

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

### 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.

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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.

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

### 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

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

(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.

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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.



---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

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).

---

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

---

### 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.