
SUMMARY

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

OVERVIEW

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

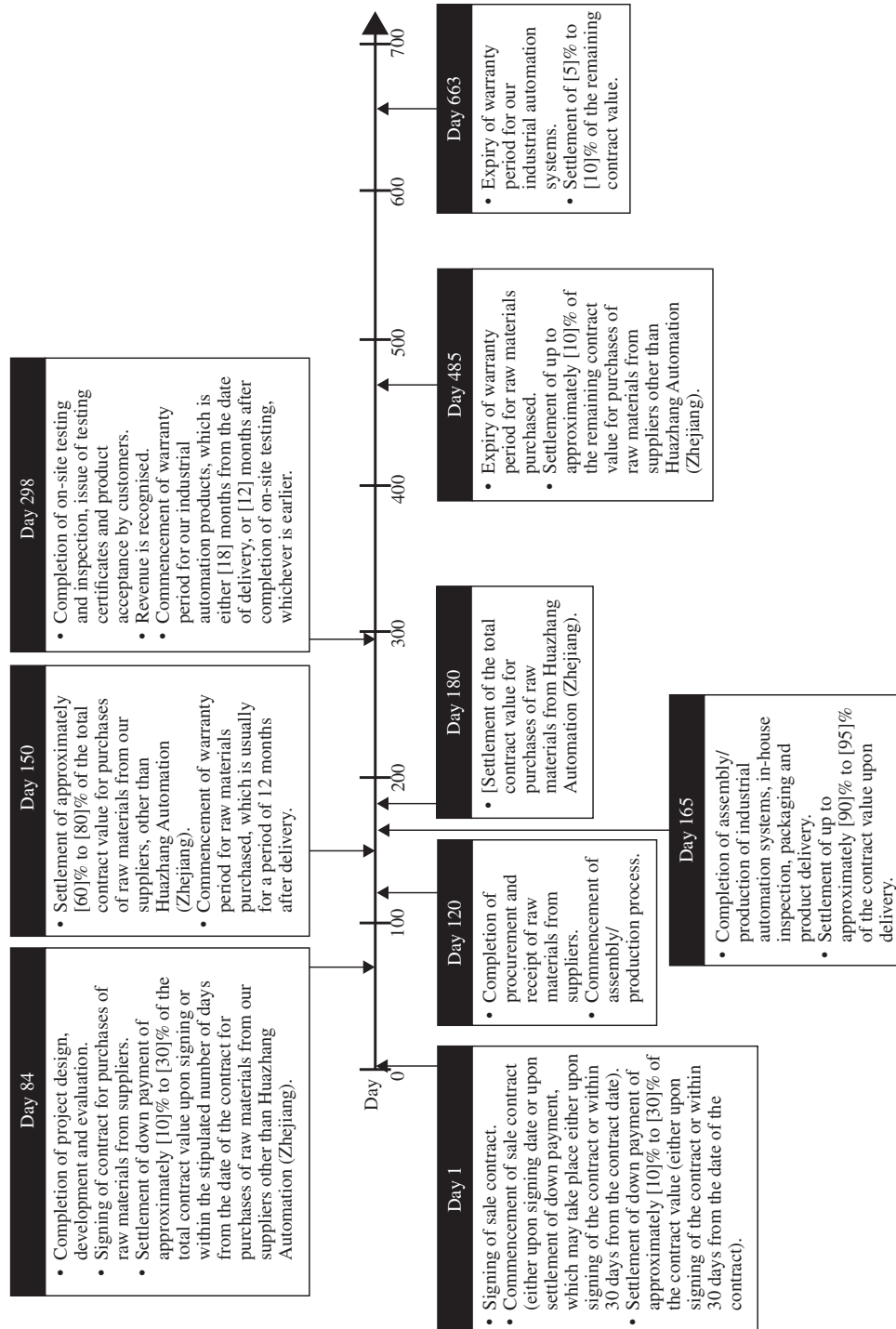
Majority of our industrial automation systems are made from our self-developed software and hardware sourced from our suppliers, and are used in industrial production applications to improve production line efficiency by controlling the production process. Our industrial automation systems mainly comprise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

SUMMARY

Project operation cycle

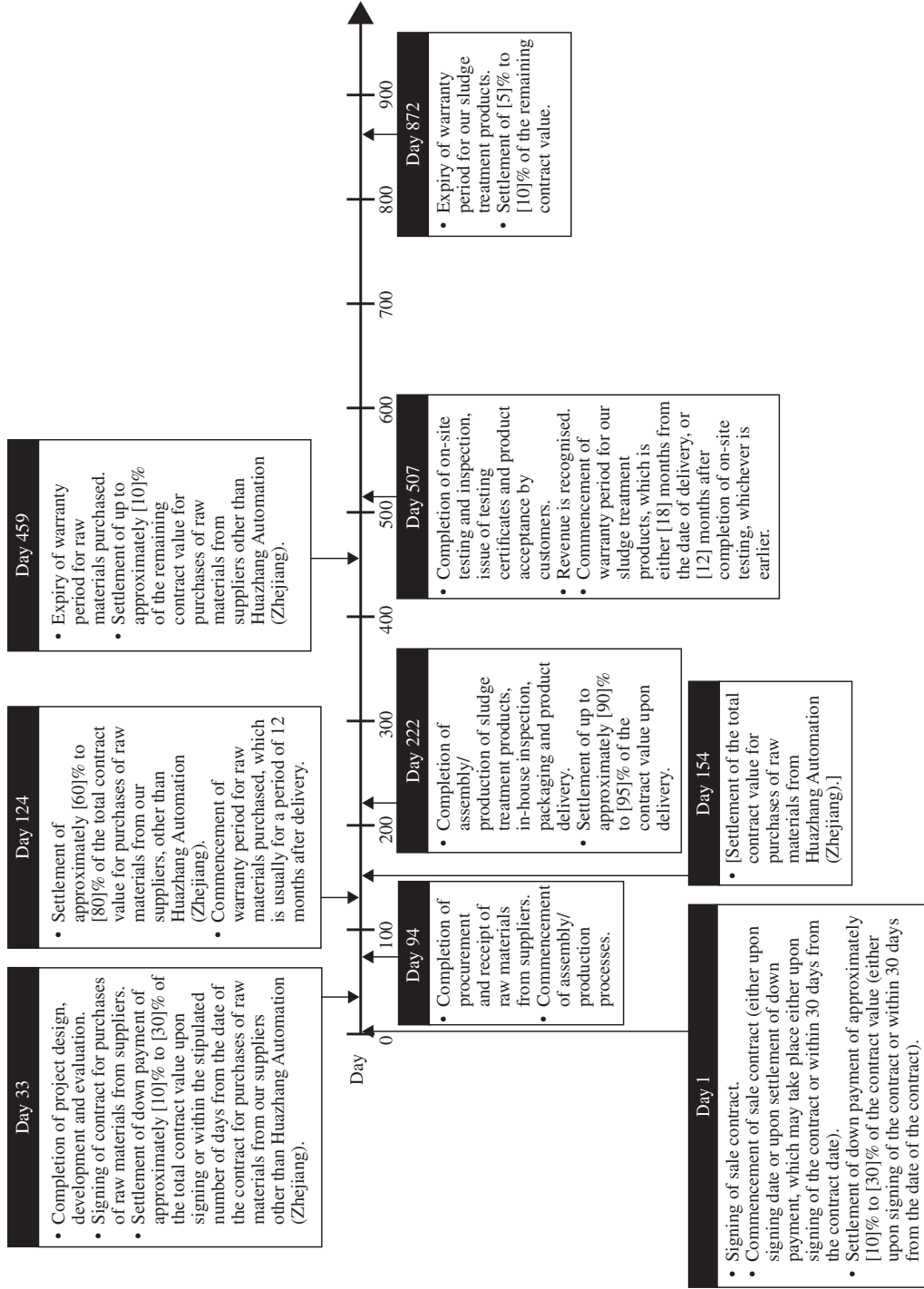
The timelines below set out the overall project operation cycle of our industrial automation systems and sludge treatment products and the actual average time required for each stage of the cycle:

Project operation cycle for our industrial automation systems



SUMMARY

Project operation cycle for our sludge treatment products



SUMMARY

We generally experience long on-site installation, testing and inspection time in our project operation cycle. To the best of our Directors' understanding and knowledge, other suppliers of parts and components for the assembly of paper-making machines also generally experience long on-site installation, testing and inspection time, and therefore our Directors consider that the long on-site installation, testing and inspection time experienced by our Group during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 was in line with the industry practice of assembling paper-making machines. Our Directors confirm that there were no prolonged failures to obtain customer acceptance during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date.

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

Customers

The majority of our revenue was generated from sales of our industrial automation systems to customers in the paper-making industry in the PRC. Sales to our five largest customers accounted for approximately 30.7%, 48.1% and 47.2% of our total revenue, and sales to our largest customer accounted for approximately 10.2%, 14.3% and 11.7% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. Huazhang Automation (Zhejiang) was our largest customer for the year ended 30 June 2011. Huazhang Automation (Zhejiang) is indirectly owned as to 70% by French Business Partner, an Independent Third Party, and as to 30% by Huazhang Overseas, which is in turn owned as to approximately 77.9% in aggregate by our [●]. Huazhang Automation (Zhejiang) is principally engaged in the business of trading, import and export of parts and components for industrial automation systems and provision of ancillary services in relation to the industrial automation systems and is currently an authorised distributor of the Branded Industrial Automation Products in Zhejiang Province, the PRC.

SUMMARY

Suppliers

We source the parts and components required for the production of our industrial automation systems and sludge treatment products from our suppliers. Purchases from our five largest suppliers accounted for approximately 64.3%, 55.4% and 54.0% of our total purchases, and purchases from our largest supplier Huazhang Automation (Zhejiang) accounted for approximately 44.1%, 42.3% and 36.9% of our total purchases for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. We anticipate that our purchase of the Branded Industrial Automation Products from Huazhang Automation (Zhejiang) will continue after the [●]. Please refer to the paragraph headed “Excluded Business” under the section headed “Relationship with [●]” in this document for further details of Huazhang Automation (Zhejiang) and its relationship with our Group.

COMPETITIVE STRENGTHS

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

BUSINESS OBJECTIVE AND STRATEGIES

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

SUMMARY

SELECTED FINANCIAL INFORMATION

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

Selected combined statements of comprehensive income

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

Selected combined balance sheets

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

We recorded net current liabilities of approximately HK\$4.7 million as at 30 June 2011. Please refer to the paragraph headed “Net current (liabilities)/assets” under the section headed “Financial Information” in this document for further details on our current assets and liabilities during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

SUMMARY

Revenue by business segment

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

Please refer to the paragraph headed “Our results of operations” under the section headed “Financial Information” in this document for further details on the fluctuations in our revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Gross profit

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

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

SUMMARY

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

Please refer to the paragraph headed "Gross profit" under the section headed "Financial Information" in this document for further details.

Key financial ratios

The following table sets out the key financial ratios for our Group during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

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

SUMMARY

Please refer to the paragraph headed “Key financial ratios” under the section headed “Financial Information” in this document for further details.

No material adverse change

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

RECENT DEVELOPMENTS SUBSEQUENT TO 31 DECEMBER 2012

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

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

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

Revenue from sales of industrial automation systems decreased by approximately 20.8% for the nine months ended 31 March 2013 as compared to the same period in 2012. Such decrease was primarily attributable to the higher level of revenue recognised during the nine months ended 31 March 2012 due to delay in acceptance of our industrial automation systems in relation to seven of our sales contracts. Such delay in acceptance was primarily due to the delay in the construction work of our customers’ production facilities. The higher gross profit

SUMMARY

margin of approximately 28.1% for the nine months ended 31 March 2013 as compared to the same period in 2012 was primarily due to the lower level of gross profit margin during the nine months ended 31 March 2012 as a result of the completion of three industrial automation system projects with a lower average profit margin, which were treated as opportunities to explore the industrial automation system market in the electricity industry and provide value-added on-site services to customers during the said period.

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

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

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

Please refer to the paragraph headed "Recent developments subsequent to 31 December 2012" under the section headed "Financial Information" in this document for further details.

SUMMARY

DIVIDEND

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