

FUTURE PLANS AND USE OF PROCEEDS FROM THE PLACING

FUTURE PLANS

Please refer to the paragraph headed “Our business objective and strategies” under the section headed “Business” in this prospectus for a detailed description of our Group’s future plans.

IMPLEMENTATION PLANS

Investors should note the implementation plans are drawn up based on the current economic status and the assumptions as set out in the paragraph headed “Bases and assumptions” below which are inherently subject to uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed “Risk factors” in this prospectus. Therefore, there is no assurance that our Group’s business will materialise within the estimated time frame and that our Group’s future plans will be accomplished at all.

	From the Latest Practicable Date to 30 June 2013 <i>(HK\$ million)</i>	For the six months ending 31 December 2013 <i>(HK\$ million)</i>	For the six months ending 30 June 2014 <i>(HK\$ million)</i>	For the six months ending 31 December 2014 <i>(HK\$ million)</i>	Total <i>(HK\$ million)</i>	Approximate percentage of net proceeds <i>(%)</i>
Increase production capacity						
– Build a new production plant of approximately 11,000 sq.m. and improve the roads and increase the greenery in the factory area	11.2	6.9	–	–	18.1	30.4
– Improve the production process using the high/low voltage power supply systems; addition of new laboratory facilities; and addition of testing facilities	–	9.0	–	–	9.0	15.1
Subtotal	11.2	15.9	–	–	27.1	45.5
Cost saving construction						
– A new production line and numerical control centre equipment for production of cabinets	–	–	16.9	1.2	18.1	30.4
Subtotal	–	–	16.9	1.2	18.1	30.4
Continuous product development and innovation						
– Design and development of (i) the RGU; and (ii) newer models of our existing industrial automation systems	–	1.1	0.7	–	1.8	3.0
– Design and development of new sludge treatment products	1.1	1.0	0.8	0.9	3.8	6.4
– Software registration and standardisation	–	–	–	0.4	0.4	0.7
Subtotal	1.1	2.1	1.5	1.3	6.0	10.1

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Increase market awareness and enhance image/ reputation						
– Placing advertisements in magazines for the paper-making industry	0.3	0.3	0.3	0.3	1.2	2.0
– Design and distribute marketing materials such as product brochures and corporate videos	0.3	–	0.3	–	0.6	1.0
– Participate in the Beijing and Shanghai paper-making equipment exhibition	–	0.5	–	0.5	1.0	1.7
– Organise marketing activities for both current and new products	–	0.4	0.2	0.5	1.1	1.9
Subtotal	0.6	1.2	0.8	1.3	3.9	6.6
Improve the current information management system						
– Upgrade the current ERP system	0.3	–	–	–	0.3	0.5
Subtotal	0.3	–	–	–	0.3	0.5
Total	13.2	19.2	19.2	3.8	55.4	93.1

Reasons for expansion of our production capacity for our industrial automation systems

We intend to expand our production capacity for our industrial automation systems in future. According to Euromonitor, the development of industrial automation systems is closely linked to the growth of the paper-making industry of the PRC, which has been growing rapidly and was in line with the GDP growth of the PRC over the past five years. According to the 2011 Annual Report of the PRC's Paper-Making Industry, the aggregate production output of paper and paperboard on the PRC achieved a CAGR of approximately 7.8% from 2007 to 2011. It is anticipated that the production volume of paper and paper board in the PRC will increase from approximately 99.3 million tonnes in 2011 to approximately 119.0 million tonnes by 2016. Given the steady growth of the paper-making industry of the PRC, Euromonitor predicted that the size of the industrial automation system market will reach approximately RMB3.4 billion by 2016, representing a CAGR of approximately 12.6% from 2011.

BASES AND ASSUMPTIONS

The implementation plans set forth by our Directors are based on the following bases and assumptions:

- there will be no significant economic changes in respect of inflation, interest rate, tax rate and currency exchange rate in China that will adversely affect our business;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our business strategies relate;

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- there will be no material changes in the existing laws (whether in the PRC or any part of the world), policies or industry or regulatory treatment relating to manufacture, sales, import and/or export of industrial automation systems and/or sludge treatment products, or in the political, economic or market conditions in which we operate;
- there will be no changes in the funding requirement for each of the near term business strategies described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities;
- there will be no changes in the effectiveness of the licenses and permits obtained by our Group; and
- we will not be materially affected by the risk factors as set out in the section headed “Risk factors” in this prospectus.

In order to cope with our growth over the next few years, we intend to:

- explore market opportunities to sell our industrial automation systems in the paper-making industry as well as other industries, such as electricity and metallurgy. For our sludge treatment products, we plan to establish our presence in other industries, like municipal administration, coal mining, non-ferrous metals and chemical treatment. Therefore, we will increase our headcount for sales personnel. With the aim to achieve that, we have already hired four more sales personnel, two for the industrial automation department and two for the sludge treatment department. We plan to hire another three to four more sales personnel in the year 2013;
- implement the ISO management systems, namely (i) ISO9001 Quality Management System; (ii) ISO14001 Environment Management System; and (iii) OHSAS18001 Occupational Health and Safety Management System, for our Group’s business operations. External reviews of the systems have been carried out and the relevant ISO Certifications have been obtained since December 2009 and February 2013;
- upgrade our in-house ERP system with the aim to enhance and to improve the overall efficiency and effectiveness of our procurement of sales orders, raw material and labour and financial management;

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- procure more sales orders by increasing our sales headcount, increasing our Group's market awareness and enhancing our image/ reputation by adopting strategies, including but not limited to: (i) placing advertisements in magazines for the paper-making industry, (ii) participating in the Beijing and Shanghai paper-making equipment exhibition; and (iii) organising marketing activities for both our existing and new products;
- assess the production capacities of our existing suppliers regularly to ensure that they can fulfil the needs of our business expansion and meet our procurement orders in a timely manner. We also intend to negotiate with new potential suppliers to ensure the availability of alternate sources of raw materials, so as to minimise the effect on our business in the event of any interruptions in the supply of raw materials to us;
- hire additional manpower to cope with the future expansion of our business and increased production needs. We have hired 10 more technicians for our industrial automation department during recruitment fairs at tertiary institutions in Hangzhou in the past few months. Training will be provided to new employees to ensure that they possess the requisite technical skills for the production of our industrial automation systems and sludge treatment products; and
- enhance our internal control environment and procedures in accordance with the recommendations suggested by our internal control consultants.

USE OF PROCEEDS

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

- approximately 30.4% of the net proceeds, or HK\$18.1 million will be used for increasing our production capacity by building a new production plant of approximately 11,000 sq.m. (which includes an industrial automation plant of approximately 6,000 sq.m. and a sludge treatment plant of approximately 5,000 sq.m.) and improvement of the roads and the greenery in the factory area;
- approximately 15.1% of the net proceeds, or HK\$9.0 million will be used for improvement of the production process using the high/low voltage power supply systems, addition of new laboratory facilities and testing facilities;

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- approximately 30.4% of the net proceeds, or HK\$18.1 million will be used for a new production line and a control centre equipment for production of cabinets. Cabinet is one of the components of our industrial automation systems and we intend to make our own cabinets for our production use;
- approximately 10.1% of the net proceeds, or HK\$6.0 million will be used for our product development and innovation. In respect of our industrial automation business, we have finalised the design, confirmed the main raw materials to be used for production and completed the system solution for our own RGU, which is one of the components currently used by our industrial automation systems. We also have plans to (i) further develop newer models of the distributed control system, the drive control system as well as the motor control centre; and (ii) complete the corresponding software registrations. In respect of our sludge treatment business, we have plans to design and develop various new products to cater for customers from other industries such municipal sludge treatment, coal and gas, nonferrous metals and chemical treatment. For further details on the RGU, please refer to the paragraph headed “Business objective and strategies – Develop new products and newer models of our existing products” under the section headed “Business” in this prospectus. We also have plans to further develop newer models of the drive control system, distributed control system and the motor control centre, as well as to complete the corresponding software registrations;
- approximately 6.6% of the net proceeds, or HK\$3.9 million will be used for increasing the market awareness and enhancing the image and/or reputation of our Group. We intend to carry out the following marketing activities: (i) placing advertisements in magazines for the paper-making industry; (ii) design and distribute marketing materials such as product brochures and corporate videos; (iii) participate in the Beijing paper-making equipment exhibition; (iv) participate in the Shanghai paper-making equipment exhibition; (v) organise marketing activities for both current and new products;
- approximately 0.5% of the net proceeds, or HK\$0.3 million will be used for improving our current information management system by upgrading the current ERP system; and
- approximately 6.9% of the net proceeds, or HK\$4.1 million will be used for working capital and other general corporate purposes.

If the Offer Size Adjustment Option is exercised in full, the net proceeds from the Placing will increase to approximately HK\$78.3 million. In such event, the net proceeds so increased will be used in the same proportions as disclosed above.

In the event that the net proceeds from the Placing is insufficient to finance the capital expenditure as mentioned above, the shortfall will be financed by internal resources of our Group.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments such as bank deposits or money market funds with licensed banks or financial institutions.