You should read the following discussion and analysis of our Group's financial condition and results of operations together with our combined financial information for each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, and the accompanying notes ("Financial Information") included in the accountant's report set out in Appendix I to this document. The Financial Information has been prepared in accordance with HKFRSs, which may differ in material respects from the generally accepted accounting principle in other jurisdiction. Potential [●] should read the whole of the accountant's report set out in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis may contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by our Company in light of our experience and perception of historical trends, current condition and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet the expectations and predictions of our Company depends on a number of factors over which our Company has no control. For additional information, please refer to the section headed "Risk Factors" in this document.

OVERVIEW OF OUR OPERATIONS

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 of products:

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

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

We also provide after-sales services to both customers of our industrial automation systems and sludge treatment products. 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.

We achieved a significant growth in our revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Our revenue increased by approximately 131.6% from approximately HK$99.1 million in the year ended 30 June 2011 to approximately HK$229.5 million in the year ended 30 June 2012, and by approximately 15.9% from HK$103.3 million for the six months ended 31 December 2011 to HK$119.7 million for the six months ended 31 December 2012. Our gross profit increased by approximately 123.7% from approximately HK$28.8 million in the year ended 30 June 2011 to approximately HK$64.3 million in the year ended 30 June 2012, and by approximately 28.4% from HK$26.9 million for the six months ended 31 December 2011 to HK$34.5 million for the six months ended 31 December 2012. The net profit of our Group was approximately HK$0.5 million and HK$19.1 million for the two years ended 30 June 2011 and 2012 respectively, representing an increase of approximately 3,399.3%. For the six months ended 31 December 2012, the net profit of our Group was approximately HK$6.2 million, representing an increase of 8.1% from HK$5.8 million for the six months ended 31 December 2011.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Financial Information has been prepared on a basis in accordance with the principles of the [●] issued by the Hong Kong Institute of Certified Public Accountants. The Financial Information presents the financial position, results and cash flows of the companies now comprising our Group as if the current group structure had been in existence since 1 July 2010, or if established after 1 July 2010, the later of their respective dates of establishment or the dates when they became controlled by the [●]. The net assets of the companies now comprising our Group are combined using the existing book values from the [●]' perspective. The Financial Information has not included the assets, liabilities and results of the entities that were not transferred to our Company pursuant to the Reorganisation on the basis that these entities engaged in businesses dissimilar from that of our Group, have separate management personnel and accounting records and have been financed and operated independently.

Huazhang Electric, the wholly-owned subsidiary of our Company, was incorporated in Hong Kong on 25 March 1993 and has since then adopted 30 June as its financial year end date. At the time of incorporation of our Company, our management considered that it would be more convenient for our Company to follow the same year end date as its wholly-owned subsidiary. As a result, our Company adopted 30 June as its year end date and there was no change since then.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following are some factors that may affect the results of operations and financial conditions of our Group. The following should be read in conjunction with the sections headed "Risk Factors" and "Regulations" in this document.

Level of capital spending by paper-making companies in the PRC

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, a significant portion of our revenue was derived from sales of our industrial automation systems to customers from the paper-making industry in the PRC.The demand for our industrial automation systems depends significantly on the level of installation, replacement and maintenance activities of the paper-making companies in the PRC, which in turn depends on the level of capital spending by such paper-making companies. However, there is no assurance that the fixed asset [●] in relation to purchase of equipment in the paper-making industry in the PRC will continue to grow at the rate as we anticipate or that its growth will be steady in the future. Any decrease in the level of capital spending by the paper-making companies in the PRC may have a direct impact on our results of operations.

Fluctuations in costs of raw materials

Adjusted Cost of Raw Materials was the largest component of our cost of sales, accounting for approximately 86.5%, 92.1% and 89.3% for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively. The prices at which we purchase our raw materials are based on prevailing market prices which are primarily affected by market supply and demand, the conditions of which may fluctuate from time to time. Fluctuations in the prices of raw materials consumed for the production of our industrial automation systems and sludge treatment products may have a direct impact on the results of our operations. Such price fluctuations may be due to various factors beyond our control, including the global economic and market conditions and changes in the PRC government's policies.

Our business is project-based and our products are highly customised. The types of raw materials used in the projects vary depending on the design and complexity of the projects. The major types of raw materials for our production purpose include the inverters, low voltage components and modules. The unit purchase price we paid for the parts and/or components with different specifications within each of the major types of raw materials varied substantially during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 due to the wide variety of different types and specifications of inverters, low voltage components and modules we purchased in accordance with the various project requirements over the period. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, the unit purchase price we paid for inverters ranged from approximately HK$235 to approximately HK$253,000, the unit purchase price we paid for low voltage components ranged from approximately HK$5.2 to approximately HK$214,000, and the unit purchase price we paid for modules ranged from approximately HK$4.4 to approximately HK$62,000. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we did not experience significant fluctuations in the price we paid for the parts and/or components with the same specifications within each of the major types of raw materials used in our production.

The inverters, low voltage components and modules accounted for approximately 37.1%, 21.7% and 19.1% of our Adjusted Cost of Raw Materials for the year ended 30 June 2011 respectively, approximately 38.3%, 30.6% and 11.5% of our Adjusted Cost of Raw Materials for the year ended 30 June 2012 respectively, and approximately 22.3%, 32.2% and 8.0% of our Adjusted Cost of Raw Materials for the six months ended 31 December 2012 respectively.

The table below sets out the volume and average unit costs for the major types of raw materials purchased by our Group during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	For the year ended 30 June					
	2011		**2012**			
	Volume purchased *(units)*	**Average unit cost** *(HK$)*	**Volume purchased** *(units)*	**Average unit cost** *(HK$)*	**Volume purchased percentage change** *(%)*	**Average unit cost percentage change** *(%)*
Inverters	5,010	8,613.8	5,978	8,878.1	19.3%	3.1%
Low voltage components	14,951	1,345.5	16,053	1,386.1	10.0%	2.3%
Modules	11,286	1,388.3	6,807	1,691.6	(39.7)%	21.8%

	For the six months ended 31 December					
	2011		**2012**			
	Volume purchased *(units)*	**Average unit cost** *(HK$)*	**Volume purchased** *(units)*	**Average unit cost** *(HK$)*	**Volume purchased percentage change** *(%)*	**Average unit cost percentage change** *(%)*
Inverters	2,692	9,402.3	2,792	8,465.5	3.7	(10.9)
Low voltage components	9,054	680.9	9,156	1,201.8	1.1	74.8
Modules	4,648	1,608.2	5,488	1,490.5	18.1	(8.2)

The average unit costs for inverters and low voltage components were relatively stable for the years ended 30 June 2011 and 2012. The average unit cost for modules increased by approximately 21.8% from HK$1,388.3 for the year ended 30 June 2011 to HK$1,691.6 for the year ended 30 June 2012. Such increase was a result of the use of more complex modules for the production during the year ended 30 June 2012.

The average unit costs for inverters and modules were relatively stable for the six months ended 31 December 2011 and 2012. However, the average unit cost for low voltage components increased by approximately 76.5% from HK$680.9 for the six months ended 31 December 2011 to HK$1,201.8 for the six months ended 31 December 2012. Such substantial increase in the average unit cost of low voltage components was primarily due to the increase in the total value of low voltage components (which was equal to the unit purchase price of different types and specifications of low voltage components purchased for fulfillment of various project requirements times the number of units of the relevant types and specifications of low voltage components) by approximately 78.5% from approximately HK$6.2 million in the six months ended 31 December 2011 to approximately HK$11.0 million in the six months ended 31 December 2012 while the total quantity of low voltage components (comprising different types and specifications of low voltage components) purchased only slightly increased by approximately 1.1% from 9,054 units in the six months ended 31 December 2011 to 9,156 units in the six months ended 31 December 2012. The increase in the total value of low voltage components purchased in the six months ended 31 December 2012 was mainly due to increase in the proportion of higher-end low voltage components with higher purchase prices in the same period.

The total value of circuit breakers purchased, being one of the types of low voltage components, accounted for over 30% of that of low voltage components purchased for the six months ended 31 December 2011 and 2012. The increase in the total value of circuit breakers purchased increased by approximately 67.7% from approximately HK$2.3 million for the six months ended 31 December 2011 to approximately HK$3.8 million for the six months ended 31 December 2012 while the total quantity of circuit breakers (comprising circuit breakers with different features and specifications) purchased only increased by approximately 7.3% from 5,014 units in the six months ended 31 December 2011 to 5,382 units in the six months ended 31 December 2012. The increase in total value of circuit breakers purchased was mainly due to reduction in the quantity of circuit breakers with lower capacity and lower purchase price purchased in the six months ended 31 December 2012, hence the average unit price of circuit breakers purchased increased by approximately 56.2% from approximately HK$449.3 for the six months ended 31 December 2011 to approximately HK$701.7 for the six months ended 31 December 2012.

As inverters and low voltage components were our major raw materials for our production, any change in the prices of these products would have a significant impact on our business. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, there was no material price fluctuation of raw materials. The table below sets out for demonstration purpose only the hypothetical impact of price fluctuations of these raw materials on our performance for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012, assuming a maximum increase of 10% in our purchase prices of these raw materials during the corresponding period and that we were unable to pass on such increase in costs to our customers:

		Decrease in net profit			
		For the year ended 30 June		**Six months ended 31 December**	
	Increase in the purchase price	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$*	*HK$*
Inverters and low voltage components	10%	3,044,490	8,912,804	3,640,461	3,561,406

We determine the contract price for sales of industrial automation systems and sludge treatment products based on our estimated costs plus a mark-up margin at the time when we submit our proposal to potential customers. In other words, the cost of raw materials required for each project is taken into consideration when determining the contract prices. Given the fixed-price nature of our sales contracts and the fact that the procurement arrangements with our suppliers of raw materials are entered into after signing of the sales contracts, we are generally unable to pass on any increase in the prices of raw materials to our customers. Adjusted Cost of Raw Materials which comprised mainly parts and components used together with change in inventory of finished goods and work in progress and provision for inventories write-down was the largest component of our cost of sales, accounting for approximately 86.5% and 92.1% of our total cost of sales for each of the two years ended 30 June 2011 and 2012 respectively, and 89.9% and 89.3% for the six months ended 31 December 2011, 2012 respectively. Any increase in the prices of raw materials may adversely affect our profitability if we cannot fully pass on such increase to our customers.

Business mix

During the two years ended 30 June 2011 and 2012, the majority of our revenue was generated from the sale of our industrial automation systems and provision of after-sales services, and a small portion of our revenue was derived from the sale of sludge treatment products. For the six months ended 31 December 2012, revenue from the sales of sludge treatment products increased to represent approximately 35.0% of our total revenue, primarily attributable to the significant increase in our sales of sludge treatment products. Our different business segments have historically experienced different gross profit margins. Any change in the gross profit margins of our business segments or business mix of our revenue will affect our results of operations from one year to another.

Difficulty in obtaining financing

Our Group currently obtains financing from one of the four largest banks in the PRC. In the event that our Group's financing needs exceed the financial resources currently available to our Group, our Group may need to obtain additional borrowings from other commercial banks in the PRC. Our Group's ability to obtain bank financing or to access the capital markets for future offerings may be hindered by our Group's financial condition at the time of any such financing or offerings, as well as by adverse market conditions resulting from, among other things, general economic conditions, credit tightening policies, contingencies and uncertainties that are beyond our Group's control. Our Group's failure to obtain the necessary financing could impact our results of operations, financial condition and our ability to pay dividends.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations as included in this document are based on the Financial Information prepared in accordance with the significant accounting policies under note 2 to the accountant's report set out in Appendix I to this document, which are in conformity with the HKFRSs. Accounting methods, assumptions and estimates that underlie the preparation of the Financial Information affect our financial condition and results of operations reported. Such assumptions and estimates are made based on historical experience and various other assumptions that we believe to be reasonable, the results of which form the basis of judgments on our carrying amounts of assets and liabilities and our results. Results may differ under different assumptions or conditions.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our Financial Information. We believe that the following accounting policies involve the most significant accounting judgments and estimates used in the preparation of our Financial Information.

Consolidation and combination

Subsidiaries are all entities over which our Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether our Group controls another entity. Different methods of accounting are used for acquisition of subsidiaries through common control and non-common control business combinations, as described below.

(a) Business combinations under common control

Our Group applies merger accounting to account for the business combinations (including acquisition of subsidiaries) under common control, where all assets and liabilities are recorded at predecessor carrying amounts, as if the existing Group structure had been in existence throughout the two years ended 30 June 2011 and 2012 and the six months ended 31 December

2012 and our Company and its subsidiaries have been combined from the date when they first came under the control of the controlling party, where differences between consideration payable and the net assets value are taken to the merger reserve.

(b) Business combinations under non-common control

Our Group uses the acquisition method of accounting to account for business combinations. Subsidiaries are fully consolidated from the date on which control is transferred to our Group. They are de-consolidated from the date that control ceases. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owner of the acquiree and the equity interests issued by our Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, our Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

Any contingent consideration to be transferred by our Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

If the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interests in the acquiree (collectively the "Sum of Consideration") is more than the fair value of the identifiable net assets acquired, the excess is recorded as goodwill. If the Sum of Consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the combined statement of comprehensive income.

Inter-company transactions, balances and unrealised gains or losses on transactions between companies within our Group are eliminated on combination. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by our Group.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of our Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within our Group.

Our Group's revenue recognition policy is in line with the industry norm. Our Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of our Group's activities as described below. Our Group bases its estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specification of each arrangement.

The followings are the revenue recognition policy adopted by us:

(a) Sales of goods

Our Group manufactures and sells a range of industrial automation systems and sludge treatment products. Pursuant to HKAS 18 – Revenue, revenue from the sales of goods is recognised when the risks and rewards of the goods have been transferred to the customer, which is usually upon (1) delivery of products to the customer; (2) completion of their installation and on-site testing (if required in our sales contract); and (3) the product acceptance by the customers without any further unfulfilled obligation.

(b) Revenue from after-sales service

Our Group is engaged in the provision of after-sales services to the existing industrial automation systems customers and sludge treatment products customers. Revenue from after-sales services is recognised when the services are rendered.

(c) Operating lease rental income

Rental income from operating leases is recognised in the combined statements of comprehensive income on a straight-line basis over the lease term. When our Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Our Group consider the following revenue recognition policies not applicable to ourselves for our sales of industrial automation systems and sludge treatment products:

Our Group has not adopted the percentage of completion method ("POC Method") for revenue recognition. The POC Method is not required for revenue recognition under HKAS unless it falls within the scope of construction contracts as prescribed under HKAS 11 – Construction Contracts or rendering of services as prescribed under paragraph 20 of HKAS 18 – Revenue. The POC Method may or may not be applied for revenue recognition depending on the facts and circumstances of the individual case.

Our Directors are of the view that HKAS 11 is not applicable to our Group. Although the average duration of industrial automation system projects and sludge treatment products projects are both over one year, HKAS 11 does not require a company undertaking projects that last over one year to adopt such accounting standard, unless the said projects meet the definition of construction contracts under HKAS 11.

A construction contract is defined under HKAS 11 as a contract specifically negotiated for construction of an asset or a combination of assets that are closely interrelated in terms of their design, technology and function or their ultimate purpose or use. Though our industrial automation systems and sludge treatment products have some custom-built features based on our customer's requirements, such as level of power output, engine speed, and dimensions for the industrial automation systems, and sludge solid rate and daily production volume for sludge treatment products, the major elements of the products, including the inner-system design, software design, and assembling solution were designed by our Group directly, for which our customers do not have any rights or capability to specifically negotiate. As our customers have limited influence on and do not specifically negotiated the whole production process of our products, the sales agreements with our customers do not meet the above definition of construction contracts, thus HKAS 11 is not applicable to our Group.

Moreover, unlike a typical construction company, the prolonged project duration for our industrial automation systems and sludge treatment projects is mainly due to the long waiting time from delivery of our products and completion of the on-site testing, inspection and acceptance of products of 133 days and 285 days on average for our industrial automation systems and sludge treatment products respectively, as the on-site testing of our customers' entire paper-making machine cannot commence unless installation of all parts and components, including those provided by other suppliers of the customers, is fully completed. Our Group is unable to control the time required by our customers for the installation of other parts and components provided by other suppliers.

Our Directors are also of the view that rendering of service under HKAS 18 is not applicable to our Group. Although our Group is also required to provide guidance and assist our customers in performing on-site installation and testing under the sales contract, these two components are considered as an the integral part of the sales of our products, as our customers only accept our products upon successful completion of on-site installation and testing, which include the proper functioning of our products, meeting the prescribed technical performance indicators, etc. Therefore, providing guidance and assistance to our customers for on-site installation and testing are not regarded as separate service components under the sales of industrial automation systems and sludge treatment products, and thus, the rendering of service under HKAS 18 is also not applicable to our Group.

Given the above, our Directors are of the view that both HKAS 11 and the rendering of service under HKAS 18 are not applicable to our Company, and therefore our Group did not apply the POC method for revenue recognition.

Moreover, we do not net off our sales to against purchases from Huazhang Automation (Zhejiang), a [●] of our Company upon the [●], as we and Huazhang Automation (Zhejiang) are not under a subcontracting relationship. We purchase various parts and components from Huazhang Automation (Zhejiang) and other independent suppliers as raw materials for assembling our products for sales. The purchase contracts entered into between us and our suppliers (including Huazhang Automation (Zhejiang)) are based on our sales orders on hand. Upon delivery of raw materials to us, our Directors consider that the risk and rewards in relation to these raw materials have been transferred to us.

Similar to the design process of the industrial automation systems that were sold to our customers who were Independent Third Party, the industrial automation systems we sold to Huazhang Automation (Zhejiang) were designed by us. As such, our Directors consider that we did not only perform pure assembly services but also other value-added services (such as the design work) when we manufacture the industrial automation systems sold to Huazhang Automation (Zhejiang).

Based on the above, our Directors did not consider that our purchases and sales with Huazhang Automation (Zhejiang) involved any subcontracting relationship. And as our sales and purchases with Huazhang Automation (Zhejiang) were separate transactions during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our Directors consider that it was appropriate not to net off our sales to against purchases from Huazhang Automation (Zhejiang).

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

Property, plant and equipment

Property, plant and equipment include buildings, machineries and furniture, fittings and equipment. All property, plant and equipment are stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the item or its part replaced is derecognised. All other repairs and maintenance are charged to the combined statements of comprehensive income when they are incurred.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– buildings	20 years
– machineries	10 years
– furniture, fittings and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income/(losses)' in the combined statements of comprehensive income.

Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. Our Group acquired the rights to use certain land and the premiums paid for such rights are recorded as land use rights, which are amortised over the use terms of between 34 to 50 years using the straight-line method.

Impairment of financial assets carried at amortised cost

Our Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statements of comprehensive income. As a practical expedient, our Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statements of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the specific-unit-cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the combined balance sheets date in the countries where our Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the combined balance sheets date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on [●] in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions are recognised when our Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

RESULTS OF OPERATIONS

The following table sets out the combined results of our Group for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012, which are derived from, and should be read in conjunction with, the combined financial information set out in the accountant's report set out in Appendix I in this document.

Combined statements of comprehensive income

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Revenue	99,115,212	229,520,229	103,252,990	119,650,158
Cost of sales	(70,354,673)	(165,171,426)	(76,382,302)	(85,136,466)
Gross profit	28,760,539	64,348,803	26,870,688	34,513,692
Distribution costs	(6,424,408)	(12,224,321)	(5,905,752)	(6,884,292)
Administrative expenses	(16,616,931)	(22,123,362)	(10,263,200)	(13,739,971)
Research and development expenses	(5,799,664)	(7,437,497)	(4,595,582)	(5,780,912)
Other income	1,595,800	1,474,156	1,076,399	373,169
Other losses	–	(607)	–	–
Operating profit	1,515,336	24,037,172	7,182,553	8,481,686
Finance income	218,467	414,721	223,356	114,557
Finance costs	(775,937)	(1,580,076)	(482,951)	(594,373)
Finance costs – net	(557,470)	(1,165,355)	(259,595)	(479,816)
Profit before income tax	957,866	22,871,817	6,922,958	8,001,870
Income tax expense	(412,516)	(3,788,448)	(1,145,000)	(1,753,328)
Profit for the year/period, all attributable to the owner of the Company	545,350	19,083,369	5,777,958	6,248,542
Other comprehensive income for the year/period				
Currency translation differences	3,122,283	1,315,342	1,493,915	436,007
Other comprehensive income for the year/period, net of tax	3,122,283	1,315,342	1,493,915	436,007
Total comprehensive income for the year/period, all attributable to the owner of the Company	3,667,633	20,398,711	7,271,873	6,684,549

DESCRIPTION OF THE MAJOR COMPONENTS OF THE STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue by business segment

Our revenue increased by approximately 131.6% from approximately HK$99.1 million for the year ended 30 June 2011 to approximately HK$229.5 million for the year ended 30 June 2012, and by approximately 15.9% from approximately HK$103.3 million for the six months ended 31 December 2011 to approximately HK$119.7 million for the same period in 2012. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our revenue was generated from three business segments, namely, (i) industrial automation systems; (ii) sludge treatment products; and (iii) after-sales services.

The following table sets out our revenue by business segment and the corresponding percentage of our total revenue 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		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Industrial automation systems	84,716,265	85.5	200,760,826	87.5	92,367,906	89.5	69,381,447	58.0
Sludge treatment products	2,362,602	2.4	14,465,470	6.3	5,455,220	5.3	41,839,930	35.0
After-sales services	12,036,345	12.1	14,293,933	6.2	5,429,864	5.2	8,428,781	7.0
	99,115,212	100.0	229,520,229	100.0	103,252,990	100.0	119,650,158	100.0

Industrial automation systems

Majority of our revenue was generated from the sales of our industrial automation systems which accounted for approximately 85.5%, 87.5% and 58.0% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively. Our revenue from sales of industrial automation systems increased by approximately 137.0% from approximately HK$84.7 million in the year ended 30 June 2011 to approximately HK$200.8 million in the year ended 30 June 2012 while our revenue from sales of industrial automation systems decreased by approximately 24.9% from approximately HK$92.4 million in the six months ended 31 December 2011 to approximately HK$69.4 million in the year ended 31 December 2012.

In the six months ended 31 December 2011, our Group had experienced a delay in acceptance of our industrial automation systems in relation to seven of our sales contracts with an aggregate contract value of approximately HK35.6 million which was caused by the delay in construction work of our customers' production facilities. For illustrative purpose, if such delay did not occur, our revenue from sales of industrial automation systems would have been approximately HK$120.3 million in the year ended 30 June 2011 and approximately HK$165.2 million in the year ended 30 June 2012 while our revenue from sales of industrial automation systems would have been approximately HK$56.8 million in the six months ended 31 December 2011.

The following table sets out the breakdown of our revenue from sales of industrial automation systems by customers' base during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June				**Six months ended 31 December**			
	2011		**2012**		**2011**		**2012**	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Paper-making industry	71,298,961	84.2	186,794,890	93.0	83,186,636	90.1	53,850,313	77.6
Other industries *(Note)*	13,417,304	15.8	13,965,936	7.0	9,181,270	9.9	15,531,134	22.4
	84,716,265	100.0	200,760,826	100.0	92,367,906	100.0	69,381,447	100.0

Note: Other industries included electricity and metallurgy.

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we sold our industrial automation systems mainly to customers in the paper-making industry in the PRC. Our revenue from sales of industrial automation systems to such customers accounted for approximately 84.2%, 93.0% and 77.6% of our revenue from sales of industrial automation systems during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

Sludge treatment products

Our revenue from sales of sludge treatment products amounted to approximately HK$2.4 million, HK$14.5 million and HK$41.8 million, representing approximately 2.4%, 6.3% and 35.0% of our total revenue for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

The following table sets out the breakdown of our revenue from sales of sludge treatment products by customers' base during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Paper-making industry	1,885,949	79.8	13,761,865	95.1	5,152,186	94.4	36,447,026	87.1
Other industries *(Note)*	476,653	20.2	703,605	4.9	303,034	5.6	5,392,904	12.9
	2,362,602	100.0	14,465,470	100.0	5,455,220	100.0	41,839,930	100.0

Note: Other industries included environmental protection and chemical engineering.

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our sludge treatment products were mainly sold to customers in the paper-making industry in the PRC. Our revenue from sales of sludge treatment products to such customers accounted for approximately 79.8%, 95.1% and 87.1% of our revenue from sales of sludge treatment products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

After-sales services

Our Group generated revenue from the provision of after-sales services to customers of our industrial automation systems and sludge treatment products. Due to the complexity and sophistication of the application solutions developed for our industrial automation systems and sludge treatment products as well as the requisite associated technical know-how for their repair and maintenance, customers of our industrial automation systems and sludge treatment products usually retain us for provision of our after-sales services, which include on-site engineering and maintenance services and/or the repair and replacement of spare parts and components.

The revenue derived from the provision of our after-sales services amounted to approximately HK$12.0 million, HK$14.3 million and HK$8.4 million for the years ended 30 June 2011 and 2012 and six months ended 31 December 2012, respectively representing approximately 12.1%, 6.2% and 7.0% of our total revenue during the respective period.

We expect that the revenue generated from provision of after-sales services will continue to provide a steady income stream to us as such services are required by our existing customers with the normal wear and tear of our products.

Cost of sales

Our cost of sales mainly comprised Adjusted Cost of Raw Materials, direct labour costs and manufacturing overhead costs such as depreciation and utility charges. The following table sets out the breakdown of the cost of sales of our Group 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		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Raw materials consumed	119,085,458	169.3	147,925,965	89.5	74,929,793	98.1	81,724,525	96.0
Changes in inventories of finished goods and work in progress *(Note)*	(60,030,015)	(85.3)	4,156,680	2.5	(5,269,310)	(6.9)	(4,971,733)	(5.8)
Provision for/(reversal of) inventories write-down	1,790,480	2.5	113,570	0.1	(969,336)	(1.3)	(744,492)	(0.9)
Adjusted Cost of Raw Materials	60,845,923	86.5	152,196,215	92.1	68,691,147	89.9	76,008,300	89.3
Direct labour costs	7,616,713	10.8	9,134,964	5.5	6,021,032	7.9	6,106,201	7.2
Manufacturing overhead costs	1,375,997	2.0	2,262,688	1.4	1,202,884	1.6	2,324,763	2.7
Others	516,040	0.7	1,577,559	1.0	467,239	0.6	697,202	0.8
	70,354,673	100.0	165,171,426	100.0	76,382,302	100.0	85,136,466	100.0

Note: Changes in inventories of finished goods and work in progress also contained raw materials consumed, direct labour costs and manufacturing overhead costs.

The largest component of our cost of sales was Adjusted Cost of Raw Materials, which amounted to approximately HK$60.8 million, HK$152.2 million and HK$76.0 million, representing approximately 86.5%, 92.1% and 89.3% of our cost of sales respectively for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Direct labour costs mainly represented the compensation and benefits offered to our production employees and engineers. Manufacturing overhead costs primarily included depreciation charges relating to our production facilities, electricity and water, and travelling expenses incurred by our engineers and technicians for customer visits to discuss product specifications.

The table below sets out the details of materials in our costs of sales during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* (*unaudited*)	*%*	*HK$*	*%*
Inverters	22,604,246	37.1	58,316,980	38.3	26,412,675	38.5	17,087,426	22.5
Low voltage components	13,213,286	21.7	46,539,533	30.6	16,416,278	23.9	24,811,471	32.6
Modules	11,612,062	19.1	17,516,886	11.5	9,328,428	13.6	6,155,750	8.1
Cabinets	7,245,029	11.9	7,459,820	4.9	4,466,171	6.5	1,275,821	1.7
Copper	2,441,023	4.0	5,857,461	3.8	1,646,432	2.4	2,436,615	3.2
Others	3,730,277	6.1	16,505,535	10.8	10,421,163	15.1	24,241,217	31.9
	60,845,923	100.0	152,196,215	100.0	68,691,147	100.0	76,008,300	100.0

Our major raw materials included inverters and low voltage components which respectively accounted for approximately 37.1% and 21.7% of our Adjusted Cost of Raw Materials for the year ended 30 June 2011, approximately 38.3% and 30.6% of our Adjusted Cost of Raw Materials for the years ended 30 June 2012 and approximately 22.5% and 32.6% of our Adjusted Cost of Raw Materials for the six months ended 31 December 2012. Others represented spare parts and components as well as other materials for production of our industrial automation systems and sludge treatment products.

The low voltage components increased significantly from approximately HK$13.2 million for the year ended 30 June 2011 to approximately HK$46.5 million for the year ended 30 June 2012. Such increase was a result of using larger quantities of instrument meters for two of our projects which were custom-designed, and the significant increase in sales of sludge treatment products in 2012 as low voltage components were one of the raw materials used for the production of our sludge treatment products. The costs of low voltage components increased by 51.1% from approximately HK$16.4 million for the six months ended 31 December 2011 to approximately HK$24.8 million for the six months ended 31 December 2012. The increase was mainly attributable to the application of an integrated system component provided by our suppliers amounting to HK$4.4 million in a project completed during the six months ended 31 December 2012.

Gross profit

The table below sets out our gross profit by business segment during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*	*HK$*	*%*
					(unaudited)			
Industrial automation systems	22,393,532	77.8	54,844,257	85.2	23,381,594	87.0	20,299,577	58.8
Sludge treatment products	594,877	2.1	3,827,940	6.0	1,208,149	4.5	10,890,498	31.6
After-sales services	5,772,130	20.1	5,676,606	8.8	2,280,945	8.5	3,323,617	9.6
	28,760,539	100.0	64,348,803	100.0	26,870,688	100.0	34,513,692	100.0

Our gross profit increased by approximately 123.7% from approximately HK$28.8 million in the year ended 30 June 2011 to approximately HK$64.3 million in the year ended 30 June 2012. This increase was primarily due to the increase in the gross profit generated from the sale of our industrial automation systems by approximately 144.9% from approximately HK$22.4 million in the year ended 30 June 2011 to approximately HK$54.8 million in the year ended 30 June 2012.

For the six months ended 31 December 2012, our gross profit increased by approximately 28.4% from approximately HK$26.9 million for the six months ended 31 December 2011 to approximately HK$34.5 million for the same period in year 2012. Such increase was mainly due to the increase in gross profits generated from sale of sludge treatment products.

Majority of our gross profit was generated from the sales of industrial automation systems and sludge treatment products during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. The gross profit generated from the sales of industrial automation systems and sludge treatment products in aggregate accounted for approximately 79.9%, 91.2% and 90.4% of our total gross profit for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively.

For our industrial automation systems and sludge treatment products, we review their pricing from time to time and determine product prices principally based on the following factors: (i) quantity and costs of required raw materials; (ii) manufacturing costs; (iii) product quality; and (iv) prices of similar products offered by competitors. The prices of our products are adjusted to reflect the market environment of a particular locality in which the products are sold. Nevertheless, it is our policy to maintain a certain level of profit margin for each sales contract after taking into account the above factors. If the profit margin for a contract price is below that of the pre-determined level, prior approval from our management must be obtained before that sales contract can be released to our customers for their consideration. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we priced our industrial automation systems and sludge treatment products based on their estimated cost with a pre-determined profit margin. We did not experience significant fluctuation in the price of the parts and/or components with the same specifications within each of the major types of our raw materials and therefore there was no material difference between our estimated project costs and our actual procurement costs during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Our after-sales service contracts involved (i) provision of engineering and maintenance services together with the supply of spare parts and components; (ii) supply of spare parts and components only and (iii) provision of engineering and maintenance services only to our existing customers for repair and replacement after the expiry of our warranty services. Given that the expertise of our technical personnel is required, we generally charge our customers a higher mark-up for the provision of our after-sales services. On the other hand, a lower mark-up is generally charged for our supply of spare parts and components to our customers.

Distribution costs

Distribution costs mainly comprised staff costs, transportation costs and warranty expenses. The table below sets out the breakdown of our distribution costs during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Staff costs	2,425,286	3,767,869	1,488,681	2,461,903
Transportation costs	1,157,158	2,415,280	1,386,066	1,413,859
Warranty expenses	1,845,897	4,755,445	2,246,435	2,331,773
Travelling expenses	705,087	831,335	458,135	405,331
Others	290,980	454,392	326,435	271,426
	6,424,408	12,224,321	5,905,752	6,884,292

Staff costs mainly represented the basic salary, social welfare contribution and year-end bonus paid to or provided for salespersons. Transportation costs mainly represented the payments to the transportation company for product deliveries. Warranty expenses mainly represented the estimated costs of providing maintenance services as well as the replacement of spare parts and components in connection with our product warranty based on our past experience.

Administrative expenses

Administrative expenses mainly comprised staff costs, office expenses and professional service fees. The table below sets out the breakdown of our administrative expenses during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	HK$	HK$	HK$
			(unaudited)	
Staff costs	8,901,869	11,211,480	5,856,983	5,479,406
Depreciation and amortisation	1,117,694	1,723,226	755,402	1,197,065
Transportation	440,396	593,182	334,198	300,497
Travelling	1,040,400	1,055,973	631,270	367,503
Provision for/(reversal of) doubtful debts	315,487	402,650	(208,230)	(693,390)
Tax charges	391,495	591,535	201,679	143,840
Office expenses	1,221,792	2,363,178	1,450,035	1,210,571
Entertainment	1,506,071	1,370,233	713,761	628,121
Professional service fees	–	2,193,887	–	4,684,905
Others	1,681,727	618,018	528,102	421,453
	16,616,931	22,123,362	10,263,200	13,739,971

Staff costs mainly represented the basic salary, social welfare contribution and year-end bonus paid to or provided for back office personnel and management teams. Office expenses mainly represented the property management fee, management meeting expenses and general administrative expenses. Professional service fees were incurred for advices and services provided by various professional parties in relation to the [●]. We incurred professional service fees of approximately nil, HK$2.2 million and HK$4.7 million in relation to the [●] for the year ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. We expect to incur and charge to administrative expenses further [●] fees of approximately HK$7.8 million for the financial periods after 31 December 2012.

Research and development expenses

Research and development expenses mainly comprised staff costs and materials consumed for product development. Based on our Group's policy, research and development expenses should not be less than 3% of the revenue in each year.

Our research and development activities during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 were carried out for obtaining new knowledge for the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes or systems, which were all related to the research phase, and thus related cost shall be expensed off when incurred.

The table below sets out the breakdown of our research and development expenses during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Staff costs	2,599,753	3,888,637	2,678,477	3,474,501
Materials consumed for product development	1,928,735	808,173	140,054	1,195,265
Depreciation	60,630	75,373	30,379	58,267
Transportation	265,581	458,131	212,403	126,263
Travelling	450,857	748,414	399,883	324,381
Office expenses	118,955	215,489	129,959	120,114
Others	375,153	1,243,280	1,004,427	482,121
	5,799,664	7,437,497	4,595,582	5,780,912

Materials consumed for product development mainly included hardware, and parts and components such as inverters, soft starters and modules for our product development. Staff costs represent the basic salary, social welfare contribution, and other welfare expenses that we have incurred for our product development staff. Other expenses represented expenses such as patent fees and other general expenses.

Other income

Other income mainly comprised government grants and operating lease income. The table below sets out the breakdown of our Group's other income during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Government grants	998,579	960,722	768,521	46,000
Operating lease income	597,221	391,990	307,878	81,177
Others	–	121,444	–	245,992
	1,595,800	1,474,156	1,076,399	373,169

Government grants were received from the local government in Tongxiang for rewarding our effort on product development and innovation and were unconditional. The local government in Tongxiang would assess on a case-by-case basis if a product meets certain criteria, such as economic performance index, profitability, results of research and development, for awarding the government grant.

Operating lease income represents rental income we have earned by leasing out our non-occupied premises to our related parties and Independent Third Parties.

Finance costs and income

Finance costs mainly comprised interest expenses on bank borrowings and net foreign exchange loss, whereas finance income mainly comprises interest income on bank deposits and net foreign exchange gain.

The table below sets out a breakdown of our finance costs and income during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Finance costs				
– Interest expenses on bank borrowings	959,411	1,716,098	627,566	594,373
– Net foreign exchange loss	–	50,584	18,924	–
	959,411	1,766,682	646,490	594,373
Less: amounts capitalised on qualifying assets	(183,474)	(186,606)	(163,539)	–
	775,937	1,580,076	482,951	594,373
Finance income				
– Interest income on bank deposits	(203,660)	(414,721)	(223,356)	(94,942)
– Net foreign exchange gain	(14,807)	–	–	(19,615)
	(218,467)	(414,721)	(223,356)	(114,557)
Net finance costs	557,470	1,165,355	259,595	479,816

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, our net finance costs amounted to approximately HK$0.6 million, HK$1.2 million and HK$0.5 million respectively, representing approximately 0.6%, 0.5% and 0.4% of our total revenue during the respective period.

Income tax

The table below sets out the breakdown of our income tax expense during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Current income tax – EIT	754,550	3,757,802	1,156,937	1,587,901
Deferred income tax	(342,034)	30,646	(11,937)	165,427
Income tax expense	412,516	3,788,448	1,145,000	1,753,328

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, our Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

The statutory income tax rate of Huazhang Electric, our subsidiary registered in Hong Kong, is 16.5%. No Hong Kong profits tax has been provided as we have not derived any taxable profits in Hong Kong.

EIT is provided based on the assessable income of entity within our Group incorporated in the PRC. Pursuant to the Tax Law, the EIT rate is unified at 25% for all types of entities effective from 1 January 2008.

Under the relevant regulations of the Tax Law, entities designated and approved as High and New Technology Enterprises were entitled to enjoy a preferential EIT rate of 15%. Huazhang Technology, our PRC subsidiary, was approved and designated as a High and New Technology Enterprise from year 2008 to 2013. During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, the applicable income tax rate of Huazhang Technology was 15%.

We may also be subject to the PRC withholding income tax. According to the Tax Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiary declares dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company. We did not recognise any deferred tax liabilities for the unremitted earnings of our PRC subsidiary that was earned before 30 June 2012 as we do not plan to declare any dividends in the foreseeable future out of those unremitted earnings and we currently expect to re-invest those unremitted earnings in the PRC permanently.

Our Company intends to declare dividends of 25% of the net profit for each of the financial year starting from the year ending 30 June 2013, subject to the approval of our Board and Shareholders. The remaining 75% of the net profit is intended to be reinvested in the PRC permanently.

OUR RESULTS OF OPERATIONS

Financial year ended 30 June 2012 compared to financial year ended 30 June 2011 and the six months ended 31 December 2012 compared to the six months ended 31 December 2011

Revenue

Our total revenue increased by approximately 131.6% from approximately HK$99.1 million for the year ended 30 June 2011 to approximately HK$229.5 million for the year ended 30 June 2012. The increase was mainly attributable to the significant increase in the revenue from industrial automation systems by approximately 137.0% from approximately HK$84.7 million in the year ended 30 June 2011 to approximately HK$200.8 million in the year ended 30 June 2012.

Our total revenue increased by approximately 15.9% from approximately HK$103.3 million for the six months ended 31 December 2011 to approximately HK$119.7 million for the six months ended 31 December 2012. The increase was mainly attributable to the substantial business growth in the sales of our sludge treatment products for the six months ended 31 December 2012 by approximately HK$36.4 million, which was partially offset by the decrease in revenue from sales of industrial automation systems by approximately HK$23.0 million in the same period.

Revenue generated from sales of our industrial automation systems

The table below sets out the breakdown of revenue generated from sales of different types of our industrial automation systems:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* (*unaudited*)	*%*	*HK$*	*%*
Drive control system	56,797,391	67.0	153,445,265	76.5	72,354,567	78.3	45,931,329	66.2
Distributed control system	18,356,499	21.7	18,559,243	9.2	13,874,473	15.0	12,015,757	17.3
Machine control system	3,270,315	3.9	10,886,429	5.4	5,077,246	5.5	–	–
Motor control centre	3,972,530	4.7	15,424,516	7.7	–	–	11,090,660	16.0
Other *(Note)*	2,319,530	2.7	2,445,373	1.2	1,061,620	1.2	343,701	0.5
	84,716,265	100.0	200,760,826	100.0	92,367,906	100.0	69,381,447	100.0

Note: "Other" refers to industrial automation systems which do not contain our self-developed software, assembled in accordance with customers specifications.

We completed a total of 223, 262 and 126 industrial automation systems contracts for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively. The following table sets out the number and the average value of sale contracts completed for each type of our Group's major industrial automation systems for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				**Six months ended 31 December**			
	2011		**2012**		**2011**		**2012**	
	Number of sale contracts completed	**Average contract value** (*HK$*)	**Number of sale contracts completed**	**Average contract value** (*HK$*)	**Number of sale contracts completed**	**Average contract value** (*HK$*)	**Number of sale contracts completed**	**Average contract value** (*HK$*)
Drive control system	173	328,309	224	685,024	97	745,923	88	521,947
Distributed control system	15	1,223,767	12	1,546,604	8	1,734,309	7	1,716,537
Machine control system	2	1,635,158	5	2,177,286	2	2,538,623	–	–
Motor control centre	3	1,324,177	3	5,141,505	–	–	4	2,772,655

The following table sets out the minimum and maximum value of sales contracts completed for each type of our Group's major industrial automation systems for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	Maximum value *(HK$)*	Minimum value *(HK$)*	Maximum value *(HK$)*	Minimum value *(HK$)*	Maximum value *(HK$)*	Minimum value *(HK$)*	Maximum value *(HK$)*	Minimum value *(HK$)*
Drive control system	4,012,656	53,168	12,352,068	83,039	12,386,064	83,268	5,939,547	76,741
Distributed control system	3,691,644	120,380	6,300,593	124,559	6,317,933	208,169	4,520,363	346,912
Machine control system	3,210,124	60,190	4,442,593	620,717	4,454,820	622,426	–	–
Motor control centre	1,906,012	902,848	14,324,247	207,598	–	–	7,884,355	525,624

The contract value of our sales contracts depends on the scope of services to be provided, the specifications and requirements of the customers as well as the complexity of the project.

Our revenue from sales of industrial automation systems increased by approximately 137.0% from approximately HK$84.7 million in the year ended 30 June 2011 to approximately HK$200.8 million in the year ended 30 June 2012. The increase was mainly attributable to (i) the increase in turnover derived from sales of drive control systems by approximately HK$96.6 million or approximately 170.2%, from approximately HK$56.8 million in the year ended 30 June 2011 to approximately HK$153.4 million in the year ended 30 June 2012 caused by delay in acceptance of our industrial automation systems for seven of our contracts with an aggregate contract value of approximately HK$35.6 million to the year ended 30 June 2012 as the construction work of our customers' production facilities was delayed; (ii) increased sales volume of our industrial automation systems; and (iii) obtaining sales contracts with larger value. We sold more industrial automation systems with higher value due to improvements in the efforts of our sales force to solicit business from existing customers and the increase in capacity of our customers' paper-making machines. We have also rewarded our sales personnel with better incentives such as more year-end bonus. These incentives were determined based on the value of the sales contracts concluded during the relevant financial year. The amount of incentives to our sales personnel amounted to approximately HK$1.3 million and HK$1.8 million for each of the two years ended 30 June 2011 and 2012, and such increase in incentives of approximately 40.9% was in line with the growth in the total value of sales contracts by approximately 27.0% from approximately HK$201.5 million in the year ended 30 June 2011 to approximately HK$256.0 million in the year ended 30 June 2012.

Our revenue from sales of industrial automation systems decreased by approximately 24.9% from approximately HK$92.4 million in the six months ended 31 December 2011 to approximately HK$69.4 million in the six months ended 31 December 2012. The revenue recorded in the six months ended 31 December 2011 was relatively high primarily because of the delay in acceptance of our industrial automation systems in relation to seven of our sales contracts with an aggregate contract value of approximately HK35.6 million to the six months ended 31 December 2011, which was caused by the delay in construction work of our customers' production facilities. For illustrative purpose, our revenue generated from sales of our industrial automation systems for the six months ended 31 December 2011 would have been approximately HK$56.8 million if such delay did not occur; and the revenue amount of approximately HK$69.4 million generated from the sales of our industrial automation systems for the six months ended 31 December 2012 would have represented an increase of approximately 22.2% when compared to the revenue generated from sales of our industrial automation systems for the six months ended 31 December 2011 if the above delay did not occur.

Drive control system

Drive control system is a core system which is required by all paper-making machines, without which the paper-making machines would not be able to function. Most of our customers for our industrial automation systems require this system when they place orders and as such, sales of our drive control system accounted for majority of our sales of industrial automation systems during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Our revenue from the sales of the drive control system increased by approximately 170.2% from approximately HK$56.8 million in the year ended 30 June 2011 to approximately HK$153.4 million in the year ended 30 June 2012. The increase in revenue from the sales of the drive control system was primarily attributable to the increased number of sales contract completed and higher average contract price for our drive control system. The number of completed sales contracts for our drive control system increased by approximately 28.3% from 173 for the year ended 30 June 2011 to 222 for the year ended 30 June 2012. Meanwhile, the average value of the sales contract increased significantly from approximately HK$0.33 million per contract for the year ended 30 June 2011 to approximately HK$0.69 million per contract for the year ended 30 June 2012 due to increase in the scope of the service as well as the complexity of our completed projects. We completed six projects each with a contract value of over HK$5 million and the aggregate contract value amounted to approximately HK$59.8 million for the year ended 30 June 2012. However, there were no completed projects with contract value over HK$5 million in the year ended 30 June 2011.

Our revenue from the sales of the drive control system decreased by approximately 36.5% from approximately HK$72.4 million for the six months ended 31 December 2011 to approximately HK$45.9 million for the six months ended 31 December 2012. The number of completed sales contracts for our drive control system decreased by approximately 9.3% from 97 for the six months ended 31 December 2011 to 88 for the six months ended 31 December 2012. Meanwhile, the average value of sales contract decreased from approximately HK$0.75 million for the six months ended 31 December 2011 to approximately HK$0.52 million for the six months ended 31 December 2012, representing a decrease of 30.0% primarily due to the relatively high average contract value for the six months ended 31 December 2011 driven up by seven contracts with an aggregated value of approximately HK$35.6 million of which the systems acceptance were delayed to the same period.

Distributed control system

Distributed control system is an optional system which is not required by all paper-making machines. We usually receive purchase orders for this type of system only from customers which operate large-scale paper machines.

Our revenue from the sales of distributed control system was approximately HK$18.4 million in the year ended 30 June 2011 and approximately HK$18.6 million in the year ended 30 June 2012, representing an increase of approximately 1.1%. Such increase was mainly attributable to the increase in the average value of contracts for our distributed control system from approximately HK$1.2 million for the year ended 30 June 2011 to approximately HK$1.5 million for the year ended 30 June 2012, which was partially offset by the effect of the decrease in the number of the relevant contracts completed from 15 for the year ended 30 June 2011 to 12 for the year ended 30 June 2012.

Our revenue from the sales of distributed control system decreased by approximately 13.4% from approximately HK$13.9 million in the six months ended 31 December 2011 to approximately HK$12.0 million in the six months ended 31 December 2012. Such decrease was mainly attributable to our completion of a project with a contract value amounting to approximately HK$6.3 million in the six months ended 31 December 2011 but there were no completed projects with contract value over HK$5 million in the six months ended 31 December 2012.

Machine control system

Our revenue from the sales of machine control system was approximately HK$3.3 million in the year ended 30 June 2011 and approximately HK$10.9 million in the year ended 30 June 2012, representing an increase of approximately 232.9%. Such increase was mainly attributable to the increase in the average value of contracts for our machine control system from HK$1.6 million for the year ended 30 June 2011 to HK$2.2 million for the year ended 30 June 2012 as a result of the completion of more complicated projects. Meanwhile, the number of the relevant contracts completed increased from two for the year ended 30 June 2011 to five for the year ended 30 June 2012.

Our revenue from the sales of machine control system was approximately HK$5.1 million and Nil for the six months ended 31 December 2011 and 2012 respectively. No project for the sales of machine control system was completed in the six months ended 31 December 2012.

Motor control centre

Our revenue from the sales of motor control centre was approximately HK$4.0 million in the year ended 30 June 2011 and approximately HK$15.4 million in the year ended 30 June 2012, representing an increase of approximately 288.3%. Such increase was mainly attributable to the increase in the average contract value of our motor control centre from approximately HK$1.3 million for the year ended 30 June 2011 to approximately HK$5.1 million for the year ended 30 June 2012, which was primarily a result of completion of a motor control centre project amounting to HK$14.3 million for a paper factory with an annual production capacity of 300,000 tons. The number of contracts completed for each of the two years ended 30 June 2011 and 2012 remained unchanged.

Our revenue from the sales of motor control centre was approximately HK$11.1 million for the six months ended 31 December 2012. We did not complete any projects of motor control centre for the six months ended 31 December 2011.

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 compound annual growth rate of approximately 7.8% from 2007 to 2011. Our Directors are of the view that the track record results for industrial automation systems are sustainable, given the development of the industrial automation systems is closely linked to the growth of the PRC's paper-making industry, which has achieved rapid growth consistent with the PRC's GDP growth over the past five years, and we had sales orders on hand with an aggregate contract value of approximately HK$143.4 million for our industrial automation systems as at 31 December 2012.

Revenue generated from sales of our sludge treatment products

The table below sets out the breakdown of revenue by type of our sludge treatment products:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$* *(unaudited)*	*%*	*HK$*	*%*
Filter press	476,653	20.2	6,576,754	45.5	1,916,345	35.1	18,102,766	43.3
Steel-belt filter press	1,885,949	79.8	7,888,716	54.5	3,538,875	64.9	23,737,164	56.7
	2,362,602	100.0	14,465,470	100.0	5,455,220	100.0	41,839,930	100.0

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we completed a total of 56 sludge treatment contracts. The following table sets out the number and the average value of sales contracts completed for each type of our Group's sludge treatment products for the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	Number of sale contracts completed	**Average contract value** *(HK$)*	**Number of sale contracts completed**	**Average contract value** *(HK$)*	**Number of sale contracts completed**	**Average contract value** *(HK$)*	**Number of sale contracts completed**	**Average contract value** *(HK$)*
Filter press	4	119,163	17	386,868	7	273,764	28	646,527
Steel-belt filter press	1	1,885,949	2	3,944,358	1	3,538,875	4	5,934,291

The following table sets out the minimum and maximum value of sales contracts completed for each type of our Group's sludge treatment products for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	Maximum value (HK$)	Minimum value (HK$)	Maximum value (HK$)	Minimum value (HK$)	Maximum value (HK$)	Minimum value (HK$)	Maximum value (HK$)	Minimum value (HK$)
Filter press	207,655	7,629	4,234,994	50,342	1,613,311	50,481	6,622,858	9,829
Steel-belt filter press	1,885,949	–	4,359,553	3,529,161	3,538,875	–	10,491,448	2,207,619

The contract value of our sales contracts depends on the scope of services to be provided, the specifications and requirements of the customers as well as the complexity of the project. The value of sales contracts for our sludge treatment products completed by us increased over the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 which led to higher average contract value of the completed sales contracts over the same period.

Our revenue increased by more than five times from approximately HK$2.4 million for the year ended 30 June 2011 to approximately HK$14.5 million for the year ended 30 June 2012. The increase in revenue from sludge treatment products was mainly due to the fact that we received our first order for our sludge treatment products in March 2010 and first recognised revenue from sales of sludge treatment products in December 2010 after spending several years developing our sludge treatment products. Our first order was an one-off "demo" product without on-site testing and inspection requirement agreed by our customer at the time of sales and was delivered to the customer in June 2010 for adjustment. Upon completion of adjustments of the product, the sales in respect of this sales order was recognised in December 2010. Through product demonstrations to our potential customers in addition to the marketing and promotional activities conducted by our salespersons, we have managed to secure several sales orders which were subsequently delivered to our customers in the year ended 30 June 2012.

Our revenue from sales of sludge treatment products increased by more than six times from approximately HK$5.5 million for the six months ended 31 December 2011 to approximately HK$41.8 million for the six months ended 31 December 2012. During the six months ended 31 December 2012, we continued to enjoy a substantial growth in our sludge treatment business mainly because of the effort of our marketing staff and research and development results that led to an increase in the sales contracts obtained, and the completion of more contracts with larger values in the six months ended 31 December 2012 as compared with that in the six months ended 31 December 2011.

Revenue generated from provision of our after-sales services

Revenue from the provision of after-sales services increased by approximately 18.8% from approximately HK$12.0 million for the year ended 30 June 2011 to approximately HK$14.3 million for the year ended 30 June 2012. The increase was mainly due to the increase in demand for our after-sales services, as the warranty period for more of our industrial automation systems previously supplied by us expired in the year ended 30 June 2012. The number of industrial automation contracts with warranty period expired during the two years ended 30 June 2011 and 2012 was 38 and 40 respectively.

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, all of our revenue from the provision of after-sales services was derived from customers of our industrial systems. Revenue from the provision of after-sales services increased by approximately 55.2% from approximately HK$5.4 million for the six months ended 31 December 2011 to approximately HK$8.4 million for the same period in 2012. Such increase was mainly attributable to the increase in demand for our after-sales services as there was an increase in the number of expired warranties of our sales contracts completed in previous year. The number of after-sales service contracts completed by us increased from 90 for the six months ended 31 December 2011 to 142 for the six months ended 31 December 2012.

Cost of sales

The increase in cost of sales by approximately 134.8% from approximately HK$70.4 million for the year ended 30 June 2011 to approximately HK$165.2 million for the year ended 30 June 2012 was primarily due to the increase in the Adjusted Cost of Raw Materials, which accounted for approximately 86.5% and 92.1% of the total cost of sales for the two years ended 30 June 2011 and 2012 respectively. The increase in the Adjusted Cost of Raw Materials from approximately HK$60.8 million in the year ended 30 June 2011 by approximately 150.1% to approximately HK$152.2 million in the year ended 30 June 2012 was mainly due to the increased volume of raw materials purchased and used for in the production of our industrial automation systems and sludge treatment products, which was in turn driven by the the increase in number and size of sales orders secured.

Direct labour costs accounted for approximately 10.8% and 5.5% of our cost of sales during the two years ended 30 June 2011 and 2012 respectively. Direct labour costs increased by approximately 19.9% from approximately HK$7.6 million for the year ended 30 June 2011 to approximately HK$9.1 million for the year ended 30 June 2012. The increase in our direct labour costs was mainly due to the addition of labour for production of sludge treatment product in the second half of the year ended 30 June 2012 and the increase in the number of engineers hired to cope with the increase in our orders received. On average, our engineer headcount increased from 33 for the year ended 30 June 2011 to 37 for the year ended 30 June 2012.

Manufacturing overhead costs accounted for approximately 2.0% and 1.4% of our cost of sales during the two years ended 30 June 2011 and 2012 respectively. Manufacturing overhead costs increased by approximately 64.4% from approximately HK$1.4 million for the year ended 30 June 2011 to approximately HK$2.3 million for the year ended 30 June 2012. The increase in our manufacturing overhead costs was primarily due to (i) increase in depreciation attributable to our expansion of production facilities to cope with increased sales orders from customers by approximately HK$0.4 million; (ii) increase in utilities charges by approximately HK$0.2 million; and (iii) increase in travelling expenses by our engineers visiting our customers for manufacturing purposes by approximately HK$0.2 million.

The cost of sales increased from approximately HK$76.4 million for the six months ended 31 December 2011 to approximately HK$85.1 million for the six months ended 31 December 2012, representing an increase of approximately 11.5%. Such increase was attributable to increase in the Adjusted Cost of Raw Materials, which accounted for approximately 89.9% and 89.3% of the total cost of sales for the six months ended 31 December 2011 and 2012 respectively. The increase in the Adjusted Cost of Raw Materials from approximately HK$68.7 million in the six months ended 31 December 2011 by approximately 10.7% to approximately HK$76.0 million in the six months ended 31 December 2012 was mainly due to the increased volume of raw materials purchased and used for in the production of our sludge treatment products, which was in turn driven by the increase in number and size of sales orders secured.

Direct labour costs accounted for approximately 7.9% and 7.2% of our cost of sales during the six months ended 31 December 2011 and 2012. Direct labour costs remained stable at approximately HK$6.0 million and HK$6.1 million for the six months ended 31 December 2011 and 2012 respectively.

Manufacturing overhead costs accounted for approximately 1.6% and 2.7% of our cost of sales for the six months ended 31 December 2011 and 2012 respectively. Manufacturing overhead costs increased by approximately 93.3% from approximately HK$1.2 million for the six months ended 31 December 2011 to approximately HK$2.3 million for the six months ended 31 December 2012. The increase in our manufacturing overhead costs was primarily due to (i) increase in depreciation attributable to our addition of machineries to cope with increased sales orders from customers by approximately HK$0.2 million; (ii) increase in utilities charges by approximately HK$0.1 million; and (iii) increase in travelling expenses by our engineers visiting our customers for manufacturing purposes by approximately HK$0.5 million.

The following table sets out our cost of sales by business segments and as a percentage of our total cost of sales during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	Year ended 30 June				Six months ended 31 December			
	2011		2012		2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*	*HK$*	*%*
					(unaudited)			
Industrial automation systems	62,322,733	88.6	145,916,569	88.3	68,986,312	90.3	49,081,870	57.7
Sludge treatment products	1,767,725	2.5	10,637,530	6.5	4,247,071	5.6	30,949,432	36.3
After-sales services	6,264,215	8.9	8,617,327	5.2	3,148,919	4.1	5,105,164	6.0
	70,354,673	100.0	165,171,426	100.0	76,382,302	100.0	85,136,466	100.0

The cost of sales in respect of our industrial automation systems increased by approximately 134.1% from approximately HK$62.3 million in the year ended 30 June 2011 to approximately HK$145.9 million. The cost of sales in respect of sludge treatment products increased by approximately 501.8% from approximately HK$1.8 million for the year ended 30 June 2011 to approximately HK$10.6 million for the year ended 30 June 2012. The cost of sales for after-sales services increased by approximately 37.6% from approximately HK$6.3 million for the year ended 30 June 2011 to approximately HK$8.6 million for the year ended 30 June 2012.

The cost of sales in respect of our industrial automation systems decreased by approximately 28.9% from approximately HK$69.0 million for the six months ended 31 December 2011 to approximately HK$49.1 million for the same period in 2012. For the cost of sales in respect of sludge treatment products, there was an increase of approximately 628.7% from approximately HK$4.2 million for the six months ended 31 December 2011 to approximately HK$30.9 million for the six months ended 31 December 2012. Cost of sales for after-sales services increased by approximately 62.1% from approximately HK$3.1 million for the six months ended 31 December 2011 to approximately HK$5.1 million for the six months ended 31 December 2012.

Gross profit

The table below sets out our gross profit margin by business segments during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

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

Year ended 30 June 2012 compared to year ended 30 June 2011

Our gross profit increased by approximately 123.7% from approximately HK$28.8 million in the year ended 30 June 2011 to approximately HK$64.3 million in the year ended 30 June 2012. This increase was primarily due to the increase in the gross profit generated from the sale of our industrial automation systems by approximately 144.9% from approximately HK$22.4 million in the year ended 30 June 2011 to approximately HK$54.8 million in the year ended 30 June 2012. Our overall gross profit margin decreased slightly from approximately 29.0% for the year ended 30 June 2011 to approximately 28.0% for the year ended 30 June 2012. This was primarily due to the substantial decrease in gross profit margin in our provision of after-sales services from approximately 48.0% for the year ended 30 June 2011 to approximately 39.7% for the year ended 30 June 2012.

The gross profit margin for sales of our industrial automation systems slightly increased from approximately 26.4% for the year ended 30 June 2011 to approximately 27.3% for the year ended 30 June 2012. Such slight increase was mainly attributable to the decrease in the proportion of sales generated from the supply of our industrial automation systems to a customer in the electricity industry in the PRC in the year ended 30 June 2012 as compared to the year ended 30 June 2011. Our sales to such customer as a percentage of the total sales of our industrial automation systems decreased from approximately 4.7% in the year ended 30 June 2011 to approximately 1.2% in the year ended 30 June 2012. We derived a lower gross profit margin from these sales than our sales to customers in the paper-making industry in the PRC because the industrial automation system market for the electricity industry in the PRC was relatively new to our Group. The gross profit margin for sales of our industrial automation systems, if our sales to this customer in the electricity industry in the PRC were excluded from our total revenue generated from sales of our industrial automation systems, would have been relatively stable and maintained at approximately 27.5% and 27.6% for the years ended 30 June 2011 and 2012 respectively. This was primarily because there was no significant fluctuation in the price of the parts and/or components with the same specifications within each of the major types of our raw materials purchased during the two years ended 30 June 2012.

The gross profit margin for sales of our sludge treatment products slightly increased from approximately 25.2% for the year ended 30 June 2011 to 26.5% for the year ended 30 June 2012 as our sludge treatment business only started in March 2010 when we received our first sales order for such business and we first recognised revenue from our sales of sludge treatment products in December 2010. In order to attract more customers for our sludge treatment products, we charged a lower price for this sales order. Such lower margin sales order has resulted in lower profit margin of our sludge treatment products in the year ended 30 June 2011 than that in the year ended 30 June 2012.

The gross profit margin for provision of after-sales services decreased from approximately 48.0% in the year ended 30 June 2011 to approximately 39.7% in the year ended 30 June 2012. Our after-sales service contracts involved: (i) provision of engineering and maintenance services together with the supply of spare parts and components; (ii) the supply of spare parts and components only; and (iii) provision of engineering and maintenance services only to our existing customers for repair and replacement after the expiry of our warranty services. Given that the expertise of our technical personnel is required, we generally charge our customers a higher mark-up for the provision of our after-sales services. On the other hand, a lower mark-up is generally charged for our supply of spare parts and components to our customers. The revenue attributable to (i) the provision of engineering and maintenance services together with the supply of spare parts and components, (ii) the supply of spare parts and components only and (iii) the provision of engineering and maintenance services only accounted for approximately 71.5%, 21.9% and 6.6% respectively in the year ended 30 June 2011, and approximately 77.6%, 20.6% and 1.8% respectively in the year ended 30 June 2012 of the total revenue from provision of after-sales services. The corresponding gross profit margin for the abovementioned sub-segments was approximately 55.4%, 10.9% and 89.7% respectively in the year ended 30 June 2011, and 45.4%, 13.3% and 98.8% respectively in the year ended 30 June 2012.

The decrease in the gross profit margin for provision of after-sales services was primarily due to (i) the decrease in gross profit margin for the provision of engineering and maintenance services together with the supply of spare parts and components, which was mainly attributable to lowering of contract prices as part of our effort to maintain a long-term relationship with and retain our existing customers, as well as (ii) the decrease in proportion of revenue attributable to the provision of engineering and maintenance services to the revenue from provision of after-sales services in the year ended 30 June 2012.

Six months ended 31 December 2012 compared to six months ended 31 December 2011

For the six months ended 31 December 2012, our gross profit increased by approximately 28.4% from approximately HK$26.9 million for the six months ended 31 December 2011 to approximately HK$34.5 million for the same period in year 2012. Such increase was due to an increase in gross profits generated from sale of sludge treatment products.

Our overall gross profit margin increased from approximately 26.0% for the six months ended 31 December 2011 to approximately 28.8% for the six months ended 31 December 2012. Such increase was a result of the increase in gross profit margin for sales of industrial automation systems and sludge treatment products from approximately 25.3% and 22.1% respectively for the six months ended 31 December 2011 to approximately 29.3% and 26.0% respectively for the six months ended 31 December 2012.

The gross profit margin for sales of industrial automation systems in the six months ended 31 December 2011 was relatively lower mainly due to the completion of three industrial automation system projects with lower profit margins and an aggregate amount of approximately HK$9.9 million, representing approximately 10.7% of the revenue from sales of industrial automation system in that year. The three projects had an average profit margin of approximately 10.4% which was significantly lower than the normal level. Such projects were used for exploring industrial automation system market in the electricity industry as well as providing value-added on-site services to our customers. The gross profit margin in relation to our sludge treatment product segment for the six months ended 31 December 2011 was lower than its gross profit margin for the six months ended 31 December 2012 primarily due to the completion of our major sludge treatment project with a relatively low gross profit margin of about 22% during the six months ended 31 December 2011 which accounted for approximately 94.4% of our sales of sludge treatment products during the same period. As this major sludge treatment project was one of the relatively new sludge treatment projects obtained by our Group, some improvements and adjustments to certain parts and components of the sludge treatment products of this project were made subsequent to product delivery by our engineers as part of our product quality enhancement effort and were not specified in the relevant sales contracts. As such, the costs of sales incurred by our Group were higher than those originally anticipated, hence resulting in a lower gross margin for this project.

The gross profit margin for provision of after-sales services decreased from approximately 42.0% for the six months ended 31 December 2011 to approximately 39.4% for the six months ended 31 December 2012. Such decrease was a result of increase in the proportion of revenue from sole supply of spare parts and components which had a lower gross profit margin. The proportion of income from sole supply of spare parts and components to total income from provision of after-sales services increased from approximately 16.6% for the six months ended 31 December 2011 to approximately 26.4% for the six months ended 31 December 2012 while the gross profit margin for this sub-segment maintained stable at approximately 19.5% and 18.7% for the six months ended 31 December 2011 and 2012 respectively.

Distribution costs

Our distribution costs increased by approximately 90.3% from approximately HK$6.4 million for the year ended 30 June 2011 to approximately HK$12.2 million for the year ended 30 June 2012. The increase in distribution costs was mainly due to (i) increase in staff costs by approximately HK$1.3 million, which was primarily due to the increase in our average number of salesperson from 10 to 15 for the promotion of our sludge treatment products; and (ii) increase in warranty expenses by approximately HK$3.0 million which was mainly attributable to our increase in number of projects completed within the warranty period.

Our distribution costs increased by about 16.6% from approximately HK$5.9 million for the six months ended 31 December 2011 to approximately HK$6.9 million for the six months ended 31 December 2012. The increase in distribution costs was mainly due to increase in staff costs by approximately HK$1.0 million, which was primarily due to increase in headcounts for promotion of our sludge treatment products.

Administrative expenses

Our administrative expenses increased by approximately 33.1% from approximately HK$16.6 million for the year ended 30 June 2011 to approximately HK$22.1 million for the year ended 30 June 2012. The increase in administrative expenses was mainly due to (i) increase in staff costs by approximately HK$2.3 million due to an increment in the basic salary of our back office personnel and management staff by an average of approximately 11%; and (ii) our professional service fees of approximately HK$2.2 million incurred for services provided by various professional parties in connection with the [●].

Our administrative expenses increased by approximately 33.9% from approximately HK$10.3 million for the six months ended 31 December 2011 to approximately HK$13.7 million for the six months ended 31 December 2012. Such increase was mainly due to [●] in the six months ended 31 December 2012. There was no such expense in the six months ended 31 December 2011.

Research and development expenses

Our research and development expenses increased by approximately 28.2% from approximately HK$5.8 million in the year ended 30 June 2011 to approximately HK$7.4 million in the year ended 30 June 2012. The increase in research and development expenses was mainly due to the increase in staff costs by approximately HK$1.3 million as a result of the increase in our average headcount of technical personnel from 24 in the year ended 30 June 2011 to 32 in the year ended 30 June 2012. The amount of materials consumed for product development of approximately HK$1.9 million for the year ended 30 June 2011 was much higher as compared to that of approximately HK$0.8 million incurred for the year ended 30 June 2012. This was mainly due to an one-off sludge treatment product development project which consumed materials of approximately HK$0.7 million during the year ended 30 June 2011 and the decreasing consumption of materials required for developing and enhancing our sludge treatment products as they become more mature.

For the six months ended 31 December 2012, our research and development expenses were approximately HK$5.8 million, representing an increase of 25.8% from the same period in 2011. Such increase was mainly attributable to the increase in raw materials and technical personnel that we have allocated for two research projects commenced during the six months ended 31 December 2012. We consumed raw materials for parts and component development projects amounting to approximately HK$0.1 million and HK$1.2 million for the six months ended 31 December 2011 and 2012 respectively. We also incurred staff costs of approximately HK$2.7 million and HK$3.5 million for the six months ended 31 December 2011 and 2012 respectively. These two projects were undertaken for the development of parts and components used by our industrial automation products which will improve their efficiency as well as cost effectiveness.

Other income

Our other income decreased by approximately 7.6% from approximately HK$1.6 million for the year ended 30 June 2011 to approximately HK$1.5 million for the year ended 30 June 2012. The decrease in other income was mainly due to a decrease in operating lease income from approximately HK$0.6 million in the year ended 30 June 2011 to approximately HK$0.4 million in the year ended 30 June 2012. This was because a lease agreement expired in the year ended 30 June 2012 and the tenants did not renew the lease.

Our other income decreased by approximately 65.3% from approximately HK$1.1 million for the six months ended 31 December 2011 to approximately HK$0.4 million for the six months ended 31 December 2012. Such decrease in other income was mainly due to the significant decrease in government grant and operating lease income.

Finance costs and income

Our Group had a net finance cost of approximately HK$0.6 million and HK$1.2 million for the two years ended 30 June 2011 and 2012 respectively. This was due to an increase in finance costs from approximately HK$0.8 million for the year ended 30 June 2011 to approximately HK$1.6 million for the year ended 30 June 2012, which was mainly attributable to the increase in bank borrowings.

Our net finance costs increased approximately 84.8% from approximately HK$0.3 million for the six months ended 31 December 2011 to approximately HK$0.5 million for the six months ended 31 December 2012. The lower level of net finance costs in the six months ended 31 December 2011 was mainly attributable to the interest capitalised for the construction work of our production plant amounting to approximately HK$0.2 million for the six months ended 31 December 2011. Such construction work was completed in May 2012 and there was no such capitalisation for the six months ended 31 December 2012.

Income tax expense

Income tax expense of our Group increased by approximately 818.4% from approximately HK$0.4 million for the year ended 30 June 2011 to approximately HK$3.8 million for the year ended 30 June 2012. The increase in income tax expenses of our Group was primarily due to the increase in taxable profits earned during the year ended 30 June 2012.

Income tax expense of our Group increased by approximately 53.1% from approximately HK$1.1 million for the six months ended 31 December 2011 to approximately HK$1.8 million for the six months ended 31 December 2012, primarily attributable to the increase in taxable profits earned during the six months ended 31 December 2012.

Our tax charges during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 can be reconciled to the profit before income tax per combined statements of comprehensive income as follows:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(unaudited)*	*HK$*
Profit before income tax	957,866	22,871,817	6,922,958	8,001,870
Tax calculated at tax rate applicable to profits in the respective jurisdiction	241,629	5,832,643	1,731,782	2,280,318
Tax effect of:				
Effect of preferential tax rate	(275,011)	(2,525,632)	(763,333)	(1,168,886)
Expenses not deductible for tax purposes	441,700	258,806	174,527	98,657
Tax losses for which no deferred income tax assets was recognised	4,198	222,631	2,024	543,239
Tax charges	412,516	3,788,448	1,145,000	1,753,328
Effective tax rates	43.1%	16.6%	16.5%	21.9%

Our effective tax rate for the year ended 30 June 2011 of approximately 43.1% was mainly due to the expenses not deductible for tax purposes comprising mainly undeductible entertainment expenses incurred by our PRC subsidiary where the spending exceeded the ceiling allowed by the Tax Law.

Our effective tax rate for the six months ended 31 December 2012 was approximately 21.9% which was higher than the applicable income tax rate of 15% for Huazhang Technology, the major operation subsidiary of our Company. It was because Huazhang Electric, the [●] holding company in Hong Kong had tax losses of approximately HK$3.3 million for which no deferred income tax assets was recognised. The impact of such tax losses on the reconciliation of tax charge was approximately HK$0.5 million. Should these tax losses be excluded from the calculation of effective tax rates, the effective tax rate would be approximately 15.1% and was almost the same as the income tax rate of 15% applicable to Huazhang Technology.

Net profit

Our net profit increased by approximately 3,399.3% from approximately HK$0.5 million for the year ended 30 June 2011 to approximately HK$19.1 million for the year ended 30 June 2012. Net profit margin for our Group increased from approximately 0.6% for the year ended 30 June 2011 to approximately 8.3% for the year ended 30 June 2012. The increase in net profit margin for our Group was mainly due to the significant increase in our gross profit by approximately 123.7% which resulted from the increase in our revenue, as well as our control over our distribution costs, administrative expenses as well as research and development expenses which in aggregate only increased by approximately 44.9% during the same financial year.

Our net profit increased by approximately 8.1% from approximately HK$5.8 million for the six months ended 31 December 2011 to approximately HK$6.2 million for the six months ended 31 December 2012. Net profit margin for our Group decreased from approximately 5.6% for the six months ended 31 December 2011 to approximately 5.2% for the six months ended 31 December 2012. Such decrease was mainly due to increase in income tax expenses which accounted for approximately 1.1% and 1.5% of total revenue for the six months ended 31 December 2011 and 2012 respectively.

Total comprehensive income

Total comprehensive income attributable to the owner of our Company increased by approximately 456.2% from approximately HK$3.7 million for the year ended 30 June 2011 to approximately HK$20.4 million for the year ended 30 June 2012. The increase in our Group's total comprehensive income was primarily due to the significant increase in our net profit for the year ended 30 June 2012.

Total comprehensive income attributable to the owner of our Company decreased by approximately 8.1% from HK$7.3 million for the six months ended 31 December 2011 to HK$6.7 million for the six months ended 31 December 2012. The decrease in our Group's total comprehensive income was primarily due to the significant decrease in currency translation differences by approximately HK$1.0 million, which was offset by the increase of our profit attributable to the owner of our company by approximately HK$0.5 million.

Segment results

Our segment results increased by approximately 221.0% from approximately HK$11.7 million for the year ended 30 June 2011 to approximately HK$37.7 million for the year ended 30 June 2012. The increase was primarily due to the significant growth of results from the industrial automation systems segment during the same period.

Our results from the industrial automation systems segment increased significantly by approximately 190.7% from approximately HK$13.6 million for the year ended 30 June 2011 to approximately HK$39.6 million for the year ended 30 June 2012, primarily attributable to the increase in gross profit for the sales of industrial automation systems during the same period.

Our results from the sludge treatment products segment improved from a loss of approximately HK$7.3 million for the year ended 30 June 2011 to approximately HK$7.2 million for the year ended 30 June 2012. The sales of sludge treatment products generated gross profit of approximately HK$0.6 million and HK$3.8 million for the two years ended 30 June 2011 and 2012 respectively. However, the production of our sludge treatment products commenced in mid-2010. We continued to devote significant resources in research of our sludge treatment products for developing new product models and incurred relevant expenses of approximately HK$5.8 million and HK$7.4 million for the two years ended 30 June 2011 and 2012 respectively which were not qualified for capitalisation. As a result, the gross profit from our sales of sludge treatment products during the two years ended 30 June 2011 and 2012 had not reached a sufficient level to cover the research and development costs and thus this business segment suffered losses. The Directors considered the sludge treatment products segment will be profitable and generate positive cashflow as the sales of sludge treatment products will gradually increase based on the continuous growth of the sludge treatment product market for the PRC paper-making industry towards 2016 according to Euromonitor's research report, driving down the proportion of research and development expenses to revenue for the sales of sludge treatment products when the sludge treatment products become more mature. Moreover, we have recorded a positive segment result of sludge treatment products for the six months ended 31 December 2012. Based on the above, our Directors are of the view that no impairment provision is required for the segmental assets for the sales of sludge treatment products as at 30 June 2012.

Our results from the after-sales services segment slightly decreased from approximately HK$5.5 million for the year ended 30 June 2011 to approximately HK$5.3 million for the year ended 30 June 2012, primarily due to the drop in the gross profit margin during the same period.

Our segment results increased by approximately 48.4% from approximately HK$12.7 million for the six months ended 31 December 2011 to approximately HK$18.9 million for the six months ended 31 December 2012. The increase was primarily due to improvement of gross profit margin of sales of industrial automation systems and sludge treatment products.

Our results from the industrial automation systems segment significantly decreased by approximately 31.6% from approximately HK$16.2 million for the six months ended 31 December 2011 to approximately HK$11.1 million for the six months ended 31 December 2012, primarily attributable to decrease in sales of industrial automation systems and the increase in our research and development costs in industrial automation system segment from nil for the six months ended 31 December 2011 to HK$3.2 million for the six months ended 31 December 2012, which was partially offset by increase in gross profit margin for sales of industrial automation system during the same period.

Our results from the sludge treatment products segment changed from a loss of approximately HK$5.7 million for the six months ended 31 December 2011 to a profit of approximately HK$4.6 million for the six months ended 31 December 2012. Such change was a result of increase in sales of sludge treatment products by approximately HK$36.4 million.

Our results from the after-sales services segment increased from approximately HK$2.2 million for the six months ended 31 December 2011 to approximately HK$3.3 million for the six months ended 31 December 2012, primarily due to the increase in revenue from provision for after-sales service during the same period.

IMPACT ON OUR FINANCIAL RESULTS DUE TO EXPENSES INCURRED IN RELATION TO THE [●]

Our Directors estimated that the expenses in relation to the [●] of approximately HK$7.8 million will be further incurred and charged to the combined statements of comprehensive income for the year ending 30 June 2013.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other liquidity requirements from cash generated by our operations and bank borrowings, if required. Going forward, we believe our working capital and other liquidity requirements will be satisfied through a combination of cash generated from our operating activities, banking facilities made available to us and the [●] from the [●].

As at 31 December 2012, we had banking facilities amounting to HK$61.7 million, among which approximately HK$14.8 million was utilised. The banking facilities were secured by our certain land use right and production facilities and were free of restrictive covenants. Based on the business and financial performance of our Group, our Directors are not aware of any circumstances where our ability to obtain external financing going forward may be affected by the recent volatility in the global financial market.

We have never experienced any difficulties in repaying our debts as and when they fall due. However, our ability to meet our working capital requirements, debt repayment or capital required for our fund raising activities is highly dependent on our future operating performance and cash flows. Our future operating performance and cash flows could be affected by various factors such as the future economic climate and our customers' ability to expand.

We expect to finance our working capital requirements for the 12 months following the date of this document with the following sources of funding:

- the cash and cash equivalent on hand, which were approximately HK$23.0 million as at 31 December 2012. Based on our Group's unaudited management accounts, we had cash and cash equivalent of approximately HK$10.4 million as at 31 March 2013;
- the estimated to be received by our Group from the [●]; and
- unutilised banking facilities amounting to HK$52.1 million as at the Latest Practicable Date.

Working capital

Our Directors are of the opinion that, after taking into account the existing financial resources available to us, including our available banking facilities and internally generated funds, and the estimated [●] from the [●], we have sufficient working capital for our present requirements for at least the next 12 months from the date of this document.

Net current (liabilities)/assets

The table below sets out our Group's current liabilities and assets as at the respective period end indicated:

	As at 30 June		As at 31 December	As at 31 March
	2011	**2012**	**2012**	**2013**
	HK$	*HK$*	*HK$*	*HK$*
				(unaudited)
Current assets				
Inventories	104,687,797	111,170,507	115,128,642	113,190,262
Trade and other receivables	46,015,031	33,262,407	38,223,824	42,310,324
Prepayments	9,892,881	9,834,523	6,503,333	11,413,219
Restricted cash	551,946	1,527,484	1,535,716	3,504,274
Cash and cash equivalents	20,047,039	43,817,397	22,956,857	10,363,891
	181,194,694	199,612,318	184,348,372	180,781,970
Current liabilities				
Trade and other payables	167,863,089	147,170,666	137,290,303	139,963,473
Borrowings	18,037,084	24,619,121	6,166,369	–
	185,900,173	171,789,787	143,456,672	139,963,473
Net current (liabilities)/assets	(4,705,479)	27,822,531	40,891,700	40,818,497

We recorded net current liabilities of approximately HK$4.7 million as at 30 June 2011 and net current assets of approximately HK$27.8 million and HK$40.9 million as at 30 June 2012 and 31 December 2012 respectively. The net current liability position as at 30 June 2011 was mainly attributable to the loans obtained from Huazhang Overseas for the [●] in the registered capital of Huazhang Technology for the purpose of financing the expansion of its production facilities. The change from a net current liability position as at 30 June 2011 to a net current asset position as at 30 June 2012 and afterwards was mainly due to capitalisation of a loan amounting to approximately HK$35.2 million borrowed from Huazhang Overseas on 30 June 2012 and improvement of our operation.

Cash flows

The following table sets out a summary of our combined cash flow statements for the two years ended 30 June 2011 and 2012 and for the six months ended 31 December 2011 and 2012:

	Year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Net cash generated from/(used in) operating activities	10,414,623	27,393,054	(44,439)	(7,198,842)
Net cash generated/(used in) [●] activities	10,849,552	(127,763)	(2,240,023)	(345,826)
Net cash used in financing activities	(6,367,078)	(3,444,349)	(12,713,596)	(13,335,487)
Net increase/(decrease) in cash and cash equivalent	14,897,097	23,820,942	(14,998,058)	(20,880,155)
Effect of foreign exchange rate changes	14,807	(50,584)	(18,924)	19,615
Cash and cash equivalent at beginning of the year/period	5,135,135	20,047,039	20,047,039	43,817,397
Cash and cash equivalent at end of the year/period	20,047,039	43,817,397	5,030,057	22,956,857

Please refer to the accountant's report set out in Appendix I to this document for further information on our Group's cash flows.

Cash flows from operating activities

Cash generated from operating activities was approximately HK$12.5 million for the year ended 30 June 2011, and was primarily attributable to our operating cash before changes in working capital of approximately HK$5.2 million, as adjusted by a decrease in restricted cash amounted to approximately HK$0.8 million and an increase in trade and other payables of approximately HK$73.2 million, which was in turn due to (i) the increase in advances from customers by approximately HK$56.5 million; (ii) the increase in trade payables of approximately HK$15.7 million because more raw materials were purchased on credit towards the end of the year ended 30 June 2012; and (iii) the increase in other payables, such as accrued wages and other tax payable, amounting to approximately HK$1.0 million, the effects of which were partially offset by an increase in inventories of approximately HK$65.5 million and an increase in trade and other receivables and prepayment of approximately HK$1.3 million. The increase in inventories was primarily due to the increase in aggregate value of sales contracts obtained by our Group during the year ended 30 June 2011. The aggregate value of sales contracts obtained by our Group increased by approximately 53.4% from approximately RMB131 million in the year ended 30 June 2010 to approximately RMB201 million in the year ended 30 June 2011.

Our net cash inflow from operating activities for the year ended 30 June 2011 amounted to approximately HK$10.4 million, which was mainly attributable to the cash flows generated from operating activities amounting to approximately HK$12.5 million, as adjusted by the payment of interest expenses amounting to approximately HK$1.0 million and income tax expenses of approximately HK$1.1 million.

Cash generated from operating activities was approximately HK$32.9 million for the year ended 30 June 2012, which was primarily attributable to our operating cash before changes in working capital of approximately HK$27.2 million, as adjusted by (i) a decrease in trade and other receivables and prepayments of approximately HK$3.5 million, and (ii) an increase in trade and other payables of approximately HK$9.9 million, primarily due to an increase in purchases of raw materials to cope with our increased sales volume, the effects of which were partially offset by: (i) an increase in inventories of approximately HK$6.7 million, mainly attributable to increase in raw materials for the purpose of coping with the production requirement subsequent to the year ended 30 June 2012; and (ii) an increase in restricted cash amounting to approximately HK$1.0 million.

Our net cash inflow from operating activities for the year ended 30 June 2012 amounted to approximately HK$27.4 million, which was mainly attributable to the cash flows generated from operating activities amounting to approximately HK$32.9 million, as adjusted by the payment of interest expenses amounting to approximately HK$1.7 million and income tax expenses of approximately HK$3.8 million.

Cash generated from operating activities was approximately HK$0.8 million for the six months ended 31 December 2011, which was primarily attributable to our operating cash before changes in working capital of approximately HK$7.2 million, as adjusted by (i) an increase in trade and other receivables and prepayments of approximately HK$12.2 million due to the increase in sales of our industrial automation system and sludge treatment products; (ii) an increase in inventories of approximately HK$8.5 million for the purpose of coping with the subsequent production requirement; and (iii) a decrease in trade and other payables amounting to approximately HK$10.1 million for the settlement of amount due to suppliers and other creditors.

Our net cash outflow from operating activities for the six months ended 31 December 2011 amounted to HK$44,439 which was mainly attributable to the cash flows generated from operating activities amounting to approximately HK$0.8 million, as adjusted by the payment of interest expenses amounting to approximately HK$0.6 million and income tax expenses amounting to approximately HK$0.2 million.

Cash used in operating activities was approximately HK$4.3 million for the six months ended 31 December 2012, which was primarily attributable to our operating cash before changes in working capital of approximately HK$8.8 million, as adjusted by (i) an increase in inventories of approximately HK$3.2 million mainly due to increase in products delivered to our customers pending for on-site testing and inspection; and (ii) a decrease in trade and other payables amounting to approximately HK$10.3 million for the settlement of amount due to suppliers and other creditors.

Our net cash outflow from operating activities for the six months ended 31 December 2012 amounted to approximately HK$7.2 million which was mainly attributable to the cash flows used in operating activities amounting to approximately HK$4.3 million and the payment of interest expenses amounting to approximately HK$0.6 million and income tax expenses amounting to approximately HK$2.3 million. We had a negative net cashflow from operating activities during the six months ended 31 December 2012 mainly due to (i) an aggregate amount of payment of approximately HK$5.8 million was made to various professional parties in relation to the [●]; and (ii) the decrease in trade and other payables by approximately HK$10.3 million which was settled in accordance with credit terms granted by our suppliers.

Our net cashflow from operation activities changed from a net cash inflow of approximately HK$27.4 million for the year ended 30 June 2012 to a net cash outflow of approximately HK$7.2 million for the six months ended 31 December 2012. Such change was primarily due to a positive adjustment for the changes in working capital of approximately HK$5.7 million during the year ended 30 June 2012 while there was a negative adjustment for the changes in working capital of approximately HK$13.1 million during the year ended 30 June 2012. The positive changes in working capital for the year ended 30 June 2012 was primarily due to an increase of trade and other payables by approximately HK$9.9 million while the negative changes in working capital for the six months ended 31 December 2012 was primarily due to a decrease of trade and other payables by approximately HK$10.3 million as a result of the settlement of the amounts due to suppliers and other creditors.

Cash flows from [●] activities

For the year ended 30 June 2011, our Group had net cash inflow from [●] activities of approximately HK$10.8 million, which was primarily attributable to (i) the receipts of interest of approximately HK$0.2 million, (ii) the repayment of an advance we made to a third party amounting to approximately HK$17.6 million and; (iii) repayment from related parties for advances to them of approximately HK$41.5 million, partially offset by (i) acquisition of property, plant and equipment of approximately HK$3.9 million; and (ii) lending to several related parties amounting to approximately HK$44.6 million.

For the year ended 30 June 2012, our Group had net cash outflow from [●] activities of approximately HK$0.1 million, which was primarily attributable to (i) acquisition of property, plant and equipment of approximately HK$10.4 million, and (ii) lending to related parties amounting to approximately HK$45.4 million; partially offset by (i) interest income of approximately HK$0.4 million; and (ii) repayment from related parties amounting to approximately HK$55.2 million.

For the six months ended 31 December 2011, our Group had net cash outflow from [●] activities of approximately HK$2.2 million, which was primarily attributable to (i) the purchase of property, plant and equipment amounting to approximately HK$7.8 million and (ii) lending to related parties amounting to approximately HK$32.0 million; partially offset by (i) the receipt of interest income of approximately HK$0.2 million and (ii) repayment from related parties amounting to approximately HK$37.3 million.

For the six months ended 31 December 2012, our Group had net cash outflow from [●] activities of approximately HK$0.3 million, which was primarily attributable to the purchase of property, plant and equipment amounted to approximately HK$0.4 million.

Cash flows from financing activities

For the year ended 30 June 2011, our Group had net cash outflow from financing activities of approximately HK$6.4 million, which was primarily attributable to (i) the repayment of bank borrowings of approximately HK$23.5 million; and (ii) repayment to a related party amounting to approximately HK$0.5 million; partially offset by proceeds raised from bank borrowings of approximately HK$17.6 million.

For the year ended 30 June 2012, our Group had net cash outflow from financing activities of approximately HK$3.4 million, which was primarily attributable to (i) repayment of bank borrowings of approximately HK$38.9 million; and (ii) dividend paid to Huazhang Overseas of approximately HK$12.7 million; and (iii) repayment to a related party amounting to approximately HK$2.5 million; partially offset by (i) proceeds raised from bank borrowings of approximately HK$45.0 million; and (ii) a borrowing from a related party of approximately HK$5.6 million which represented advances from Huazhang Overseas.

For the six months ended 31 December 2011, our Group had net cash outflow from financing activities of approximately HK$12.7 million, which was attributable to (i) repayment of bank borrowings amounting to approximately HK$26.8 million and (ii) dividend paid to Huazhang Overseas of approximately HK$12.7 million, which was partially offset by proceeds raised from bank borrowings of approximately HK$26.8 million.

For the six months ended 31 December 2012, our Group had net cash outflow from financing activities of approximately HK$13.3 million, which was primarily attributable to repayment of bank borrowings of approximately HK$24.7 million, which was partially offset by proceeds raised from bank borrowings of approximately HK$6.1 million and a borrowing of approximately HK$5.2 million from Huazhang Overseas.

SUMMARY OF OUR COMBINED BALANCE SHEETS

The following table sets out the combined balance sheets of our Group as at 30 June 2011, 30 June 2012 and 31 December 2012, which are derived from, and should be read in conjunction with the combined financial information set out in the accountant's report set out in Appendix I in this document:

Combined balance sheets

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
ASSETS			
Non-current assets			
Land use rights	9,138,536	9,077,521	9,003,355
Property, plant and equipment	28,621,127	39,702,425	38,990,421
Deferred income tax assets	1,095,635	1,086,721	1,141,954
Trade and other receivables	30,873	294,122	–
Prepayments – non-current portion	1,245,190	352,450	408,137
	40,131,361	50,513,239	49,543,867
Current assets			
Inventories	104,687,797	111,170,507	115,128,642
Trade and other receivables	46,015,031	33,262,407	38,223,824
Prepayments	9,892,881	9,834,523	6,503,333
Restricted cash	551,946	1,527,484	1,535,716
Cash and cash equivalents	20,047,039	43,817,397	22,956,857
	181,194,694	199,612,318	184,348,372
Total assets	221,326,055	250,125,557	233,892,239
EQUITY			
Capital and reserves attributable to the owner of the Company			
Reserves	13,903,664	51,468,818	59,550,042
Retained earnings	21,522,218	26,866,952	30,670,277
Total equity	35,425,882	78,335,770	90,220,319

	As at 30 June 2011	As at 30 June 2012	As at 31 December 2012
	HK$	*HK$*	*HK$*
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	–	–	215,248
	–	–	215,248
Current liabilities			
Trade and other payables	167,863,089	147,170,666	137,290,303
Borrowings	18,037,084	24,619,121	6,166,369
	185,900,173	171,789,787	143,456,672
Total liabilities	185,900,173	171,789,787	143,671,920
Total equity and liabilities	221,326,055	250,125,557	233,892,239

KEY FINANCIAL RATIOS

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

	Year ended 30 June 2011	Year ended 30 June 2012	Six months ended 31 December 2012
Profitability ratios			
Return on assets(1) (%)	0.2	7.6	5.3
Return on equity(2) (%)	1.5	24.4	13.9
Liquidity ratios			
Current ratio(3)	1.0	1.2	1.3
Quick ratio(4)	0.4	0.5	0.5
Capital adequacy ratio			
Gearing ratio(5) (%)	33.7	23.9	6.4
Interest coverage(6)	2.2	15.5	14.5

Notes:

1. Return on assets is calculated based on the net profit attributable to the owner of our Company for the year divided by the total assets at the end of the respective year and multiplied by 100%. For the six months ended 31 December 2012, return on assets is calculated based on annualising the net profit attributable to the owner of our Company for the period by multiplying by two, divided by the total assets at the end of the respective period and then multiplied by 100%.

2. Return on equity is calculated based on the net profit attributable to the owner of our Company for the year divided by the total equity attributable to the owners of our Company at the end of the respective year multiplied by 100%. For the six months ended 31 December 2012, return on equity is calculated based on annualising the net profit attributable to the owner of our Company for the period by multiplying by two, divided by the total equity attributable to the owner of our Company at the end of the respective period and then multiplied by 100%.

3. Current ratio is calculated based on the total current assets at the end of the year/period divided by the total current liabilities at the end of the respective year/period.

4. Quick ratio is calculated based on the total current assets (excluding inventory) at the end of the year/period divided by the total current liabilities at the end of the respective year/period.

5. Gearing ratio is calculated based on total debt at the end of the year/period divided by total debt plus total equity at the end of the respective year/period multiplied by 100%. Total debt represents bank borrowings.

6. Interest coverage is calculated based on the net profit before interest and tax for the year/period divided by the interest expenses for the respective year/period.

Return on assets

Return on assets for the two years ended 30 June 2011 and 2012 was approximately 0.2% and 7.6% respectively. The higher return on assets for the year ended 30 June 2012 as compared with that for the year ended 30 June 2011 was due to the fact that the rate of increase in net profit exceeded the rate of increase in total assets. For the year ended 30 June 2012, our net profit and total asset increased by approximately 3,399.3% and 13.0% respectively as compared with that for the year ended 30 June 2011. The increase in our net profit was mainly due to the growth of our gross profit by 123.7% brought by the increase in our revenue and our control over our distribution costs, administrative expenses as well as research and development expenses, which in aggregate only increased by approximately at 44.9% during the same financial year.

Return on assets decreased to approximately 5.3% for the six months ended 31 December 2012. It was mainly attributable to the decrease in our net profit by approximately 34.5% from our net profit of approximately HK$19.1 million in the year ended 30 June 2012 to a net profit of approximately HK$12.5 million if the net profit for the six months ended 31 December 2012 were annualised, which outweighs the decrease in total assets as at 31 December 2012 by approximately 6.5% when compared to the total assets as at 30 June 2012.

Return on equity

Return on equity was approximately 1.5% and 24.4% for the two years ended 30 June 2011 and 2012 respectively. The significant increase in return on equity was primarily attributable to the substantial growth in net profit as discussed above.

Return on equity decreased to approximately 13.9% for the six months ended 31 December 2012. It was primarily a result of the decrease in our net profit by approximately 34.5% from the net profit of approximately HK$19.1 million in the year ended 30 June 2012, to a net profit of approximately HK$12.5 million if the net profit for the six months ended 31 December 2012 were annualised and the capitalisation of a loan from Huazhang Overseas which further increased our total equity attributable to the owner of our Company as at 31 December 2012 by approximately HK$5.2 million. As a result, the total equity attributable to the owner of our Company increased from approximately HK$78.3 million as at 30 June 2012 to approximately HK$90.2 million as at 31 December 2012.

Current ratio

As at 30 June 2011, 30 June 2012 and 31 December 2012, our current ratio was approximately 1.0, 1.2 and 1.3 respectively. The increase in current ratio as at 30 June 2012 and 31 December 2012 was mainly due to the capitalisation of loan borrowed from Huazhang Overseas amounting to approximately HK$35.2 million and HK$5.2 million on 30 June 2012 and on 31 December 2012 respectively.

Quick ratio

As at 30 June 2011, 30 June 2012 and 31 December 2012, our quick ratio was approximately 0.4, 0.5 and 0.5 respectively. The increase in quick ratio as at 30 June 2012 was mainly due to the same reason as above for the change in current ratio. Our quick ratio remained stable as at 31 December 2012.

Gearing ratio

Our gearing ratio as at 30 June 2011, 30 June 2012 and 31 December 2012 was approximately 33.7% and 23.9% and 6.4% respectively. The decrease of gearing ratio as at 30 June 2012 was a result of the capitalisation of loan amounting to approximately HK$35.2 million borrowed from Huazhang Overseas and our net profit generated in the year ended 30 June 2012. The gearing ratio further decreased as at 31 December 2012 mainly as a result of significant decrease in bank borrowings from HK$24.6 million as at 30 June 2012 to HK$6.2 million as at 31 December 2012. Such decrease was primarily due to the repayment of some of the bank borrowings by our Group during the six months ended 31 December 2012 as our Group completed major construction works and purchase of machineries for enhancement of our production process in the year ended 30 June 2012.

Interest coverage

Our Group's interest coverage was approximately 2.2 and 15.5 for the two years ended 30 June 2011 and 2012 respectively. The increase in interest coverage was primarily due to the significant increase in operating profit from approximately HK$1.5 million for the year ended 30 June 2011 by approximately 1,486.3% to approximately HK$24.0 million for the year ended 30 June 2012 due to the significant growth in revenue by 131.6% during the same period.

Our Group's interest coverage remained relatively stable at approximately 15.3 and 14.5 for the six months ended 31 December 2011 and 2012 respectively.

ANALYSIS OF SELECTED ITEMS OF THE COMBINED BALANCE SHEETS

Inventory

Our inventory comprises raw materials, work in progress and finished goods. The following table sets out our inventory positions as at the balance sheet dates indicated:

	As at 30 June		**As at 31 December**
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Raw materials	19,591,924	30,231,314	29,217,716
Work in progress	46,329,086	47,006,534	36,992,854
Finished goods	38,766,787	33,932,659	48,918,072
	104,687,797	111,170,507	115,128,642

Raw materials mainly comprised parts and components such as inverters, low voltage components, modules and cabinets used in the assembly and manufacture of our products, and spare parts and components used as replacement parts in our after-sales services or as back-up supplies in case of urgent needs from our existing customers. Work in progress represented semi-finished products assembled at our production plant in Tongxiang. Finished goods represented our industrial automation systems and sludge treatment products which have been delivered to our customers but have not passed the final testing and inspection at the customers' sites. The value of inventory accounted for approximately 57.8%, 55.7% and 62.5% of our total current 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 in our inventory if these products had not yet passed the final testing and inspection at the customers' sites. As most of our systems and products are custom-built pursuant to our customers' requirements, we do not manufacture our systems and products in advance to meet future demand. All our work in progress and finished goods are manufactured based on the sales contract entered into with, as well as the design agreed by, our customers.

The inventory balance slightly increased by approximately HK$6.5 million from approximately HK$104.7 million as at 30 June 2011 to approximately HK$111.2 million as at 30 June 2012. Such increase was primarily due to the increase in raw materials of approximately HK$10.6 million which was partially offset by the decrease in finished goods by approximately HK$4.8 million as compared to the end of prior financial year. The decrease in finished goods was mainly due to the fact that the on-site testing and final inspection of more projects was completed in the year ended 30 June 2012. Despite the significant increase in our revenue during the year ended 30 June 2012, our inventory balance as at 30 June 2012 remained relatively stable as compared to the end of prior financial year mainly because our business was project-based and our inventory balance was more directly related to our sales orders on hand. As at 30 June 2011 and 2012, all of our sales orders on hand amounted to approximately HK$199.0 million and HK$232 million respectively, representing an increase of approximately 16.6%.

The inventory balance slightly increased by approximately 3.6% from approximately HK$111.2 million as at 30 June 2012 to approximately HK$115.1 million as at 31 December 2012. Such increase was mainly due to increase in finished goods by approximately HK$15.0 million. Our finished goods significantly increased by approximately 44.2% to approximately HK$48.9 million as at 31 December 2012. Such increase was primarily due to the slowdown in carrying out the process of on-site testing and inspection experienced by our Group towards the year end as our customers in the paper-making industry generally preferred to postpone such process when the Chinese New Year holiday was approaching.

The following table sets out details of our raw materials as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Raw Materials For Project Use	9,525,561	19,852,907	18,721,471
Spare Parts	10,066,363	10,378,407	10,496,245
	19,591,924	30,231,314	29,217,716

For illustration purposes, we have categorised our raw materials into two categories: (i) parts and components that are purchased for the assembly and manufacture of our industrial automation systems and sludge treatment products pursuant to sales contracts in relation to customers' projects ("Raw Materials For Project Use"); and (ii) spare parts and components used as replacement parts in our after-sales services or as back-up supplies in case of urgent needs from existing customers of our industrial automation systems and sludge treatment products ("Spare Parts").

Raw Materials For Project Use increased by approximately 108.4% from HK$9.5 million as at 30 June 2011 to HK$19.9 million as at 30 June 2012. The increase was mainly due to the increase in the number of sale contracts signed for our industrial automation systems and sludge treatment products in the year ended 30 June 2012 and the majority of which have been delivered after 30 June 2012. Raw Materials For Project Use remained relatively stable at approximately HK$18.7 million as at 31 December 2012, which was in line with our sales orders on hand as at the same date.

The paper-making process is often required to operate continuously for practical as well as economic reasons, and the shutting down and starting up of paper-making machine may result in loss of operating time and the production of off-quality products that may need to be reprocessed or disposed of. It is therefore important for paper-making companies to ensure that their paper-making machines can operate continuously without any disruptions as well as access to Spare Parts for timely repair in the event of a system failure or malfunction. As a result of the need for continuous production of our customers, it is our inventory policy to maintain Spare Parts 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. If we can assist our customers to replace faulty parts with our Spare Parts in a timely manner, we can help them minimise potential losses caused by down time of machinery. The inventory level of our Spare Parts remained relatively stable at approximately HK$10.1 million, HK$10.4 million and HK$10.5 million as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively.

Provision for write-down of inventories

We have established policies to evaluate the amount of provision required for write-down of inventories. We will inspect and review the ageing and conditions of inventories. If we consider that the inventories have become obsolete or damaged, we will make provision for these items so as to reflect the net realisable value of these items in our books and records.

Our management considered these raw materials as obsolete when (i) they aged over one year and (ii) there was no utilisation plan for them as at the year/period end. As at 30 June 2011, 30 June 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.

We have provided for inventory write-down of approximately HK$1.8 million and HK$0.1 million for the year ended 30 June 2011 and 2012, respectively, and a reversal of inventory write-down of approximately HK$0.7 million for the six months ended 31 December 2012. Such amounts were included as part of our cost of sales for the year ended 30 June 2011 and 2012 and for the six months ended 31 December 2012 respectively. During the year ended 30 June 2012, we sold part of these underlying goods for which provision had already been made amounting to approximately HK$1.6 million to Independent Third Parties and had written off the provision for inventories by the same amount. We made provision for write-down of inventories amounting to approximately HK$3.8 million, HK$2.4 million and HK$1.6 million as at 30 June 2011 and 2012 and 31 December 2012 respectively for our obsolete raw materials. We had not made any provision for write-down of inventories for work in progress and finished goods, as these inventories have been secured by sales contracts with our customers and we did not encountered cancellation of orders by customers during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Our Directors considered that the provision for write-down of inventories during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 was sufficient.

The movements of our provision for write-down of inventories are as follows:

	Year ended 30 June 2011 HK$	2012 HK$	Six months ended 31 December 2012 HK$
As at the beginning of the year/period	1,836,671	3,761,082	2,369,463
Provision for/(reversal of) inventories write-down	1,790,480	113,570	(744,492)
Written off provision for inventories write-down	–	(1,566,239)	–
Foreign exchange difference	133,931	61,050	10,764
As at the end of the year/period	3,761,082	2,369,463	1,635,735

Inventory turnover

The following table sets out a summary of our average inventory turnover days for the years/period indicated:

	Year ended 30 June 2011	2012	Six months ended 31 December 2012
Average raw material turnover days *(Note 1)*	107	62	68
Average work in progress turnover days *(Note 2)*	169	103	90
Average finished good turnover days *(Note 3)*	117	80	89
Average inventory turnover days *(Note 4)*	393	245	247

Notes:

1. The average number of raw material turnover days is equal to average raw material before provision (raw material before provision at the beginning of the year/period plus raw material before provision at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

2. The average number of work in progress turnover days is equal to average work in progress (work in progress at the beginning of the year/period plus work in progress at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

3. The average number of finished goods turnover days is equal to average finished goods (finished goods at the beginning of the year plus finished goods at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

4. The average number of inventory turnover days is equal to average inventory before provision (inventory before provision at the beginning of the year/period plus inventory before provision at the end of the year/period divided by two) divided by cost of sales for the year/period and multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

The average raw material turnover days decreased from 107 days for the year ended 30 June 2011 to 62 days for the year ended 30 June 2012 and then slightly increased to 68 days for the six months ended 31 December 2012. The decrease in average raw material turnover days for the year ended 30 June 2012 was primarily due to the increase in our production scale as a result of the increased number of sales orders obtained during the same year. The increase in the average raw material turnover days for the six months ended 31 December 2012 was primarily due to the relatively high level of raw materials we maintained as at the year end to fulfill our production schedules.

The average work in progress turnover days decreased from 169 days for the year ended 30 June 2011 to 103 days for the year ended 30 June 2012 and further decreased to 90 days for the six months ended 31 December 2012. The production lead-time for our systems or products may vary depending on the size and complexity of our projects which differ significantly depending on the type of systems or products provided as well as our clients' requirement. The decrease in average work in progress turnover days for the year ended 30 June 2012 was primarily due to the increased number of sales orders we need to meet during the same year. The further decrease in average work in progress turnover days for the six months ended 31 December 2012 was primarily due to the increased production efficiency of our sludge treatment products brought by our accumulation of experience in the previous years.

The average finished goods turnover days decreased from 117 days for the year ended 30 June 2011 to 80 days for the year ended 30 June 2012 and then increased to 89 days for the six months ended 31 December 2012. The time needed for accepting our systems or products may vary depending on the size and complexity of our projects as well as working progress of parties supplying other components in the projects as our systems or products are required to integrate with their components prior to on-site testing. Decrease in the average finished goods turnover days for the year ended 30 June 2012 was primarily a result of the completion of on-site testing and final inspection for more projects before 30 June 2012. Increase in average finished good turnover days for the six months ended 31 December 2012 was mainly attributable to the significant increase in our finished goods balance as at 31 December 2012. Such increase was primarily due to the slowdown in carrying out the process of on-site testing and inspection experienced by our Group towards the year end as our customers in the paper-making industry generally preferred to postpone such process when the Chinese New Year holiday was approaching.

The average inventory turnover days for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 was 393 days, 245 days and 247 days respectively. Our average inventory turnover days was relatively high primarily due to our accounting policy to record products delivered as our finished goods prior to satisfactory completion of on-site testing and final inspection, and our long average finished goods turnover days mainly attributable to the time taken from our product delivery to satisfactory completion of the on-site testing and final inspection for our products. Based on our Group's past experience, the above process took an average of 133 days and 285 days for our major industrial automation systems and sludge treatment products respectively.

As at 31 March 2013, 35.9%, 51.9% and 28.1% of our raw materials, work in progress and finished goods respectively as at 31 December 2012 had been subsequently used or settled.

Trade receivables

Trade receivables as at 30 June 2011, 30 June 2012 and 31 December 2012 mainly represented the outstanding amounts receivable by us from our customers less any provision for impairment of trade receivables.

The following table sets out an analysis of our trade receivables as at the balance sheet dates indicated:

	As at 30 June		**As at 31 December**
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Trade receivables – due from third parties	23,220,935	24,671,572	40,271,306
Trade receivables – due from related parties	1,990,911	3,526,507	57,278
	25,211,846	28,198,079	40,328,584
Less: provision for impairment of trade receivables	(3,026,175)	(3,493,754)	(2,817,324)
Trade receivables – net	22,185,671	24,704,325	37,511,260

Our customers are normally required to make payment pursuant to the sales contracts for our industrial automation systems and sludge treatment products in the following stages (i) a down payment of approximately 10% to 30% of the total contract value either upon signing of the relevant contract or within 30 days from the date of the contract; (ii) up to approximately 90% to 95% of the contract value upon delivery; and (iii) the remaining contract value of approximately 5% to 10% upon 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 successful completion of on-site testing, whichever is earlier).

For after-sales service, payments are mostly settled in advance or within seven days after such services are rendered.

Our total trade receivables consist of warranty deposits which represented 5% to 10% of the contract sum receivable from customers upon expiry of the warranty period and other trade receivables which represented the outstanding receivables, excluding warranty deposits, from customers in relation to the completed projects (i.e. products have been delivered and on-site testing and inspection have been completed and acceptance of products acknowledged by the customers) or in relation to our after-sales services. The table below sets out the aging breakdown of our warranty deposits, which are presented based on the commencement date of the warranty period, and other trade receivables, which are presented based on the contractual payment terms, as at the relevant end date of each of the reporting periods:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Warranty deposits			
Up to three months	2,032,890	6,668,215	7,063,399
Three months to six months	2,043,680	1,652,124	929,990
Six months to one year	1,687,308	2,725,965	7,039,550
One year to two years	3,291,517	3,470,137	4,047,472
Over two years	5,501,906	1,922,515	1,885,181
	14,557,301	16,438,956	20,965,592
Other trade receivables			
Up to three months	3,944,320	6,335,809	12,522,335
Three months to six months	955,258	1,000,651	2,204,239
Six months to one year	3,900,847	684,836	2,199,008
One year to two years	432,326	2,563,262	1,582,965
Over two years	1,421,794	1,174,565	854,445
	10,654,545	11,759,123	19,362,992

Our Group's trade receivables increased by approximately 11.8% from approximately HK$25.2 million as at 30 June 2011 to approximately HK$28.2 million as at 30 June 2012 and then further increased by approximately 43.0% to approximately HK$40.3 million as at 31 December 2012. The percentage of increase in our trade receivables as at 30 June 2012 was less than the percentage of increase in our revenue for the year ended 30 June 2012 primarily because our sales contracts for our industrial automation systems and sludge treatment products require customers to pay a substantial amount of contract sum by way of advance payment by the time of product delivery which is usually ahead of our revenue recognition upon completion of on-site testing and inspection and product acceptance by the customers. Please refer to the paragraphs headed "Salient terms of a typical contract entered into during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012" in the section headed "Business" in this document for details of the payment terms offered by our Group to its customers. Our total trade receivables increased significantly from approximately

HK$28.2 million as at 30 June 2012 to approximately HK$40.3 million as at 31 December 2012 due to the increase in other trade receivables by approximately HK$7.6 million to approximately HK$19.4 million as at 31 December 2012 and the increase in warranty deposits by approximately HK$4.5 million to approximately HK$21.0 million as at 31 December 2012.

Other trade receivables increased by approximately 10.4% from approximately HK$10.7 million as at 30 June 2011 to approximately HK$11.8 million as at 30 June 2012 and then further increased by approximately 64.7% to approximately HK$19.4 million as at 31 December 2012. The increase in other trade receivables was mainly due to the increase in the number of our customers who had not settled the bills pursuant to contractual payment terms. Our Directors believe that these customers delayed payment to us because they preferred to have more flexibility in their own cash flow arrangements given the challenging economic conditions in the PRC in the second half of 2012. To closely monitor customers' payment status, our Directors review the outstanding balances of our trade receivables on a monthly basis and proactively seek timely settlement of payments by our customers. Up to 31 March 2013, approximately 26.1% of other trade receivables have been settled.

Our warranty deposits increased from approximately HK$14.6 million as at 30 June 2011 to approximately HK$16.4 million as at 30 June 2012 primarily due to increase in completion of sales contracts during the year ended 30 June 2012. Our overdue warranty deposits decreased by approximately HK$3.4 million to approximately HK$5.4 million as at 30 June 2012 as compared with the overdue warranty deposits of approximately HK$8.8 million as at 30 June 2011. Such decrease was mainly attributable to the incentive policy implemented by us in July 2011 to control our outstanding warranty deposits through which we encouraged our sales personnel to increase our effort in collecting outstanding warranty deposits by offering them an incentive bonus of 0.2% of the amount of warranty deposits recouped. Our warranty deposits increased by approximately HK$4.5 million to approximately HK$21.0 million as at 31 December 2012 primarily due to our revenue recorded as a result of completion of our sales contracts during the six months ended 31 December 2012. As at 30 June 2011, 30 June 2012 and 31 December 2012, our overdue warranty deposits was approximately HK$8.8 million, HK$5.4 million and HK$5.9 million respectively. The warranty deposits became overdue primarily due to the difficult financial situations encountered by some of our customers and maintaining our customer relationship. Our warranty deposits, which aged within 1 year as at 30 June 2011, 30 June 2012 and aged within 6 months as at 31 December 2012, respectively, represented approximately 6.6%, 5.1% and 7.2% of our revenue for the year ended 30 June 2011 and 2012 and 31 December 2012 respectively. Such percentage fall within the range of our warranty deposits which is between 5% and 10% of the contract sum.

Save as disclosed above, we had not encountered any difficulties in recouping the warranty deposits from our 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.

The trade receivables due from related parties were resulted from trade-related activities. The terms for these trade receivables were in accordance with contractual terms similar to those offered to third parties and our Directors confirm that all such related party transactions were on normal commercial terms.

The following set out the details of the trade receivables due from related parties as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Huazhang Automation (Zhejiang)	1,619,640	3,526,507	57,278
Shanghai Yunjie Consultation	371,271	–	–
	1,990,911	3,526,507	57,278

As at 30 June 2011, the trade receivables due from related parties amounted to approximately HK$2.0 million and were fully settled in September 2011. As at 30 June 2012, the trade receivables due from a related party amounted to approximately HK$3.5 million and were fully settled in August 2012. As at 31 December 2012, the trade receivables due from a related party amounted to HK$57,278 and was settled in February 2013.

Trade receivable turnover days

The following table sets out our Group's trade receivables turnover days for the year/period indicated:

	Year ended 30 June		Six months ended 31 December
	2011	2012	2012
Warranty deposits turnover days *(Note 1)*	899	447	513
Other trade receivable turnover days *(Note 2)*	38	19	25
Trade receivable turnover days *(Note 3)*	85	42	52

Note:

1. The number of warranty deposits turnover days is calculated as average warranty deposits (warranty deposits at the beginning of the year/period plus warranty deposits at the end of the year/period then divided by two) divided by revenue attributable to the warranty deposits for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

2. The number of other trade receivables turnover days is calculated as average other trade receivables (other trade receivables at the beginning of the year/period plus other trade receivables at the end of the year/period then divided by two) divided by revenue excluding that attributable to warranty deposits the for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

3. The number of trade receivables turnover days is calculated as average trade receivables (trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period then divided by two) divided by total revenue for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012).

Our trade receivables turnover days decreased from 85 days in the year ended 30 June 2011 to 42 days in the year ended 30 June 2012 and then increased to 52 days in the six months ended 31 December 2012. The decrease in the year ended 30 June 2012 was mainly due to our implementation of a new credit policy in July 2011 to encourage our sales personnel to recover outstanding warranty deposits from customers. Our warranty deposit turnover days during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 was longer than the warranty period, which is usually for 18 months from the date of delivery or 12 months after completion of on-site testing, whichever is earlier, that we normally grant to our customers pursuant to the sales contracts. It was because we did not actively collect the warranty deposits from customers in order to maintain good business relationships with them, even though such warranty deposits were aged over one year. As the number of projects completed increased, our management became aware of the significant warranty deposit balances. As a result, to better control our credit risk, we implemented the new credit policy above in July 2011 and our warranty deposits turnover days decreased from 899 days in the year ended 30 June 2011 to 447 days in the year ended 30 June 2012. Meanwhile, the other trade receivable turnover days decreased from 38 days in the year ended 30 June 2011 to 19 days in the year ended 30 June 2012 due to our sales personnel's effort in recovering the outstanding debts.

However, the trade receivables turnover days increased in the six months ended 31 December 2012, which was due to the increase in warranty deposits turnover days and other trade receivable turnover days during the six months ended 31 December 2012 to 513 days and 25 days respectively. Such increase was primarily due to the increase in the number of our customers who had not settled the bills in accordance with the contractual payment terms. Our Directors believe that these customers delayed payment to us because they preferred to have more flexibility in their own cash flow arrangements given the challenging market condition in the PRC in the second half of 2012. To ensure recoverability of these trade receivables, our management closely monitors the ageing status of our trade receivables, payment history, subsequent settlement, on-going business relationship and financial condition of our customers. Our salespersons also regularly visit customers whose balances are overdue to understand their financial status and adopt an active but friendly approach for chasing the overdue balances. Our management may also consider issuing legal letters to reclaim the overdue balances where appropriate

Provision for impairment of trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. We will assess at the end of each reporting period whether there is objective evidence that a receivable is impaired. A receivable is impaired and impairment loss is recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition (a "loss" event) and that loss event (or events) has an impact on the estimated future cash flows of the receivable that can be measured reliably. Evidence of impairment may include indication that the debtors or a group of debtors are experiencing financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation.

We monitor the recoverability of our trade receivables on a regular basis. With respect to the overdue trade receivables, our salespersons regularly liaise with the relevant customers to collect these receivables. Moreover, our head of sales will pay regular visits to our customers to update them on the project status and to follow up directly with customers in respect of overdue payment.

As at 30 June 2011, 30 June 2012 and 31 December 2012, trade receivables of approximately HK$3.0 million, approximately HK$3.5 million and approximately HK$2.8 million were impaired respectively. The individually impaired receivables were mainly related to customers in difficult financial situations. The ageing analysis of these trade receivables is as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
One year to two years	875,937	934,153	978,603
Over two years	2,150,238	2,559,601	1,838,721
	3,026,175	3,493,754	2,817,324

The movements on our provision for impairment of trade receivables are as follows:

	Year ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
As at the beginning of the year/period	2,576,635	3,026,175	3,493,754
Provision for/(reversal of) receivables impairment	315,487	402,650	(693,390)
Foreign exchange difference	134,053	64,929	16,960
As at the end of the year/period	3,026,175	3,493,754	2,817,324

During the six months ended 31 December 2012, we reversed the provision for impairment of trade receivables of approximately HK$0.7 million as we managed to collect the receivables from a few customers for which provision was made in previous years. To assess the collectibility of our trade receivables, our management closely monitors the ageing status of our trade receivables, payment history, subsequent settlement, on-going business relationship and financial condition of our customers. Our salespersons also regularly visit customers whose balances are overdue to understand their financial status. Based on our past experience, our Directors believe that adequate provision was made for our trade receivables during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 as our Group had not identified collectibility issues with regards to these balances which are considered fully recoverable.

As at 31 March 2013, approximately 7.6% and 26.1% of our warranty deposits and other trade receivables respectively as at 31 December 2012 have been settled, the detail is as follows:

Warranty deposits

	As at 31 December 2012 *HK$*	**Subsequent settlement up to 31 March 2013** *HK$*
Up to three months	7,063,399	80,333
Three months to six months	929,990	45,475
Six months to one year	7,039,550	564,223
One year to two years	4,047,472	304,125
Over two years	1,885,181	601,380
	20,965,592	1,595,536

Other trade receivables

	As at 31 December 2012 *HK$*	**Subsequent settlement up to 31 March 2013** *HK$*
Up to three months	12,522,335	3,911,777
Three months to six months	2,204,239	868,045
Six months to one year	2,199,008	153,159
One year to two years	1,582,965	117,161
Over two years	854,445	6,166
	19,362,992	5,056,308

Prepayments

Our prepayments mainly consist of prepayments for raw materials and prepayments for professional service fees. The following sets out the analysis of our prepayments as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Non-current			
Prepayments for operating lease payment – non-current portion	369,056	352,450	330,194
Prepayments for property, plant and equipment	876,134	–	77,943
	1,245,190	352,450	408,137
Current			
Prepayments for raw materials	9,001,165	7,546,375	1,518,066
Prepaid income tax	800,809	882,074	1,612,222
Prepayments for operating lease payment – current portion	90,907	92,736	16,102
Prepaid and deferred professional service fees	–	1,313,338	3,356,943
	9,892,881	9,834,523	6,503,333
	11,138,071	10,186,973	6,911,470

Our prepayments decreased by approximately 8.5% from approximately HK$11.1 million as at 30 June 2011 to approximately HK$10.2 million as at 30 June 2012. The decrease in prepayments was mainly caused by (i) the decrease in prepayments for property, plant and equipment of approximately HK$0.9 million as these property, plant and equipment was delivered during the year ended 30 June 2012; (ii) the decrease in prepayments for raw materials from approximately HK$9.0 million as at 30 June 2011 to approximately HK$7.5 million as at 30 June 2012 due to the fact that more raw materials were received as at the same year end; and (iii) the prepayments for professional service fees relating to our [●] by approximately HK$1.3 million in the year ended 30 June 2012.

Our prepayments as at 31 December 2012 further decreased to approximately HK$6.9 million and the decrease was mainly caused by (i) the decrease in prepayments for raw materials from approximately HK$7.5 million as at 30 June 2012 to approximately HK$1.5 million as at 31 December 2012; and partially offset by increase of prepaid and deferred professional service fees from approximately HK$1.3 million as at 30 June 2012 to approximately HK$3.4 million as at 31 December 2012.

Prepayments for raw materials represented the payment in advance to some of our suppliers which required down payments prior to delivery of raw materials to us. The prepayments for raw materials represented approximately 5.0%, 3.8% and 0.8% of the total current assets as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively. The significant balance of prepayments for raw materials at year/period ends was mainly to secure the supply of our raw materials, parts and components for ongoing projects. The decrease in balance from approximately HK$9.0 million as at 30 June 2011 to approximately HK$7.5 million as at 30 June 2012 was generally in line with increase in raw materials. The prepayments for raw materials further decreased to approximately HK$1.5 million as at 31 December 2012 primarily due to reduction in our purchase orders placed near the period end. As at 31 March 2013, approximately 37.3% of prepayments for raw materials as at 31 December 2012 have been settled.

Prepaid and deferred professional service fees of approximately HK$1.3 million as at 30 June 2012 and approximately HK$3.4 million as at 31 December 2012 represented the expenses in relation to the [●] for which the related services have not yet been performed or the related services have been performed and will be charged to equity upon [●].

Other receivables

Our other receivables consist of amounts due from related parties and other receivables from third parties. The following sets out the analysis of our Group's other receivables as at the balance sheet dates indicated:

	As at 30 June		**As at 31 December**
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Amounts due from related parties	11,111,615	80,960	21,493
Other receivables from third parties	2,982,736	784,929	691,071
	14,094,351	865,889	712,564

Our Group's other receivables decreased by approximately 93.9% from approximately HK$14.1 million as at 30 June 2011 to approximately HK$0.9 million as at 30 June 2012, and further decreased to approximately HK$0.7 million as at 31 December 2012. The decrease was primarily due to the settlements made by both related parties and third parties during the year ended 30 June 2012 and the six months ended 31 December 2012.

The following sets out the details of the amounts due from related parties as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Zhu Gen Yi	–	–	21,493
Ms. Zhu	9,619,778 *(Note)*	–	–
Shanghai Yunjie Consultation	1,088,847	–	–
Hangzhou Rong Wei Industrial Investment Co., Ltd.	293,325	–	–
Huazhang Automation (Zhejiang)	79,363	80,960	–
Hangzhou Huazhang Engineering	30,302	–	–
	11,111,615	80,960	21,493

Note: The amount represented the remaining balance of the loan in an aggregate amount of RMB10 million granted to Ms. Zhu pursuant to the loan agreements entered into between Huazhang Technology and Ms. Zhu on 16 November 2010 and 18 January 2011 respectively.

As at 30 June 2011, the amount due from related parties amounted to approximately HK$11.1 million, among which approximately HK$11.0 million was fully settled in the year ended 30 June 2012. The amount of HK$80,960 due from Huazhang Automation (Zhejiang) as at 30 June 2012 was fully settled in the six months ended 31 December 2012. The amount of HK$21,493 as at 31 December 2012 due from Mr. Zhu Gen Yi will be settled before [●].

During the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, we provided loans to our related parties. The table below sets out the details of the loan amounts during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012:

	For the year ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Hangzhou Yiyi Consultation *(Note 1)*	20,152,464	485,779	487,116	–
Hangzhou Tiger Power Automation Company Limited *(Note 2)*	12,675,982	8,501,129	8,524,526	–
Ms. Zhu *(Note 3)*	11,737,020	–	–	–
Huazhang Automation (Zhejiang) *(Note 4)*	–	12,144,471	–	–
Tongxiang Modern Eco-Agriculture *(Note 5)*	–	24,288,941	23,016,221	–
Total	44,565,466	45,420,320	32,027,863	–

Notes:

1. The loan to Hangzhou Yiyi Consultation was for business advancement purpose and was unsecured, interest free and repayable on demand. The loan was fully repaid in December 2011.

2. The loan to Hangzhou Tiger Power Automation Company Limited was for business advancement purpose and was unsecured, interest free and repayable on demand. The loan was fully repaid in December 2011.

3. Ms. Zhu was a director of Huazhang Technology until 10 October 2012 when she resigned from the position due to her health problem. During the year ended 30 June 2011, Ms. Zhu made a request to the board of directors of Huazhang Technology for a loan from Huazhang Technology. Having considered Ms. Zhu's relationship with Huazhang Technology and the then available funds held by Huazhang Technology, Huazhang Technology entered into two loan agreements separately with Ms. Zhu on 16 November 2010 and 18 January 2011 for an aggregate amount of RMB10.0 million and at an interest rate of 5% per annum. To the best of our Directors' knowledge, the loan granted to Ms. Zhu was for the purpose of her personal financing. Our Directors confirmed that the interest payable by Ms. Zhu was subsequently waived. The outstanding balance of the loan was fully repaid by Ms. Zhu in August 2011.

4. The loan to Huazhang Automation (Zhejiang) was for business advancement purpose and was unsecured, interest-free and repayable on demand. The loan was fully repaid in March 2012.

5. The loans to Tongxiang Modern Eco-Agriculture were for business advancement purpose and were unsecured, interest-free and repayable on demand. The loans were fully repaid in February 2012.

6. We also provided a loan amounting to RMB15.0 million to a third party customer in the year ended 30 June 2010. Our Directors confirmed the loan granted to that customer was for the purpose of advancement to our business partner. The loan was unsecured, interest-free and repayable on demand, and was subsequently fully repaid in the year ended 30 June 2011.

As advised by our PRC Legal Advisers, the loan arrangements between our Group and individuals constitute private lending under the relevant PRC laws and regulations. If the interest rate of such loan does not exceed four times of the interest rate of bank loan stipulated by the People's Bank of China for the corresponding period, then it will not violate the relevant PRC laws and regulations. As such, provision of loans by us to Ms. Zhu was legitimate and did not contravene the PRC laws and regulations.

As advised by our PRC Legal Advisers, any inter-enterprise lending arrangements between non-bank institutions are prohibited by the General Principles of Lending of the People's Bank of China (中國人民銀行貸款通則) (the "General Lending Principles"). Therefore, provision of loan by us to third-party enterprises has contravened the regulations of General Lending Principles, and the relevant banking supervisory authority is entitled to impose penalties to our Group in an amount that is one to five times of the interest collected by us from the said loans. However, given that our Group has not charged any interest for the loans provided to abovementioned entities, we shall not be subject to any penalties or any other legal consequences for such inter-enterprise lending activities.

The other receivables from third parties mainly comprised the deposits that we have paid for project tenders and advances to our employees for the purpose of settling expenses incurred for on business operation. The other receivables from third parties amounted to approximately HK$3.0 million and HK$0.8 million as at 30 June 2011 and 2012 respectively. The decrease in other receivables from third parties was mainly attributable to the repayments by our employees amounting to approximately HK$1.2 million and repayments by our customers amounting to approximately HK$1.0 million. The other receivables from third parties as at 31 December 2012 further decreased to approximately HK$0.7 million due to decrease in deposit for tendering. All of the advances to our employees as at 30 June 2012 have been settled before 31 December 2012.

Trade and bills payables

Trade and bills payables as at 30 June 2011 and 2012 and 31 December 2012 mainly represented the outstanding amounts payable by us to our suppliers of raw materials and our bills payables.

The following table sets out our trade and bills payables as at the balance sheet dates indicated:

	As at 30 June		**As at 31 December**
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Trade payables – due to third parties	14,440,020	15,126,400	10,779,992
Trade payables – due to related parties	10,435,579	19,461,417	4,182,465
Bills payable	156,321	1,545,227	8,659,523
	25,031,920	36,133,044	23,621,980

Our trade and bills payables increased by approximately 44.3% from approximately HK$25.0 million as at 30 June 2011 to approximately HK$36.1 million as at 30 June 2012. The increase was mainly due to the increase of trade payables to Huazhang Automation (Zhejiang), a related party of our Group. Our trade and bills payables fell to approximately HK$23.6 million as at 31 December 2012, which was mainly attributable to the decrease in trade payables to both third parties and Huazhang Automation (Zhejiang),

Trade payables due to third parties amounted to approximately HK$14.4 million, HK$15.1 million and HK$10.8 million as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively. The decrease in trade payables due to third parties as at 31 December 2012 was primarily due to increased usage of bills for settlements.

Trade payables due to related parties increased significantly from approximately HK$10.4 million as at 30 June 2011 to approximately HK$19.5 million as at 30 June 2012, primarily due to increase in purchase from Huazhang Automation (Zhejiang) to fulfill our production schedules during the year ended 30 June 2012. Trade payables due to related parties decreased to approximately HK$4.2 million as at 31 December 2012 primarily due to our relatively lower purchase volume near the end of the financial period.

Among the trade payables, warranty deposits payable to suppliers amounted to approximately HK$0.9 million, HK$2.0 million and HK$4.3 million as at 30 June 2011, 30 June 2012 and 31 December 2012 respectively. The increase in warranty deposits payable to suppliers was primarily due to increase in purchase during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

Up to 31 March 2013, approximately 73.6% of our gross trade payables as at 31 December 2012 had been settled. Our Directors confirm that all related party transactions were carried out on normal commercial terms

Trade payables turnover days

The following table sets out our Group's average number of trade payables turnover days for the year/period indicated:

	Year ended 30 June		Six months ended 31 December
	2011	2012	2012
Turnover of trade payables (days)	88	66	53

The average number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year/period plus trade payables at the end of the year/period divided by two) divided by total costs of sales for the year/period multiplied by 365 (for the years ended 30 June 2011 and 2012) or 182.5 (for the six months ended 31 December 2012). Our trade payables turnover days decreased from 88 days for the year ended 30 June 2011 to 66 days for the year ended 30 June 2012 mainly due to the quicker settlement to our suppliers in light of improvement in our operating cash flow during the year ended 30 June 2012. The further decrease in trade payable turnover days to 53 days for the six months ended 31 December 2012 was mainly due to increase in settlement of trade payables by bills. Each of the average number of trade payables turnover days in the years ended 30 June 2011 and 2012 was longer than the credit terms of approximately 15 days to 60 days granted by our suppliers, primarily attributable to the fact that credit period commences upon receipt of invoices from our suppliers. Suppliers who offer us credit terms are generally our major suppliers with long years of relationship with us. Some of them did not deliver with their goods the corresponding invoices and thus their credit periods did not commence upon our recognition of trade payables when we received the goods from these suppliers. Our Directors confirmed that we had not encountered any disputes with suppliers regarding when credit periods commence 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 following table sets out the ageing analysis of our trade payables (including the amounts due to related parties) as at the balance sheet dates:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Up to three months	22,063,814	32,356,979	12,375,677
Three months to six months	1,517,626	249,237	910,364
Six months to one year	979,058	1,428,736	624,604
One year to two years	38,791	337,404	719,551
Over two years	276,310	215,461	332,261
	24,875,599	34,587,817	14,962,457

Other payables

Our other payables mainly consisted of advances from customers and amounts due to related parties.

The following sets out the analysis of our Group's other payables as at the balance sheet dates indicated:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Other taxes payable	1,005,644	1,908,860	2,249,523
Employee benefit payables	1,889,262	2,453,325	4,933,095
Advances from customers	105,864,057	101,701,793	99,643,170
Amounts due to related parties	32,112,773	–	–
Provision for warranty expenses	516,978	1,381,593	3,159,965
Payables for property, plant and equipment	201,899	1,577,295	1,955,610
Others	1,240,556	2,014,756	1,726,960
	142,831,169	111,037,622	113,668,323

Our Group's other payables decreased by approximately 22.3% from approximately HK$142.8 million as at 30 June 2011 to approximately HK$111.0 million as at 30 June 2012.

The decrease was mainly due to (i) decrease in advances from customers of approximately HK$4.2 million from approximately HK$105.9 million in the year ended 30 June 2011 to approximately HK$101.7 million in the year ended 30 June 2012 and (ii) capitalisation of amount due to a related party in the year ended 30 June 2012 of approximately HK$35.2 million.

As at 31 December 2012, our Group's other payables increased to HK$113.7 million mainly due to (i) an increase in employee benefit payable of approximately HK$2.5 million as at 30 June 2012 to approximately HK$5.0 million as at 31 December 2012, and (ii) an increase in provision for warranty expenses from approximately HK$1.4 million as at 30 June 2012 to approximately HK$3.2 million as at 31 December 2012 as a result of the increase in revenue, partially offset by a decrease of advances from customers of approximately HK$2.1 million from approximately HK$101.7 million as at 30 June 2012 to approximately HK$99.6 million as at 31 December 2012.

Advances from customers

Advances from customers mainly represent the deposits received from customers. For details of our collection policy on customer's deposits, please refer to the paragraph headed "Customers – Payments" under the section headed "Business" in this document.

As discussed above, we generally recognise revenue from sale contracts when our customers issue us a satisfaction certificate after the successful completion of on-site testing. Advances from customers represent the amount of revenue that can be recognised upon satisfaction of certain criteria subsequent to the financial year end.

Advances from customers amounted to approximately HK$105.9 million as at 30 June 2011 and amounted to approximately HK$101.7 million as at 30 June 2012, representing a decrease of approximately 3.9%. It was primarily attributable to increase in projects completed before the year ended 30 June 2012 which was generally in line with decrease in our finished goods. As at 31 December 2012, advances from customers remained relatively stable at approximately HK$99.6 million.

As at 31 March 2013, approximately 20.3% of the advances from customers as at 31 December 2012 was subsequently recognised as revenue.

Amounts due to related parties

The amounts due to related parties represented the loans from Huazhang Overseas and Mr. Zhu and were unsecured, interest-free and repayable on demand. As at 30 June 2011, the amounts due to related parties were approximately HK$32.1 million. In the year ended 30 June 2012, we borrowed approximately HK$5.6 million from Huazhang Overseas, repaid approximately HK$2.5 million to Mr. Zhu and capitalised the amounts due to Huazhang Overseas of approximately HK$35.2 million. There was no outstanding amount due to related parties as at 30 June 2012. During the six months ended 31 December 2012, Huazhang

Overseas further advanced us HK$5.2 million to fund our daily operation. The amount was then capitalised on 31 December 2012 pursuant to relevant agreements. After this loan capitalisation, there was no outstanding amount due to related parties as at 31 December 2012.

CAPITAL EXPENDITURES

Our capital expenditures incurred during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 primarily consisted of the purchase of property, plant and equipment. Historically, we funded our capital expenditures through internal resources, other borrowings and borrowings from banks. The following table sets out our capital expenditures for the year/period indicated:

	Year ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Machineries	1,207,433	4,474,082	576,803
Furniture, fittings and equipment	683,716	1,746,019	164,337
Construction in progress	6,689,417	6,584,743	–
	8,580,566	12,804,844	741,140

CAPITAL COMMITMENT

As at 30 June 2011 and 2012 and 31 December 2012, our Group had the following capital commitments which are not provided for in our Group's combined financial statements:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Property, plant and equipment	3,193,766	1,151,478	647,410

INDEBTEDNESS

As at 31 December 2012, our Group had outstanding indebtedness of approximately HK$6.2 million, comprising secured short-term bank borrowings of approximately HK$6.2 million, which have been repaid in January 2013.

The following table sets out our indebtedness as at the end of each reporting period:

	As at 30 June		As at 31 December	As at 31 March
	2011	**2012**	**2012**	**2013**
	HK$	*HK$*	*HK$*	*HK$*
Secured short-term bank borrowings	18,037,084	18,399,941	6,166,369	–
Unsecured short-term bank borrowings	–	6,219,180	–	–
	18,037,084	24,619,121	6,166,369	–

As at 30 June 2011 and 2012, the secured short-term bank borrowings were secured by the certain land use right and buildings of our Group and guaranteed by Mr. Zhu. As at 31 December 2012, the secured short-term bank borrowings were secured by certain land use rights and buildings of our Group. The carrying amounts of our borrowings were all denominated in RMB with fixed interest rates.

The weighted average effective interest rates at each balance sheet date were as followings:

	As at 30 June		As at 31 December	As at 31 March
	2011	**2012**	**2012**	**2013**
Bank borrowing – short-term	5.62%	7.00%	7.23%	6.30%

Save as described in this section, as at 31 March 2013, our Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other significant contingent liabilities.

Our Directors confirmed that 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:

(i) we were not in breach of any covenants under our banking facilities or other payables and credit facilities;

(ii) we were not subject to any loan recall or early repayment request by our lenders;

(iii) we did not encounter any difficulty in obtaining external borrowings necessary for our operations;

(iv) there was no significant increase in the interest rates for our banking facilities; and

(v) there was no default in payment of bank borrowings.

Our Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 March 2013 and up to the date of this document.

FINANCIAL AND CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group's activities expose it to a variety of financial risks such as market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk. Our Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group's financial performance.

Market risk

Foreign exchange risk

Other than Huazhang Technology, the functional currency of our Company and its other subsidiaries is HK$, since they are [●] holding companies and their operation, financing and dividend income is denominated in HK$. The functional currency of Huazhang Technology is RMB, since majority of the Huazhang Technology's revenue is derived from operations in the PRC.

Our Group's exposure to foreign exchange risk is limited to Huazhang Technology's financing activities of issuing ordinary share, which are dominated in US dollars. Our Group does not have sales or purchase transactions (i.e. export or import of products) denominated in foreign currency, and Huazhang Technology's borrowings are dominated in RMB. The exchange rate of HK$ is pegged to USD. Given the general expectation of the strengthening of RMB, our Group has not used any financial instrument to hedge foreign exchange risk.

The results and financial position of Huazhang Technology are translated from the functional currency of RMB into the presentation currency of HK$. All resulting exchange differences are recognised as translation reserve in equity.

Cash flow and fair value interest rate risk

Our Group's exposure to changes in interest rates is mainly attributable to our bank deposits and borrowings. Bank deposits at variable rates expose our Group to cash flow interest rate risk while borrowings at fixed rates expose our Group to fair value interest rate risk. Our Group has not hedged its cash flow and fair value interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

Approximately 87.9%, 93.8% and 93.0% of our revenue during the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012, respectively, were generated from sales of industrial automation systems and sludge treatment products. We usually require a down payment of approximately 10% to 30% of the total contract value to be paid either upon signing of the relevant contract or within 30 days from the date of the contract; up to approximately 90% to 95% of the contract value upon delivery of the products to customer's site; and the remaining 5% to 10% of the contract value upon 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). In this connection, our credit risk in respect of trade and other receivables is limited as we are usually entitled to receive up to approximately 90% to 95% of the contract sum upon delivery of our products.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, our Group aims at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

We monitor our current and expected liquidity requirements to ensure that adequate reserves of cash in and sufficient banking facilities from financial institutions were maintained in order to meet our liquidity requirements. We recorded current assets of approximately HK$199.6 million (including cash and cash equivalents of approximately HK$43.8 million and restricted bank balances of approximately HK$1.5 million) as at 30 June 2012 and approximately HK$184.3 million (including cash and cash equivalents of approximately HK$23.0 and restricted bank balances of approximately HK$1.5 million) as at 31 December 2012.

DIVIDEND

Following the [●], our Shareholders will be entitled to receive dividends declared by our Company. There is no plan of dividend distribution in the foreseeable future for unremitted earnings of Huazhang Technology, our PRC subsidiary, that was earned on and after 1 January 2008 till 30 June 2012.

We intend to declare dividends of not less than 25% of our net profit for each of the financial years starting from the year ending 30 June 2013, subject to the approval of our board of Directors and Shareholders and factors including but not limited to:

- our results of operations;
- cash flows and financial condition;
- operating and capital requirements;
- amount of distributable profits;
- our Articles of Association, the Companies Law and other applicable PRC laws and regulations; and
- other factors that our Directors consider relevant.

Under the Articles of Association and the Companies Law, payment of dividends out of retained earnings is only allowed on the condition that we are able to pay our debts when they become due in the ordinary course of business at the time the proposed dividend is to be paid. Our Shareholders must approve in a general meeting any declaration of dividends, which must not exceed the amount recommended by our Directors. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Huazhang Electric declared dividends in the year ended 30 June 2012 in the sum of approximately HK$12.7 million to Huazhang Overseas. The amount was fully settled on 20 July 2011.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 26 June 2012 and has not carried on any business since the date of its incorporation. Accordingly, there were no retained earnings available for distribution to owner of our Company as at 31 December 2012, being the date to which our latest audited financial statements were made up.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particular of our property interests are set out in Appendix III to this document. Cusham & Wakefield Valuation Advisory Services (HK) Limited, an independent property valuer, has valued our Group's property interests as at 31 March 2013 and is of the opinion that the values of our Group's interests as at such date was at an aggregate amount of [HK$69,370,000]. The full text of the letter, summary of values and valuation certificates in connection with such property interests are set out in Appendix III to this document.

A reconciliation of our Group's net book value of the relevant buildings and land use rights and the valuation of such property interests as required under [●] is set forth below:

	Buildings and land use rights
	HK$
Net book value as of 31 December 2012	36,460,032
Movement for the period ended 1 January 2013 to 31 March 2013	
– Depreciation and amortisation	(406,832)
– Exchange differences	147,864
Net book value as of 31 March 2013	36,201,064
Revaluation surplus	33,168,936
	69,370,000

RECENT DEVELOPMENTS SUBSEQUENT TO 31 DECEMBER 2012

Based on our unaudited financial statements, our total revenue increased by approximately 13.5% from approximately HK$139.3 million for the nine months ended 31 March 2012 to approximately HK$158.1 million for the nine months ended 31 March 2013. The table below sets out the revenue, the corresponding amount as a percentage of our total revenue and the gross profit margin for each of our business segments for the periods indicated:

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

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

Revenue from sales of industrial automation systems decreased by approximately 20.8% for the nine months ended 31 March 2013 as compared to the same period in 2012. Such decrease was primarily attributable to the higher level of revenue recognised during the nine months ended 31 March 2012 due to delay in acceptance of our industrial automation systems in relation to seven of our sales contracts, which had an aggregate value of approximately HK35.6 million, to the nine months ended 31 March 2012. The gross profit margin of industrial automation systems increased from approximately 25.9% in the nine months ended 31 March 2012 to approximately 28.1% in the nine months ended 31 March 2013, which was due to the completion of three industrial automation system projects with a lower average profit margin of approximately 10.4% for the nine months ended 31 March 2012. We charged a lower profit margin in these projects as we treated these projects as opportunities to explore the industrial automation system market in the electricity industry, as well as to provide value-added on-site services to our customers.

Revenue contribution from our sales of sludge treatment products increased significantly to approximately 27.7% of our total revenue during the nine months ended 31 March 2013 from approximately 3.9% of our total revenue during the nine months ended 31 March 2012. Despite the significant growth in our sales of sludge treatment products, we currently have no intention to slow down the industrial automation business segment to divert its resources to the sludge treatment business segment. Our revenue from sales of sludge treatment products for the nine months ended 31 March 2013 increased by approximately 7.0 times as compared to the same period in 2012. Such significant increase was primarily because we received our first order for our sludge treatment products in March 2010 and first recognised revenue from sales of sludge treatment products in December 2010 after spending several years developing our sludge treatment products. Since then, sales of our sludge treatment products had been on an increasing trend over the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012. Through product demonstrations to our potential customers in addition to the marketing and promotional activities conducted by our salespersons, we have managed to secure more sales orders for our sludge treatment business which were subsequently delivered to our customers. We experienced an increase in sales of sludge treatment products by approximately HK$2.0 million in the three months ended 31 March 2013 as compared to the three months ended 31 March 2012. We completed 22 contracts in the three months ended 31 March 2013 while there were only two contracts completed in the three months ended 31 March 2012. The gross profit margin for our sludge treatment products increased from approximately 20.6% in the nine months ended 31 March 2012 to approximately 25.1% in the nine months ended 31 March 2013 primarily due to the completion of our major sludge treatment project with a relatively low gross margin of about 22% during the nine months ended 31 March 2012 which accounted for approximately 93.9% of our sales of sludge treatment products during the same period and shared a relatively higher production costs due to small scale of production in the three months ended 31 March 2012. As this major sludge treatment project was one of the relatively new sludge treatment projects obtained by our Group, some improvements and adjustments to certain parts and components of the sludge treatment products of this project were made subsequent to product delivery by our engineers as part of our product quality enhancement effort and were not specified in the relevant sales contracts. As such, the costs of sales incurred by our Group were higher than those originally anticipated, hence resulting in a lower gross margin for this project.

Our revenue from provision of after-sales services increased by approximately 78.2% for the nine months ended 31 March 2013 as compared to the same period in 2012 mainly as a result of the increase in the number of our completed sales contracts with expired warranty period. The gross profit margin for provision of after-sales services decreased from approximately 42.1% for the nine months ended 31 March 2012 to approximately 40.6% for the nine months ended 31 March 2013. Such decrease was due to an increase in the proportion of revenue from the sole supply of spare parts and components, which had a lower gross profit margin.

For the nine months ended 31 March 2012 and 2013, we did not experience significant fluctuations in the price paid for the parts and/or components with the same specifications within each of the major types of our raw materials used in our production.

Our trade receivables maintained at approximately HK$37.5 million and HK$37.5 million as at 31 December 2012 and 2013 respectively. As at 31 March 2013, approximately HK$6.7 million of our trade receivables as at 31 December 2012 have been settled.

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

NO MATERIAL ADVERSE CHANGE

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