OVERVIEW

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

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

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

Our sludge treatment products are dewatering systems which are also made from our self-developed software and hardware sourced from our suppliers and are used for the separation of solid from liquid in the handling of industrial waste in order to reduce sludge disposal costs and to meet the PRC government's requirement for environmental protection. Depending on the specific needs of our customers, we also sell the hardware of our sludge treatment products separately. Our sludge treatment products comprise two categories, namely, filter press and steel-belt filter press. Our Group started production of our sludge treatment products in 2010.

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

approximately 84.2%, 93.0% and 77.6% of the revenue from sales of our industrial automation systems, and approximately 79.8%, 95.1% and 87.1% of the revenue from sales of our sludge treatment products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively.

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

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

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

COMPETITIVE STRENGTHS OF OUR GROUP

Our Directors consider that we possess the following competitive strengths:

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

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

Our Directors believe that the long term commitment from and our support to our customers are pivotal to our solid and stable relationships with them. According to Euromonitor, there were approximately 2,600 paper-making companies in the PRC by the end of year 2011. Among the top 30 paper-making companies in terms of production volume in 2011, 12 of which were our customers during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Technical expertise and comprehensive after-sales services

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

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

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

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

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

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

BUSINESS OBJECTIVE AND STRATEGIES

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

Expand our production plant

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

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

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

Develop new products and newer models of our existing products

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

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

our Group's laboratories to ensure that it is in compliance with our internal technical specifications. The newly developed RGU is currently undergoing trial tests by some of our customers in the paper-making industry.

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

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

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

Enhance our presence among existing and potential customers

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

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

Improve our current ERP system

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

Expand our business into new industries

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

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

More comprehensive customer service

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

BUSINESS MODEL

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

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

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

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

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our sludge treatment contracts were obtained via business discussion with our customers.

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

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

Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012

A sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 for projects in relation to our Group's industrial automation systems or sludge treatment products typically contained the following salient terms:

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

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

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

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

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

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

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

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our Group had entered into 291 sales contracts, requiring payment of up to approximately 90% to 95% of the contract value upon delivery, for projects in relation to our industrial automation systems or sludge treatment products, and the aggregate value of these sales contracts represented approximately 79.0% of the aggregate value of all of the sales contracts entered into by our Group for projects in relation to our industrial automation systems or sludge treatment products during the same period.

The table below sets out an analysis of the 291 sales contracts, requiring payment of up to approximately 90% to 95% of the contract value upon delivery, obtained by our Group during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 by aggregate contract value:

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

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

Sales contracts with our major customers generally provided that we are liable to pay either a daily penalty constituting (i) approximately 5.0% of the contract value; or (ii) approximately 5.0% of the value of the products and/or parts and components for which delivery has been delayed, depending on the terms of the sales contract. If the products and/or parts and components are not delivered within a period of generally one month after the stipulated timeframe for delivery, our customers are entitled to terminate the relevant sales contracts and we may be liable to compensate our customers for any economic losses incurred in addition to the penalty mentioned above. Our Directors confirmed that our Group had not experienced any failure on product delivery within the agreed timeframe and no compensation had been paid by our Group or our customers which requested for delay in product delivery within the agreed timeframe during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

There was generally no agreed timeframe for completion of on-site installation and testing for contracts entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Historical pattern of revenue recognition

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

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

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

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

The table below sets out an analysis of sales contracts obtained by our Group during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 by the aggregate value of sales contracts:

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

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

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

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

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

Given the historical timing of revenue recognition during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and the measures we have put in place to mitigate the risk relating to the long period of on-site testing and possible fluctuations in our financial results caused by delay in revenue recognition in the future, our Directors consider that such risk would be minimized.

The table below sets out the breakdown of sales contracts obtained by our Group during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and the revenue contribution by new and repeated customers:

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

Notes:

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

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

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

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

Pricing policy and fluctuations in costs of raw materials

Our industrial automation systems and sludge treatment products are provided to customers under fixed-price contracts that fix an all-inclusive lump sum price for a project. Hence, most of our revenue was derived from fixed-price contracts during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date. We normally fix the price of our projects after taking into account various factors including but not limited to costs of engineering, raw materials and labour, our target gross profit margin and the risk of fluctuations in costs of raw materials. However, as most of our sales contracts entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date were fixed-price in nature and procurement arrangements with our suppliers of raw materials were entered into after signing of relevant sale contracts, our Group would not be able to pass on any increase in cost of raw materials to our customers if our Group experienced an unexpected increase in cost of raw materials during the period from signing of a sale contract to placing the relevant purchase order. The actual costs may also differ from our estimation due to unanticipated technical problems and other unforeseeable reasons which may require us to incur additional costs that we cannot recoup. Therefore, we are subject to the risk of cost overruns as we execute our projects or perform our services at a fixed price. Please refer to the paragraphs headed "If we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price contracts, our results of operations would be adversely affected" and "Any price and supply fluctuations of raw materials, in particular, the inverters, the low voltage components and the modules used in our production processes, may increase our production

costs and affect our Group's results of operations" under the section headed "Risk factors" in this document for details of risk relating to price and supply fluctuations of our raw materials and cost overruns. Please also refer to the paragraph headed "Internal control measures adopted to mitigate the risk of cost overruns" in this section for details of mitigating measures of the relevant risk.

Substantial inventory balance

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

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

INTERNAL CONTROLS

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

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

To facilitate a smooth on-site installation process by our customers, we will send our technicians to the customers' sites upon delivery of our products to provide guidance for on-site installation of our products. After installation, our technicians will visit the customers' sites on a regular basis to assess when the on-site testing and inspection can be carried out in accordance with the parameters and standards agreed between our customers and us. In the

event that our technicians detect that the customers are ready to carry out but intentionally delay the on-site testing and inspection process, or that the customers are satisfied with the on-site testing and inspection results but have not issued the testing certificates in a timely manner, our technicians will report to our management immediately who will then liaise with the customers' senior management directly to resolve the issue.

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

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

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

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

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

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

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

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

Internal control measures adopted to mitigate the risk of cost overruns

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

Internal control measures adopted to mitigate risk of substantial inventory balance

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

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

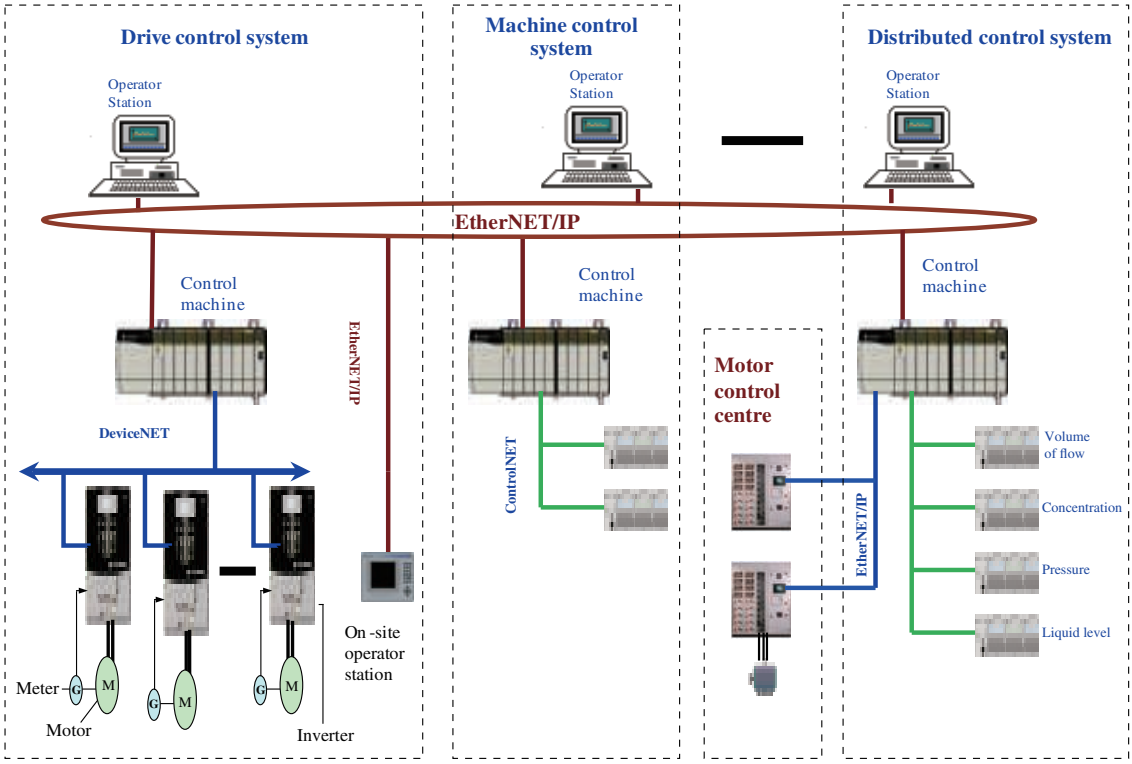
OUR PRODUCTS AND SERVICES

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

Industrial automation systems

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

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



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

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

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

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

Product

Drive control system

Model:
• AC3700

Applications

- Paper-making, electricity and metallurgy

Main features

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

Product

Distributed control system

Model:
• DCS5000

Applications

- Paper-making

Main features

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

Product

Machine control system

Applications

- Paper-making

Main features

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

Product

Motor control centre

Model:
• V-PAK

Applications

- Paper-making

Main features

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

Sludge treatment products

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

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

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

Main features

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

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

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

Main features

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

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

After-sales services

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

PROJECT OPERATION PROCESS

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

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

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

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

The average time required for the entire project operation cycle

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

Signing and commencement of sales contract

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

Project design, development and evaluation

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

Procurement and receipt of raw materials

Once the project design has been completed, the project implementation team will, based on the detailed project design, determine the procurement of the necessary raw materials, set out the production sequence and allocate the necessary personnel. Our procurement team will procure raw materials based on the project implementation plan. Procurement arrangements are entered into with our suppliers for the purchase of the necessary raw materials required for each individual project after we have entered into sales contracts with our customers. This will ensure the timely delivery of raw materials in accordance with the production schedule and avoid any fluctuations in the prices of the raw materials during the course of the project. Our Directors confirm that none of our Group's projects became loss-making as a result of inaccurate cost estimation by our Group during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date. The entire process from project design, development and evaluation, procurement to receipt of raw materials from suppliers usually requires an average of 120 days for our automation industrial systems and an average of 94 days for our sludge treatment products.

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

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

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

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

After delivery of our industrial automation systems or sludge treatment products to the customers' sites, the customers have to conduct the on-site installation and testing with us before they can, subject to satisfactory testing results, issue the testing certificates to our Group to acknowledge their acceptance of our products. Although the sales contracts entered into between our Group and its customers during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 neither specify the maximum time limit for our customers to acknowledge acceptance of our products, nor an agreed timeframe for completion of the on-site installation and testing of our products, there had been no material dispute with our customers in respect of their acceptance of our products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date. The value of the sales contracts excluding the VAT in respect of these projects would be recognised as revenue upon the receipt of customer's testing certificates confirming successful completion of on-site testing and acceptance of our products. Our Directors confirm that our Group's revenue recognition policy is in line with the industry norm. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, the average time taken from commencement of assembly/production of our industrial automation systems and sludge treatment products to revenue recognition is approximately 178 days and 413 days respectively. The on-site installation and testing stage takes place at the customers' sites.

On-site installation, testing and inspection for our industrial automation systems generally requires an average of 133 days to complete. Such average number of days represent approximately 44.6% of the total average number of days required for the entire project operation process. However, during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, the longest on-site installation, testing and inspection period for our industrial automation systems which our Group had experienced was around 12 months as the actual time of completion of the on-site installation, testing and inspection was delayed by our customer's own schedule. The revenue arising from this project was recognised in the year ended 30 June 2011, representing approximately 0.7% of the revenue from sales of industrial automation systems in the same year.

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

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

On-site installation, testing and inspection for our sludge treatment products generally requires an average of 285 days to complete. Such average number of days represents accounting for approximately 56.2% of the total average number of days required for the entire project operation process. However, during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, the longest on-site installation and testing period for our sludge treatment products which our Group had experienced was around 17 months as the actual time of completion of the on-site installation, testing and inspection was delayed due to delay in customers' own schedule. The revenue for this project was recognised in six months ended 31 December 2012, representing 25.1% of the revenue derived from sales of sludge treatment products in the same period.

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

Warranty period

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

CUSTOMERS

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

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

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

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

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

Our Directors confirm that (i) our Group did not experience any material default of the terms of sales contracts by our customers or any order cancellation by our customers; and (ii) there were no defective goods sold during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date.

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

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

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

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

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

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

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

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

To the best of our Directors' knowledge, except for Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu, who are our [●], none of our Directors or their respective associates, and none of our existing Shareholders who owned more than 5% of our issued share capital, had any interest in any of our five largest customers. Our Directors confirmed that we did not have any outstanding material disputes with our existing customers during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date.

Top five projects in terms of contract value for our industrial automation systems and sludge treatment products for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

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

Notes:

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

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

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

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

Notes:

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

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

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our industrial automation systems, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

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

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

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

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

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

Notes:

1. For details on the payment terms pursuant to the sales contracts for our sludge treatment products, please refer to the paragraph headed "Salient terms of a typical sales contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in this section.

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

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

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

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

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

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

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

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

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

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

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

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

Pricing policy

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

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

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

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

We aim to maintain our gross profit margin for each product by controlling our costs. We consider that we have maintained a relatively stable overall gross profit margin during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Sales and marketing

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

Competition

Industrial automation

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

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

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

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

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

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

Sludge treatment

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

Although the output of sludge per tonne of paper and paperboards in the PRC's paper-making industry is predicted by Euromonitor to decrease over the next five years, this is only on the basis that the paper-manufacturers are to take measures to reduce paper waste as encouraged by incentive policies set out under the 12th Five-Year Plan put forward by the PRC's Government. According to Euromonitor, during the 11th Five-Year Period, the PRC's sludge treatment product market grew quickly in terms of capacity and efficiency while the total amount of sludge kept increasing. Further, it is expected that the amount of sludge produced in the PRC will continue to grow at a CAGR of approximately 3.4% between 2011

and 2016, and such amount is estimated to reach approximately 19.5 million tonnes. Therefore, our Directors believe that there is still room for development in the sludge treatment products market; and leveraging on our experience in setting the industry standards and technical conditions for the filter press and our experience in serving customers of sludge treatment products, in particular the paper manufacturers, our Directors consider that our Group should be able to capture certain market share in the sludge treatment products market. For the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our Group obtained sales orders for our sludge treatment products, with an aggregate contract value of approximately HK$28.8 million, HK$45.6 million and HK$15.0 million respectively. As at the Latest Practicable Date, we had sales orders with an aggregate contract value of approximately HK$51.0 million. Given the above, our Directors are of the view that the track record results for our sludge treatment products are sustainable.

Installation, testing and return policy

All of our industrial automation systems and sludge treatment products have been tested before their delivery. We provide on-site installation guidance and testing services to our customers after our product is delivered to them. If our customers are satisfied with the results of the on-site testing and the quality of our products, they will issue testing certificates to our Group to acknowledge their acceptance of our products. Customers may return the products to us if our products fail to meet the product specifications or requirements stipulated under the sales contracts or if our products are damaged or defective for reasons of which we are responsible for, such as damage to the products during the transportation process. Once the products have been delivered to customers, should the products be unfit for use after delivery due to customers own reasons, for example, improper storage methods, our Group will not be responsible for such losses incurred by the customer as it is considered that after delivery, the customers will be responsible for the safekeeping of such products. Our Directors confirm that there were no losses suffered or costs incurred by our Group as a result of customers' failure in safekeeping the delivered products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date. The duration between the time of delivery and the final testing and inspection varies from customers to customers and largely depends on the complexity and scale of the individual project. The completion of testing of our industrial automation systems require an average of approximately 133 days after product delivery while the completion of testing of our sludge treatment products require an average of approximately 285 days after product delivery. As our sludge treatment products are relatively new and the relevant technologies are still being fine-tuned, the time required from product delivery to completion of testing is longer as compared to that of industrial automation projects.

Customer training

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

Services provided within the warranty period

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

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

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

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

PRODUCTION FACILITIES

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

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

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

Notes:

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

2. The utilisation rate is the ratio of the actual production to the estimated production capacity during the relevant year/period of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

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

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

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

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

Potential [●] should understand that the above information is for reference only and represents an estimate of the quantity of products that we may be capable of producing based on normal working hours and level of our workforce. In view of our high production utilisation rate based on our estimated production capacity during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and potential market opportunities in future, we believe that we will have to increase our long-term capacity by increasing, among other things, our production staff force and our production space.

Planned expansion

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

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

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

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

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

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

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

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

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

SUPPLIERS

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

losses incurred as a result of the supply of defective goods. However, we are usually given a warranty period of one year from the date of delivery of the goods by our suppliers to us. If goods purchased are found to be defective, we will request a return and/or an exchange of goods.

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

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

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

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

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

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

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

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

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

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

Supply arrangement with Huazhang Automation (Zhejiang)

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

In order to stabilise both the price and quantity of the Branded Industrial Automation Products supplied to our Group through Huazhang Automation (Zhejiang), our Group had been participating in the "Solution Partner" programme launched by the brand owner of the Branded Industrial Automation Products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date and our Group entered into an agreement on 1 August 2012 regarding our Group's participation in such "Solution Partner" programme, major terms of such agreement include: (i) the brand owner of the Branded Industrial Automation Products agreed to provide necessary information training and updates on the Branded Industrial Automation Products from time to time to our Group and to promote our Group as one of the "Solution Partners" capable to provide specialised industrial automation systems through their publicity means; (ii) our Group agreed to comply with the method of purchasing the Branded Industrial Automation Products through the designated authorised distributor as instructed from time to time. Huazhang Automation (Zhejiang) is the authorised distributor for supplying the Branded Industrial Automation Products to our Group. Based on our Directors' understanding, any change to the designated authorised distributor would require prior written consent from the brand owner of the Branded Industrial Automation Products as they want to better manage and control its distribution network in China in order to minimise competition among their authorised distributors. As confirmed by our PRC Legal Advisers, based on the terms of the agreement between our Group and the brand owner of the Branded Industrial Automation Products, our Group will require a prior written consent from for the change of the designated authorised distributor.

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we mainly procured the Branded Industrial Automation Products such as inverters, control panels and power source equipment from Huazhang Automation (Zhejiang). Our purchases of the Branded Industrial Automation Products accounted for approximately

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

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, Huazhang Automation (Zhejiang) supplied the Branded Industrial Automation Products to us as well as other customers. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the credit and pricing policies offered by Huazhang Automation (Zhejiang) to our Group are not less favourable to those offered by Huazhang Automation (Zhejiang) to its other customers.

Our Group has not been specifically requested by our customers to use the Branded Industrial Automation Products in the production of our industrial automation systems, and there are other equivalent parts and components made by other brands that can substitute the relevant Branded Industrial Automation Products. Unless specifically requested by our customers, our Group would procure the Branded Industrial Automation Products as our raw materials as the quality is consistent and the prices of the relevant Branded Industrial Automation Products offered by Huazhang Automation (Zhejiang) were more competitive than the prices of the comparable parts and components under other brands during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, the prices of the Branded Industrial Automation Products were approximately 4.6% lower than those of the other comparable parts and components made by other brands. Approximately 96.8%, 97.8% and 99.2% of our Group's total turnover during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively was attributable to sales of industrial automation systems and sludge treatment products which had applied the Branded Industrial Automation Products to various extent. As at the Latest Practicable Date, there were other authorised distributors of the Branded Industrial Automation Products in the PRC. There

were also quite a number of suppliers in close proximity of our Group from which we could source parts and components under other brands at similar or comparable pricing terms and quality as that of Huazhang Automation (Zhejiang) for our production of industrial automation systems. Should we substitute all of the Branded Industrial Automation Products used in our production with parts and components under other brands of the same quantity and parameter procured from suppliers which are Independent Third Parties, our cost of raw materials would have increased by approximately 4.4%, 4.8% and 5.4% respectively for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

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

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our Group did not enter into long-term supply contract with Huazhang Automation (Zhejiang), and the transactions between our Group and Huazhang Automation (Zhejiang) during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date were carried on based on an order-by-order basis with a credit term of 60 days. There was no difference in both the pricing and credit policies for transactions between our Group and Huazhang Automation (Zhejiang) immediately prior to and after the disposal of 51% and 19% equity interests in Huazhang Automation (Hong Kong) by Huazhang Overseas in March 2007 and August 2009 respectively.

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

For more information of Huazhang Automation (Zhejiang), please refer to the paragraph headed "Excluded business" under the section headed "Relationship with [●]" in this document.

INVENTORY CONTROL

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

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

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

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

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

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

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

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

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

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

Upon delivery of the products to our customers, our customers will check the products to ensure that the products fulfill their requirements. If our customers find the products delivered to them to be in order, they will sign an acknowledgement of receipt of the products and arrange for storage. Should the products be unfit for use after delivery due to customers' own reasons, for instance, improper storage methods, the customers will be responsible for any such losses incurred. As such, our Group will not be responsible for products delivered to customers as it is considered that once the products have been delivered and are in the customers' possession, the customers will be responsible for the safekeeping of such products. Our Directors confirm that there were no losses suffered or costs incurred by our Group as a result of customers' failure in safekeeping the delivered products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date.

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

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

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

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

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

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

PRODUCT RESEARCH AND DEVELOPMENT

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

As at the Latest Practicable Date, our research and development department consisted of 39 personnel, 32 of whom have received tertiary or higher education. All of our research and development personnel had experience in relevant fields such as electrical engineering, software design and development, automation and mechanical design, and had worked for our group for an average of approximately five years. Seven of our research and development personnel possess relevant industry experience of not less than 10 years. Our research and

development team is led by Mr. Jin Hao and Mr. Zhong Xin Gang. For details of Mr. Jin Hao's and Mr. Zhong Xin Gang's qualifications and relevant experience, please refer to the section headed "Directors, Senior Management and Staff" in this document.

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

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

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

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

Our research and development expenses amounted to approximately HK$5.8 million, HK$7.4 million and HK$5.8 million during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, representing approximately 5.9%, 3.2% and 4.8% of our total revenue for the respective period. The expenses incurred mainly represented the salaries of the full-time personnel in our research and development department during the two years ended 30 June 2011 and 2012 and the six months ended 31 December

2012. The total salaries for our research and development personnel amounted to approximately HK$2.6 million, HK$3.9 million and HK$3.5 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. In order to maintain our competitiveness, our Directors intend to apply 10.1% of the net [●] from the [●] on continuous product development and innovation. We have finalised the design, confirmed the main raw materials to be used for production and completed the system solution for our own RGU, which is one of the components currently used by our industrial automation systems. We also plan to further develop newer models for our industrial automation systems and sludge treatment products. For further details, please refer to the paragraph headed "Implementation plans" in the section headed "Future plans" in this document.

Our research and development team is responsible for designing and developing our owned softwares which are compatible to our own products. As at the Latest Practicable Date, we had registered three software copyrights in the PRC. The following table sets out our revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 by (i) products applying our self-developed software; and (ii) products without our self-developed software:

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

INTELLECTUAL PROPERTY RIGHTS

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

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

Since the intellectual property rights authorised for our use are material and consist mainly of trade secrets, to guard our interests, we require all of our employees, including management personnel, research and development personnel, technical personnel, sales personnel and production workers to execute a confidentiality agreement which covers a wide range of confidential information including technical plans and reports, project design, circuit design, manufacturing methods, commercial secrets, industrial processes, technical standards, measurement software, database, product designs, and records of research, design and development.

Our PRC Legal Advisers confirm that we have registered all the intellectual properties developed by our Group (including 30 invention patents, 43 utility model patents and three software copyrights) as at the Latest Practicable Date. Our PRC Legal Advisers also confirm that we were not subject to material infringement of our intellectual property rights and/or third parties' intellectual property rights during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date.

QUALITY CONTROL

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

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

According to the Provisions on the Administration of Compulsory Product Certification (強制性產品認證管理規定) issued by the State Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) in 2001 and renewed in 2009, most of the parts and components required for the production of the motor control centre are listed on

a directory of products subject to Compulsory Product Certification. Therefore, it was necessary to obtain the China Compulsory Certificate (the "3C Certificate") (強制性產品認證) to manufacture our motor control centre. We have obtained all 3C Certificates necessary for the production of our motor control centre as required by the Provisions on the Administration of Compulsory Product Certification.

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

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

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

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

We have internal control system to record and handle customer's compliant on product quality. If we receive any compliant on our product quality, staff in the sales department will record all the details and inform the responsible person of the relevant department(s) to investigate the reason for the product quality issue and design measures to rectify the issues and prevent the occurrence in the future. The measures will be passed to the management for approval and implementation.

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

Our Directors confirm that there were no material product quality issues, claims, complaints or sales returns during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date.

OCCUPATIONAL SAFETY AND HEALTH MEASURES

We are subject to the relevant PRC laws and regulations regarding production safety, including the principle law governing the administration of production safety in the PRC, namely the PRC Production Safety Law (中華人民共和國安全生產法) which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the process of production, we have adopted various measures such as the provision of periodic training courses on self-rescue and escape to employees, installation of first-aid cases at production sites, use of labour protective equipment. We have also undertaken accidental insurance policies for our employees. Our Group has obtained certifications for the following management systems, namely: (i) ISO 14001:2004 Environment Management System; and (ii) OHSAS 18001:2007 Occupational Health and Safety Management System, for our Group business operations.

As part of our internal control measures, our Group has set up a Work Injury and Accident Administration System for the management, report, investigation and settlement of work injury and accidents, and which prescribes in detail the procedure for handling an accident at different stages so that all the employees involved in an accident will have a clear guidance should an accident occur.

Our Directors confirm that there were no material accidents, health injuries, or any non-compliance incidents with the relevant PRC laws and regulations during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date.

INSURANCE

We maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities. We also maintain property insurance for our production facility in Jiaxing City, Zhejiang Province. We have not maintained any insurance in respect of any third party losses that may arise from the interruption of our business or in respect of product liability claims. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we had not experienced any material product liability claims or other legal claims. Our Directors consider that the existing level of insurance coverage is sufficient for our present operations. Our Group will continue to review and assess the risks and make necessary adjustments to its insurance practice so that it is in line with the operation needs and industry practice from time to time.

We do not maintain product liability insurance. Our Directors consider that it is not an industry norm to maintain product liability insurance because there is no such requirement under the current PRC laws. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and up to the Latest Practicable Date, we had not faced any material complaints, product claims or product recall, and, so far as we are aware of, we had not contributed to any product claims or product recall of our customers during the period. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 and as of the Latest Practicable Date, we had not received any major complaints about the quality of our products from customers or as to our non-compliance with the requirements imposed by them in connection with social, health and safety issues that would materially and adversely affect our business or relationship with such customers, and there were no past incidents related to our product quality and/or product liability claims which had material impact on our Group.

AWARDS AND RECOGNITIONS

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

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

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

CERTIFICATES, LICENCE AND PERMITS

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

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

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

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

ENVIRONMENTAL PROTECTION

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

To ensure that we comply with the applicable environmental laws and regulations, we have implemented internal procedures to prevent and manage pollution. We also conduct regular testing in relation to air, noise and waste water emitted or produced to ensure that our pollution levels are within the allowed levels as stipulated in the relevant PRC laws and regulations.

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

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

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

As at the Latest Practicable Date, we had not been prosecuted, penalised or ordered to pay any penalties for violation of the environmental protection laws, rules and regulations of the PRC and of the jurisdiction where our operations are being carried out during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Our PRC legal advisers have confirmed that Huazhang Technology, our PRC operating subsidiary, has complied with the relevant environment protection laws and rules of the PRC.

LEGAL COMPLIANCE AND LEGAL PROCEEDINGS

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

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

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

PROPERTIES

Owned properties

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

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

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

Leased properties

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

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

Further details of our Group's property interests are set out in the valuation report prepared by Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent valuer, in Appendix III to this document.