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.