in writing. Commencing from the Listing Date, each independent non-executive Director is entitled to an annual director's fee of HK$120,000.

Save as disclosed above, none of the Directors has or is proposed to enter into a service contract/letter of appointment with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Group within one year without the payment of compensation (other than statutory compensation)).

3. Directors' remuneration

Remuneration and benefits in kind granted to our Directors of approximately HK$1.9 million and HK$2.5 million and HK$1.2 million in aggregate were paid and granted by our Group to our Directors in respect of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively.

For further information on remuneration of our Directors, please refer to note 21 to the accountant's report, the text of which is set out in Appendix I to this prospectus.

4. Interests and short position of Directors in our Shares, underlying shares or debentures of our Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the Placing (taking no account of Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme), our Directors will have the following interests or short positions in our Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the GEM Listing Rules to be notified to our Company and the Stock Exchange, once our Shares are listed:

Name of Directors	**Company/name of association corporation**	**Nature of interests**	**Number of securities directly or indirectly held**	**Approximate percentage of issued share capital**
Mr. Zhu	Our Company	Interest of a controlled corporation *(Note 1)*	204,000,000 Shares (long position)	75%
	Florescent Holdings	Interest of a controlled corporation *(Note 2)*	779 shares of US$1.00 each	77.90%
	Lian Shun	Beneficial interest *(Note 3)*	5,005,500 shares of US$0.001 each	53.79%

Notes:

(1) The Shares are registered in the name of Florescent Holdings, a company owned as to 77.90% by Lian Shun, which in turn is owned as to 53.79% by Mr. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the Shares held by Florescent Holdings.

(2) Florescent Holdings is owned as to 77.90% by Lian Shun and as to 22.10% by Qunyun.

(3) Lian Shun is owned as to 53.79% by Mr. Zhu, as to 20.74% by Mr. Wang, as to 17.95% by Mr. Liu and as to 7.52% by Ms. Zhu.

5. Interests and short position of Substantial Shareholders in our shares or underlying shares of our Company

Immediately following completion of the Capitalisation Issue and the Placing, as far as known to our Directors (taking no account of Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme), the following persons/entities will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholders	Capacity/nature of interests	Number of Shares directly or indirectly held	Approximate percentage of issued share capital
Florescent Holdings	Beneficial owner	204,000,000 (long position)	75%
Lian Shun	Interest of a controlled corporation	204,000,000 *(Note 1)* (long position)	75%
Mr. Zhu	Interest of a controlled corporation	204,000,000 *(Note 2)* (long position)	75%
Mr. Wang	Interest in a controlled corporation	204,000,000 *(Note 3)*	75%
Mr. Liu	Interest in a controlled corporation	204,000,000 *(Note 4)*	75%
Ms. Zhu	Interest in a controlled corporation	204,000,000 *(Note 5)*	75%

Notes:

1. The Shares are registered in the name of Florescent Holdings, a company owned as to 77.9% by Lian Shun. Under the SFO, Lian Shun is deemed to be interested in the Shares held by Florescent Holdings.

2. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 53.79% by Mr. Zhu. Under the SFO, Mr. Zhu is deemed to be interested in the Shares held by Florescent Holdings.

3. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 20.74% by Mr. Wang. Mr. Wang is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings.

4. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 17.95% by Mr. Liu. Mr. Liu is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings.

5. Florescent Holdings is owned as to 77.9% by Lian Shun, which in turn is owned as to 7.52% by Ms. Zhu. Ms. Zhu is regarded as one of the parties acting in concert with Mr. Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings.

6. Related Party Transaction

Our Group entered into the related party transaction within the two years immediately preceding the date of this prospectus as mentioned in note 29 to the accountant's report set out in Appendix I to this prospectus.

7. Personal guarantee

Mr. Zhu had provided personal guarantees in favour of certain banks for debts and liabilities due by certain members of our Group during the Track Record Period. Such personal guarantees had been released as at the Latest Practicable Date due to the full repayment of all the relevant debts.

8. Agency fees or commission

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Share or loan capital of our Company or any of its subsidiaries.

9. Disclaimers

Save as disclosed in this prospectus, as at the Latest Practicable Date:

(a) none of our Directors or chief executive officer has any interest, any long and short positions in Shares and underlying Shares, listed or unlisted derivatives of, or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies contained in the GEM Listing Rules, to be notified to our Company and the Stock Exchange once our Shares are listed;

(b) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;

(c) none of our Directors or the experts named in the paragraph headed "Consents and qualifications of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) none of our Directors or experts named in the paragraph headed "Consents and qualifications of experts" in this appendix is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(e) taking no account of Shares which may be taken up under the Capitalisation Issue and the Placing, none of our Directors is aware of any person (not being our Director or chief executive officer) who will immediately following completion of the Capitalisation Issue and the Placing be interested or have a short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and

(f) none of the experts named in the paragraph headed "Consents and qualifications of experts" in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group or is an officer or servant or in employment of an officer or servant of our Group.

So far as is known to our Directors and disclosed in this prospectus, none of our Directors, their associates, or any of our Shareholders (who to the knowledge of our Directors own more than 5% of our share capital) immediately following completion of the Placing had any interests in any of our Group's five largest traders since the implementation of the trader registration policy.

So far as is known to the Directors and disclosed in this prospectus, none of our Directors, their associates, or any of our Shareholders (who to the knowledge of our Directors own more than 5% of our share capital) immediately following completion of the Placing had any interests in any of our Group's five largest customers and suppliers during the Track Record Period.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the sole Shareholder on 6 May 2013.

For the purpose of this section, unless the context otherwise requires:

”Board”	means the board of Directors from time to time or a duly authorised committee thereof;
“Eligible Person”	means any full-time or part-time employee of the Company or any member of the Group, including any executive, non-executive directors and independent non-executive directors, advisors, consultants of the Company or any its subsidiaries;
“Option”	means an option to subscribe for Shares granted pursuant to the Share Option Scheme;
“Option Period”	means in respect of any particular Option, the period to be determined and notified by the Board to each Participant;
“Other Schemes”	means any other share option schemes adopted by the Group from time to time pursuant to which options to subscribe for Shares may be granted;
“Participant”	means any Eligible Person who accepts or is deemed to have accepted the offer of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Participant;
“Shareholders”	means shareholders of the Company from time to time;
“Subsidiary”	means a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)) of the Company, whether incorporated in Hong Kong or elsewhere; and
“Trading Day”	means a day on which trading of Shares take place on the Stock Exchange.

(a) Purpose of the Share Option Scheme

The Share Option Scheme enables the Company to grant Options to Eligible Persons as incentives or rewards for their contributions to the Group.

(b) Who may join

The Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (d) below. Upon acceptance of the Option, the Eligible Person shall pay HK$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted.

(c) Grant of Option

Any grant of Options must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and (ii) the deadline for the Company to publish an announcement of its results for any year, half-year, quarter-year period or any interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of results announcement. The Directors may not grant any Option to an Eligible Person during the periods or times in which directors of listed issuer are prohibited from dealing in shares pursuant to Rules 5.48 to 5.67 prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time, and provided that if approved by Shareholders in general meeting with such Participant and his associates abstaining from voting, the Company may make a further grant of Options to such Participant (the "Further Grant") notwithstanding that the Further Grant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time. In relation to the Further Grant, the Company must send a circular to the Shareholders, which discloses the identity of the relevant Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant under the Share Option Scheme and Other Schemes) and the information required under the GEM Listing

Rules. The number and terms (including the exercise price) of Options which is the subject of the Further Grant shall be fixed before the relevant Shareholders' meeting and the date of meeting of the Board for proposing the Further Grant should be taken as the date of grant for the purpose of calculating the relevant subscription price.

(d) Price of Shares

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 Trading Day; (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.

For the purpose of calculating the subscription price, in the event that on the date of grant, the Company has been listed for less than five Trading Days, the Placing Price shall be used as the closing price for any Trading Day falling within the period before the Listing Date.

(e) Maximum number of Shares

(i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the "Scheme Mandate Limit") provided that Option lapsed in accordance with the terms of the Shares Option Scheme or Other Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of 272,000,000 Shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 27,200,000 Shares, representing 10% of the Shares in issue as at the Listing Date.

(ii) Subject to the approval of Shareholders in general meeting, the Company may renew the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as renewed must not exceed 10% of the Shares in issue as at the date of such Shareholders' approval provided that Options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, exercised or lapsed in accordance with the terms thereof) will not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. In relation to the Shareholders' approval referred to in this paragraph (ii), the Company shall send a circular to the Shareholders containing the information required by the GEM Listing Rules.

(iii) Subject to the approval of Shareholders in general meeting, the Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by the Company before such Shareholders' approval is sought. In relation to the Shareholders' approval referred to in this paragraph (iii), the Company shall send a circular to its Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such other information required by the GEM Listing Rules.

(iv) Notwithstanding the foregoing, the Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and Other Schemes exceeds 30% of the Shares in issue from time to time.

(f) Time of exercise of 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. The exercise of an Option may be 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.

(g) Rights are personal to grantee

An Option shall be personal to the Participant and shall not be assignable or transferable and no Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Participant shall entitle the Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on the Company.

(h) Rights on death

If a Participant dies before exercising the Options in full, his or her personal representative(s) may exercise the Options in full (to the extent that it has become exercisable on the date of death and not already exercised) within a period of 12 months from the date of death, failing which such Options will lapse.

(i) Changes in capital structure

If there is any alteration in the capital structure of the Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party) or otherwise howsoever in accordance with the legal requirements and requirements of the Stock Exchange, such corresponding alterations (if any) shall be made to:

(i) the number of Shares (without fractional entitlements) subject to the Option so far as unexercised; and/or

(ii) the subscription price.

Except alterations made on a capitalisation issue, any alteration to the number of Shares which is the subject of the Option and the subscription price of the Option shall be conditional on the auditors of the Company or an independent financial adviser appointed by the Company confirming in writing to the Board that the alteration is made on the basis that the proportion of the issued share capital of the Company to which a Participant is entitled after such alteration shall remain the same as that to which he or she was entitled before such alteration. No such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value or which would result in the aggregate amount payable on the exercise of any Option in full being increased. The capacity of the auditors or independent financial adviser is that of experts and not of arbitrators and their certification shall be final and binding on the Company and the Participants in the absence of maintain error. The costs of the auditors or independent financial adviser in so certifying shall be borne by the Company.

(j) Rights on take-over

If a general offer has been made to all the Shareholders (other than the offeror and/or any persons acting in concert with the offeror), to acquire all or part of the issued Shares, and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Participant shall be entitled to exercise his or her outstanding Option in full or any part thereof within 14 days after the date on which such offer becomes or is declared unconditional. For the purposes of this sub-paragraph, “acting in concert” shall have the meaning ascribed to it under the Takeovers Code.

(k) Rights on a compromise or arrangement

(i) If an application is made to the court (otherwise than where the Company is being voluntarily wound up), pursuant to the Companies Law or the Companies Ordinance, in connection with a proposed compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its Shareholders (or any class of them), a Participant may by notice in writing to the Company, within a period of 21 days after the date of such application, exercise his or her outstanding Option in full or any part thereof specified in such note. Upon the compromise or arrangement becoming effective, all Options shall lapse except insofar as exercised. Notice of the application referred to herein and the effect thereof shall be given by the Company to all Participants as soon as practicable.

(ii) In the event of a notice being given by the Company to its Shareholders to convene a general meeting for the purpose of approving a resolution to voluntarily wind up the Company when the Company is solvent, the Company shall on the day of such notice to each Shareholder or as soon as practicable, give notice thereof to all Participants. Thereupon each Participant shall be entitled to exercise all or any of his or her outstanding Options at any time no later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Participant credited as fully paid.

(l) Lapse of Option

An Option shall lapse forthwith and not exercisable (to the extent not already exercised) on the earliest of:

(i) the date of expiry of the Option as may be determined by the Board;

(ii) subject to paragraphs (f) and (p), the expiry of the Option Period of the Option;

(iii) the first anniversary of the death of the Participant;

(iv) in the event that the Participant was an employee or director of any member of the Group on the date of grant of Option to him or her, the date on which such member of the Group terminates the Participant's employment or removes the Participant from his or her office on the ground that the Participant has been guilty of misconduct, has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty. A resolution of the Board or the board of directors of the relevant member of the Group to the effect that such employment or office has or has not been terminated or removed on one or more grounds specified in this sub-paragraph shall be conclusive.

(v) in the event that the Participant was an employee or director of any member of the Group on the date of grant of Option to him or her, the expiry of a period of three months from the date of the Participant ceasing to be an employee or director of such member of the Group by reason of:

(1) his or her retirement on or after attaining normal retirement age or, with the express consent of the Board in writing for the purpose of this sub-paragraph, at a younger age;

(2) ill health or disability recognised as such expressly by the Board in writing for the purpose of this sub-paragraph;

(3) the company by which he or she is employed and/or of which he or she is a director (if not the Company) ceasing to be a subsidiary of the Company;

(4) expiry of his or her employment contract or vacation of his or her office with such member of the Group such contract or office is not immediately extended or renewed; or

(5) at the discretion of the Board, any reason other than death or the reasons described in sub-paragraph (iv) or (v) (1) to (4).

(vi) the expiry of any period referred to in paragraph (k) above, provided that in the case of paragraph (k)(i), all Options granted shall lapse upon the proposed compromise or arrangement becoming effective; and

(vii) the date the Participant commits any breach of the provisions of paragraph (g).

(m) Ranking of Shares

Shares allotted and issued upon the exercise of an Option will be subject to the Company's articles of association as amended from time to time and will rank pari passu in all respects with the fully paid or credited as fully paid Shares in issue on the date of such allotment or issue and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment or issue.

(n) Cancellation of Options granted

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be approved by the grantee concerned in writing.

In the event that the Board elects to cancel any Options and issue new ones to the same grantee, the issue of such new Options may only be made with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit.

(o) Period of Share Option Scheme

The Share Option Scheme will be valid and effective for a period of ten years commencing on the Listing Date, after which 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.

(p) Alteration to and termination of Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board, except that the provisions of the Share Option Scheme relating to matters contained in Chapter 23 of the GEM Listing Rules shall not be altered to the advantage of the Participant or the prospective Participants without the prior approval of the Shareholders in general meeting (with the Eligible Persons, the Participants and their associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Participants as would be required by the Shareholders under the Company's articles of association (as amended from time to time) for a variation of the rights attached to the Shares.

Any alterations to the terms and conditions of Share Option Scheme, which are of a material nature shall first be approved by the Stock Exchange, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Our Company may, by ordinary resolution in general meeting, at any time terminate the operation of the Share Option Scheme before the end of its life and in such event no Further Options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant. Details of the Options granted, including Options exercised or outstanding, under the Share Option Scheme, and (if applicable) Options that become void or non-exercisable as a result of termination must be disclosed in the circular to the Shareholders seeking approval for the first new scheme to be established after such termination.

(q) Granting of Options to a director, chief executive or substantial shareholder of the Company or any of their associates

Where Options are proposed to be granted to a director, chief executive or substantial shareholder of the Company or any of their respective associates, the proposed grant must be approved by all independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).

If a grant of Options to a substantial shareholder or an independent non-executive Director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person under the Share Option Scheme or Other Schemes in any 12-month period up to and including the date of the grant (i) representing in aggregate 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue from time to time, and (ii) having an aggregate value, based on the closing price of the Shares at the date of the grant, in excess of HK$5 million, then the proposed grant of Options must be approved by the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the resolution provided that his or her intention to do so has been stated in the circular. The circular must contain the information required under the GEM Listing Rules.

In addition, Shareholders' approval as described above will also be required for any change in terms of the Options granted to an Eligible Person who is a Substantial shareholder, an independent non-executive Director or their respective associates.

The circular must contain the following:

(i) details of the number and terms of the Options (including the subscription price relating thereto) to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the subscription price;

(ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the Options in question) to independent Shareholders, as to voting; and

(iii) all other information as required by the GEM Listing Rules.

For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive (as defined in the GEM Listing Rules) set out in this paragraph (r) do not apply where the Eligible Person is only a proposed Director or chief executive.

(r) Conditions of Share Option Scheme

The Share Option Scheme is conditional on (i) the passing of a resolution to adopt the Share Option Scheme by the Shareholders in general meeting and; (ii) the Stock Exchange granting approval for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of Options.

As at the Latest Practicable Date, no options have been granted or agreed to be granted by the Company under the Share Option Scheme.

Application has been made to the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of Options under Share Option Scheme and listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under Share Option Scheme.

E. OTHER INFORMATION

1. Indemnities

Florescent Holdings, Lian Shun, Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu (the "Indemnifiers") have entered into a deed of indemnity ("Deed of Indemnity") (being a material contract referred to in the paragraph headed "Summary of material contracts" of this appendix) to provide the following indemnities in favour of our Company (for itself and as trustee for its subsidiaries).

Under the Deed of Indemnity, each of the Indemnifiers irrevocably, jointly and severally agrees, covenants and undertakes with each of the members of our Group that he/it will indemnify each of the members of our Group against, amongst others, the following:

(i) taxation falling on any or all members of our Group resulting from or by reference to any income, profit or gains earned, accrued or received (or deemed to be so earned, accrued or received) or transactions, events, acts, omissions, matters or things entered into or occurring on or before the date when the Placing becomes unconditional (the "Effective Date");

(ii) any depletion or reduction in value of the assets of any member of our Group or increase in their respective liabilities, or any loss or depreciation of any relief against estate duty of any member of our Group, as a consequence of, and in respect of any amount which the members of our Group or any of them may become liable to pay, being any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group and any claim which has arisen or may arise wholly or partly in respect of or in consequence of any act or omission occurring at any time on or before the Effective Date;

(iii) all necessary costs (including all legal costs), expenses, interests, penalties or other liabilities incurred by any members of our Group due to any present, contingent or potential legal proceedings (including without limitation any court proceeding, administrative proceedings or other proceedings commenced or instituted by any regulatory body or governmental department) against any member of our Group in relation to, arising out of or in connection with any cause of action, subject matter, dispute or breach, infringement or contravention of any law, regulation, legal right or proprietary right (whether intellectual, property or otherwise) occurred in anywhere in the world prior to the Effective Date; and

(iv) any liabilities arising from the non-compliance with the relevant rules and regulations in relation to The Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (《關於加強非居民企業股權轉讓所得企業所得税管理的通知》) (Circular Guo Shui Han [2009] No. 698) and other non-compliance to applicable laws and regulations on or before the Effective Date.

The Indemnifiers will, however, not be liable under the Deed of Indemnity for taxation where, among others:

(a) provision, reserve or allowance has been made for such taxation in the audited accounts of our Group for each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 ("Accounts");

(b) where any liability or taxation claim falling on any of the members of our Group in respect of their current accounting periods or any accounting period commencing on or after 1 January 2013 and ending on the Effective Date where such liability or taxation claim would not have arisen but for any act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction that are:

    (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 January 2013; or

    (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2012; or

    (iii) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of or taxation; or

    (iv) to the extent of any provisions or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; and

(c) the taxation arises or is incurred as a result of a retrospective change in law or the interpretation or practice by the relevant tax authority coming into force after the Effective Date or to the extent that the taxation arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in Cayman Islands, being jurisdiction in which the company comprising our Group is incorporated.

2. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands.

3. Litigation

Save as disclosed in this prospectus, as at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance was known to our Directors or our Company to be pending or threatened by or against any member of our Group.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for the listing of and permission to deal in our Shares in issue and to be issued as mentioned in this prospectus, and any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme.

5. Promoters

Our Company does not have a promoter.

6. Preliminary expenses

The estimated preliminary expenses borne by our Company are approximately HK$55,000 and are payable by our Company.

7. Consents and qualifications of experts

Each of Guotai Junan Capital Limited, PricewaterhouseCoopers, ETR Law Firm, Conyers Dill & Pearman (Cayman) Limited, Euromonitor International Ltd and Cusham & Wakefield Valuation Advisory Services (HK) Limited has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included. None of them is interested beneficially or non-beneficially in any shares in any company of our Group, or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any company of our Group.

Name	Qualification
Guotai Junan Capital Limited	Licensed corporation under the SFO permitted to engage in type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified Public Accountants
ETR Law Firm	Legal advisers of our Company as to PRC laws
Conyers Dill & Pearman (Cayman) Limited	Legal advisers of our Company as to Cayman Islands laws
Euromonitor International Ltd	Market research consultant
Cushman & Wakefield Valuation Advisory Services (HK) Limited	Property valuer

8. Binding effect

This prospectus shall have the effect, if any application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Share registrar

Our Company's branch register of members will be maintained in Hong Kong by its branch registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong. Unless our Directors otherwise agree, all transfers and other documents of title to shares must be lodged for registration with and registered by the share registrar and transfer office in Hong Kong.

10. Compliance Adviser

In accordance with the requirements of the GEM Listing Rules, our Company will appoint Guotai Junan Capital Limited as our compliance adviser to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of issuing financial results for the second full year commencing after the Listing Date or until such compliance adviser agreement is terminated, which ever is the earlier.

11. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of or of the fair value of our Shares being sold or transferred, whichever is the higher. Profit from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profit tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Introduction can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

12. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) within two years immediately preceding the date of this prospectus, no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of its subsidiaries;

(iv) within the two years preceding the date of this prospectus, no commission has been paid or payable to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of its subsidiaries;

(v) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus; and

(vi) our Directors confirm that save as disclosed in the paragraph headed "Material Adverse Change" in the section headed "Financial Information" of this document, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2012 (being the date to which the latest audited consolidated financial statements of our Group were made up).

(b) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;

(c) no company within our Group is presently listed on any stock exchange or traded on any trading system;

(d) our Company has no outstanding convertible debt securities; and

(e) all necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed "Other information – Consents and qualifications of experts" in Appendix V to this prospectus and copies of the material contracts referred to in the section headed "Further information about the business of our Group – Summary of material contracts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Stevenson, Wong & Co. at 4th Floor, Central Tower, No. 28 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles of Association of our Company;

(b) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(c) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

(d) the audited combined financial statements of our Group for each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012;

(e) the letter, summary of valuations and valuation certificates relating to the properties of our Group prepared by Cushman & Wakefield Valuation Advisory Services (HK) Limited, the text of which is set out in Appendix III to this prospectus;

(f) the rules of the Share Option Scheme referred to in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus;

(g) the letter prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;

(h) the legal opinions issued by ETR Law Firm, the PRC Legal Advisers, in relation to our Group and its properties;

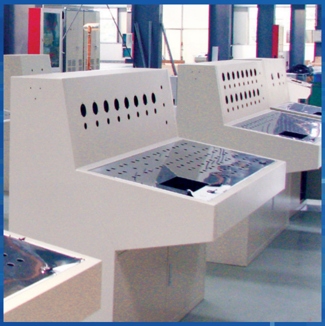
(i) the Companies Law;

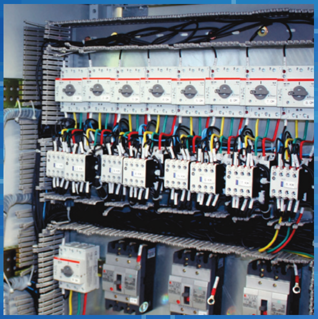
(j) the industry report prepared by Euromonitor as referred to in the section headed "Industry Overview" of this prospectus;

(k) the material contracts referred to in the paragraph headed "Further information about the business of our Group – Summary of material contracts" in Appendix V to this prospectus;

(l) the written consents referred to in the paragraph headed "Other information – Consents and qualifications of experts" in Appendix V to this prospectus; and

(m) the service contracts referred to in the paragraph headed "Further information about Directors, senior management and staff – Particulars of service agreements" in Appendix V to this prospectus.





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