The following is the text of a report received from the reporting accountant of our Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the Company's Directors.

[PWC letterhead to be inserted] ***[DRAFT]***

The Directors
Huazhang Technology Holding Limited

Dear Sirs,

We report on the financial information of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the combined balance sheets as at 30 June 2011, 2012 and 31 December 2012, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the document of the Company dated [●] (the "Document").

The Company was incorporated in the Cayman Islands on 26 June 2012 as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed "Reorganisation" below, which was completed on 3 May 2013, the Company became the holding company of the subsidiaries now comprising the Group ("Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 26 of Section II below. All of these companies are private companies or if incorporated or established outside Hong Kong, have substantially the same characteristic as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 26 of Section II.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The Underlying Financial Statements have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (普華永道中天會計師事務所有限公司) in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA under separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.3 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.3 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with [●] issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.3 of Section II below, a true and fair view of the combined state of affairs of the Group as at 30 June 2011, 2012 and 31 December 2012, and of the Group's combined results and cash flows for the Relevant Periods then ended.

,REVIEW OF [●] PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Document which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 31 December 2011 and a summary of significant accounting policies and other explanatory information (the "[●] Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the [●] Period Comparative Financial Information in accordance with the basis of presentation set out in Note 1.3 of section II below and the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the [●] Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 1.3 of section II below, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 30 June 2011, 2012 and 31 December 2012 and for each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012 (the "Financial Information"), presented on the basis set out in Note 1.3 of section II below:

(a) COMBINED BALANCE SHEETS

		As at 30 June		As at 31 December
	Note	**2011**	**2012**	**2012**
		HK$	*HK$*	*HK$*
ASSETS				
Non-current assets				
Land use rights	*6*	9,138,536	9,077,521	9,003,355
Property, plant and equipment	*7*	28,621,127	39,702,425	38,990,421
Deferred income tax assets	*16*	1,095,635	1,086,721	1,141,954
Trade and other receivables	*8*	30,873	294,122	–
Prepayments – non-current portion	*9*	1,245,190	352,450	408,137
		40,131,361	50,513,239	49,543,867
Current assets				
Inventories	*10*	104,687,797	111,170,507	115,128,642
Trade and other receivables	*8*	46,015,031	33,262,407	38,223,824
Prepayments	*9*	9,892,881	9,834,523	6,503,333
Restricted cash	*11*	551,946	1,527,484	1,535,716
Cash and cash equivalents	*11*	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

		As at 30 June		As at 31 December
	Note	**2011**	**2012**	**2012**
		HK$	*HK$*	*HK$*
EQUITY				
Capital and reserves attributable to the owner of the Company				
Reserves	*13*	13,903,664	51,468,818	59,550,042
Retained earnings	*12*	21,522,218	26,866,952	30,670,277
Total equity		35,425,882	78,335,770	90,220,319
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	*16*	–	–	215,248
Current liabilities				
Trade and other payables	*14*	167,863,089	147,170,666	137,290,303
Borrowings	*15*	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
Net current (liabilities)/assets		(4,705,479)	27,822,531	40,891,700
Total assets less current liabilities		35,425,882	78,335,770	90,435,567

(b) COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 30 June		Six months ended 31 December	
	Note	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Revenue	*17*	99,115,212	229,520,229	103,252,990	119,650,158
Cost of sales	*19*	(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	*19*	(6,424,408)	(12,224,321)	(5,905,752)	(6,884,292)
Administrative expenses	*19*	(16,616,931)	(22,123,362)	(10,263,200)	(13,739,971)
Research and development expenses	*19*	(5,799,664)	(7,437,497)	(4,595,582)	(5,780,912)
Other income	*18*	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	*22*	218,467	414,721	223,356	114,557
Finance costs	*22*	(775,937)	(1,580,076)	(482,951)	(594,373)
Finance costs – net	*22*	(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	*23*	(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

		Year ended 30 June		Six months ended 31 December	
	Note	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$* (*Unaudited*)	*HK$*
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
Dividends	*25*	–	12,713,596	12,713,596	–
Earnings per share	*24*	N/A	N/A	N/A	N/A

(c) COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owner of the Company		
	Reserves	**Retained Earnings**	**Total Equity**
	HK$	*HK$*	*HK$*
Balance at 1 July 2010	10,639,038	21,119,211	31,758,249
Comprehensive income			
Profit for the year	–	545,350	545,350
Translation differences	3,122,283	–	3,122,283
Total comprehensive income	3,122,283	545,350	3,667,633
Transactions with owners			
Profit appropriation to statutory reserves *(Note 13)*	142,343	(142,343)	–
Balance at 30 June 2011	13,903,664	21,522,218	35,425,882
Balance at 1 July 2011	13,903,664	21,522,218	35,425,882
Comprehensive income			
Profit for the year	–	19,083,369	19,083,369
Translation differences	1,315,342	–	1,315,342
Total comprehensive income	1,315,342	19,083,369	20,398,711
Transactions with owners			
Capitalisation of loan from the former parent company *(Note 1.2(b))*	35,224,773	–	35,224,773
Profit appropriation to statutory reserves *(Note 13)*	1,025,039	(1,025,039)	–
Dividends declared *(Note 25)*	–	(12,713,596)	(12,713,596)
Total transactions with owners	36,249,812	(13,738,635)	22,511,177
Balance at 30 June 2012	51,468,818	26,866,952	78,335,770

	Attributable to the owner of the Company		
	Reserves	**Retained Earnings**	**Total Equity**
	HK$	*HK$*	*HK$*
Balance at 1 July 2012	51,468,818	26,866,952	78,335,770
Comprehensive income			
Profit for the period	–	6,248,542	6,248,542
Translation differences	436,007	–	436,007
Total comprehensive income	436,007	6,248,542	6,684,549
Transactions with owners			
Capitalisation of loan from the former parent company *(Note 1.2(f))*	5,200,000	–	5,200,000
Profit appropriation to statutory reserves *(Note 13)*	2,445,217	(2,445,217)	–
Balance at 31 December 2012	59,550,042	30,670,277	90,220,319
(Unaudited):			
Balance at 1 July 2011	13,903,664	21,522,218	35,425,882
Comprehensive income			
Profit for the period	–	5,777,958	5,777,958
Translation differences	1,493,915	–	1,493,915
Total comprehensive income	1,493,915	5,777,958	7,271,873
Transactions with owners			
Profit appropriation to statutory reserves *(Note 13)*	1,025,039	(1,025,039)	–
Dividends declared *(Note 25)*	–	(12,713,596)	(12,713,596)
Balance at 31 December 2011	16,422,618	13,561,541	29,984,159

(d) COMBINED CASH FLOW STATEMENTS

		Year ended 30 June		Six months ended 31 December	
	Note	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Cash flows from operating activities					
Cash generated from/ (used in) operations	*27(a)*	12,495,065	32,931,316	789,486	(4,297,783)
Interest paid		(959,411)	(1,716,098)	(627,566)	(594,373)
Income tax paid		(1,121,031)	(3,822,164)	(206,359)	(2,306,686)
Net cash inflow/(outflow) from operating activities		10,414,623	27,393,054	(44,439)	(7,198,842)
Cash flows from investing activities					
Purchase of property, plant and equipment		(3,918,855)	(10,366,708)	(7,778,132)	(440,768)
Interest received	22	203,660	414,721	223,356	94,942
Repayment of loan from a third party	*27(b)*	17,625,331	–	–	–
Loan to related parties	29	(44,565,466)	(45,420,320)	(32,027,863)	–
Repayment of loan from related parties		41,504,882	55,244,544	37,342,616	–
Net cash inflow/(outflow) from investing activities		10,849,552	(127,763)	(2,240,023)	(345,826)
Cash flows from financing activities					
Proceeds from borrowings		17,605,530	45,019,553	26,791,368	6,149,797
Repayments of borrowings		(23,474,041)	(38,862,306)	(26,791,368)	(24,685,284)
Dividends paid to the former owners of Hua Zhang Electric Holding Company Limited	25	–	(12,713,596)	(12,713,596)	–
Loan from a related party	29	–	5,612,000	2,500,000	5,200,000
Repayment of loan to related parties		(498,567)	(2,500,000)	(2,500,000)	–
Net cash outflow from financing activities		(6,367,078)	(3,444,349)	(12,713,596)	(13,335,487)

		Year ended 30 June		Six months ended 31 December	
	Note	**2011**	**2012**	**2011**	**2012**
		HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Net increase/(decrease) in cash and cash equivalents		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 equivalents at beginning of the year/period		5,135,135	20,047,039	20,047,039	43,817,397
Cash and cash equivalents at end of the year/period	*11*	20,047,039	43,817,397	5,030,057	22,956,857

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

1.1 General information of the Group

Huazhang Technology Holding Limited (the "Company") was incorporated on 26 June 2012 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries now comprising the Group are principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products and the provision of after-sales service (the "[●] Business") in the People's Republic of China (the "PRC"). The ultimate controlling parties of the Group are Mr. Zhu Gen Rong ("Mr. Zhu"), Mr. Wang Ai Yan ("Mr. Wang"), Mr. Liu Chuan Jiang ("Mr. Liu"), and Ms. Zhu Ling Yun ("Ms. Zhu") (the "[●]", or "[●]").

1.2 The Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the [●] Business was operated through Hua Zhang Electric Holding Company Limited ("Huazhang Electric") and its PRC subsidiary, Zhejiang Huazhang Technology Limited ("Huazhang Technology"), and was controlled by the [●] through Huazhang Overseas Holding, Inc. ("Huazhang Overseas"). Pursuant to the Reorganisation, the [●] Business was transferred to the Company principally through the following steps:

(a) In March and April 2012, Huazhang Electric disposed to a third party of all its 94.55% equity interest in Tongxiang Baimadun Travel Development Company Limited ("Tongxiang Baimadun") and 100% equity interest in Tongxiang Modern Eco-Agriculture Development Company Limited ("Tongxiang Modern Eco-Agriculture"), Tongxiang Baimadun and Tongxiang Modern Eco-Agriculture were engaged in non-equipment manufacturing related businesses ("[●] Business") during the Relevant Periods.

(b) Pursuant to the board resolution of Huazhang Electric on 30 June 2012, Huazhang Electric capitalised Hong Kong Dollars ("HK$") 35,224,773 payables to Huazhang Overseas, which was satisfied by the issuance of one (1) ordinary share of Huazhang Electric at the par value of HK$1 per share to Huazhang Overseas at a premium of HK$35,224,772.

(c) In 26 June 2012, the Company was incorporated and became a wholly-owned subsidiary of Florescent Holdings Limited through a series of transactions.

(d) In 8 June 2012, Likwin Limited ("Likwin") was duly incorporated in the BVI as a company with limited liability with 1 Share being allotted and issued at par to the Company as the initial subscriber.

(e) Lian Shun Limited ("Lian Shun") is a company incorporated on 25 May 2012 and 100% owned by the [●] and Qunyu Limited ("Qunyu") is a company incorporated on 10 April 2012 and 100% owned by the [●].

(f) Pursuant to the board resolution of Huazhang Electric on 31 December 2012, Huazhang Electric capitalised HK$5,200,000 payables to Huazhang Overseas, which was satisfied by the issuance of one (1) ordinary share of Huazhang Electric at the par value of HK$1 per share to Huazhang Overseas at a premium of HK$5,199,999.

(g) On 3 May 2013, Likwin acquired 3,000,001 shares of Huazhang Electric from Huazhang Overseas and 1 share of Huazhang Electric from Mr. Zhu, representing the entire issued share capital of Huazhang Electric, through a share swap, which was satisfied by a consideration of procuring Florescent Holdings Limited, Likwin's ultimate holding company, to allot and issue 77.9% of its issued share capital to Lian Shun and 22.1% of its issued share capital to Qunyu.

Upon completion of the Reorganisation on 3 May 2013, the Company became the holding company of the Group.

The Company's direct and indirect interests in its subsidiaries as at the date of this report are set out in Note 26.

1.3 Basis of presentation

As set out above, the Reorganisation involved the demerging of the [●] Business as described in Note 1.2, and insertion of the Company and its other subsidiaries owned by the [●], as holding companies of Huazhang Electric. During the demerging process, assets, liabilities, revenues and expenses were specifically identified between [●] and [●] Business as if the demergers were taken place on 1 July 2010 or such later date when they became controlled by the [●]. The Financial Information have not included the assets, liabilities and results of the operations that were unrelated to the [●] Business and were not transferred to the Company pursuant to Reorganisation as described in Note 1.2 above, on the basis that these assets, liabilities, revenue, operating expenses and companies are engaged in dissimilar businesses from that of the Group, have separate management personnel and accounting records and have been financed and operated historically as if they were autonomous.

The Financial Information present the financial position, results and cash flows of the companies now comprising the Group as if the current group structure of the [●] Business 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 the Group are combined using the existing book values from the [●] perspective. For the purpose of this report, the Financial Information of the Group has been prepared on a basis in accordance with the principles of the issued by the HKICPA.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial information are set out below. These policies have been consistently applied to the Relevant Periods.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the HKFRSs issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of the combined financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial information are disclosed in Note 4 below.

New standards and amendments to standards have been issued but are not effective for the financial year beginning 1 July 2012 and have not been early adopted are as below:

		Effective for accounting period beginning on or after
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (revised 2011)	Separate financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKAS 28 (revised 2011)	Investments in associates and joint ventures	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015
HKFRS 1 (Amendment)	Government loans	1 January 2013

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2011 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. These improvements are effective for annual periods beginning on or after 1 January 2013, while early adoption is permitted.

Amendment to HKFRS 1	First time adoption of HKFRS
Amendment to HKAS 1	Presentation of financial statements
Amendment to HKAS 16	Property, plant and equipment
Amendment to HKAS 32	Financial instruments: Presentation
Amendment to HKAS 34	Interim financial reporting

Management is in the process of making an assessment of the impact of these new standards and amendments to standards on the financial statement of the Group in the initial application. The adoption of above is not expected to have a material effect on the Group's operating results or financial position.

2.2 Consolidation and combination

Subsidiaries

Subsidiaries are all entities over which the 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 the 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.

(i) Business combinations under common control

The 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 Relevant Periods, and the [●] Business 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.

(ii) Business combinations under non-common control

Except for the Reorganisation, the 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 the 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 owners of the acquiree and the equity interests issued by the 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, the Group recognizes 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 the 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, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors (the "Board") that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's functional currency and presentation currency is HK$, and the combined financial information is presented in HK$.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined statements of comprehensive income within 'finance income or costs'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as translation differences in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

2.5 Property, plant and equipment

Property, plant and equipment include buildings, machineries and furniture, fittings and equipment. All property, plant and equipment is 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 the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statement of comprehensive income during the financial period in which 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 (Note 2.7).

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.

2.6 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The 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.

2.7 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(a) Classification

The Group classifies its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the combined balance sheets date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the combined balance sheets (Notes 2.11 and 2.12).

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs and then subsequently carried at amortised cost using the effective interest method.

2.9 Impairment of financial assets carried at amortised cost

The 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, the 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.

2.10 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.

2.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalents.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the combined statement of comprehensive income in the period in which they are incurred.

2.17 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 the 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

Inside basis differences

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.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the 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.

2.18 Employee benefits – pension obligations

The Group entities in the PRC participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefits expenses when incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group.

2.19 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; 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.

2.20 Government grants

Government grants are recognised at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the combined statements of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

2.21 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 the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes 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 the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Group manufactures and sells a range of industrial automation systems and sludge treatment products. Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually upon delivery products to the customer and completion of the installation and debugging (if required), and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Revenue from after-sales service

The Group is engaged in the provision of after-sales service to the existing industrial automation systems customers and sludge treatment products customers. Revenue from after-sales service is recognised in accounting period in which the services rendered.

(c) Operating lease rental income

Rental income from operating leases is recognised in the combined statement of comprehensive income on a straight-line basis over the lease term. When the 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.

(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.

2.22 Operating leases

(a) A Group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the combined statements of comprehensive income on a straight-line basis over the period of the lease.

(b) A Group company is the lessor

Properties leased out under operating leases are included in 'property, plant and equipment' in the combined balance sheets (Note 7). See Note 2.21 for the recognition of rental income.

2.23 Dividend distribution

Dividend distribution to the owner of the Company is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the owners.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

Functional currency of the Company and most of its subsidiaries, except for Huazhang Technology is HK$, since they are investment holding companies and their operation, financing and dividend income is in HK$. The functional currency of Huazhang Technology is Renminbi ("RMB"), since majority of Huazhang Technology's revenue is derived from operations in Mainland China.

The Group's exposure to foreign exchange risk is limited to Huazhang Technology's financing activities of issuances of ordinary share, which are dominated in United States Dollars ("USD"). The Group doesn't 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 expectations about the strengthening of RMB, the 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 RMB into the presentation currency HK$. All resulting exchange differences are recognised as translation reserve in equity.

At 30 June 2011, 2012 and 31 December 2011 and 2012, if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, the translation reserve of each year end would have changed as follows:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Owners' equity increase/(decrease)				
– Strengthened 5%	156,114	65,767	74,696	21,800
– Weakened 5%	(156,114)	(65,767)	(74,696)	(21,800)

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Bank deposits at variable rates expose the Group to cash flows interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in Note 11 and 15.

As at 30 June 2011, 2012 and 31 December 2011 and 2012, if average interest rates on borrowings which bear fixed rates had been 10% higher/lower with all other variables held constant, the post-tax profit for the year would change as follows:

	Year ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Post-tax profit increase/(decrease)				
– 10% higher	(65,955)	(130,007)	(39,442)	(50,522)
– 10% lower	65,955	130,007	39,442	50,522

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the 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.

The Group usually requires a down payment of approximately 10 % to 30% of the total contract value to be paid 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 sum upon delivery; and the remaining 5% to 10% of the contract value will normally be payable upon the expiry of the warranty period (which is usually for a period of 18 months from the date of delivery or 12 months after completion of on-site testing whichever is earlier). In this connection, the Group's credit risk in respect of trade and other receivables is limited as we are entitled to receive up to approximately 90% to 95% of the contract sum upon delivery.

(c) 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, the Group aims at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the combined balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
As at 30 June 2011				
Borrowings*	18,290,940	–	–	18,290,940
Trade and other payables	58,571,348	–	–	58,571,348
	76,862,288	–	–	76,862,288
As at 30 June 2012				
Borrowings*	24,963,871	–	–	24,963,871
Trade and other payables	39,634,295	–	–	39,634,295
	64,598,166	–	–	64,598,166
As at 31 December 2012				
Borrowings *	6,456,342	–	–	6,456,342
Trade and other payables	27,152,607	–	–	27,152,607
	33,608,949	–	–	33,608,949

* The borrowings include future interest payable.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt refers to total "borrowings" as shown in the combined balance sheets. Total capital is calculated as 'equity' as shown in the combined balance sheets plus total debt.

During the Relevant Periods, the Group's strategy is to maintain the gearing ratio below 50%. The gearing ratio at 30 June 2011, 2012 and 31 December 2012 were as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	
Total debt – total borrowings *(Note 15) (a)*	18,037,084	24,619,121	6,166,369
Total equity	35,425,882	78,335,770	90,220,319
Total capital *(b)*	53,462,966	102,954,891	96,386,688
Gearing ratio *((a)/(b))*	34%	24%	6%

The decrease of gearing ratio during the Relevant Periods is a result of equity increase resulting from the capitalisation of loan from the former parent company (Note 1.2(b)) and profit gained during the year ended 30 June 2012, and the six months ended 31 December 2012. Repayment of bank borrowings contributed to the decrease of the gearing ratio as well for the six months ended 31 December 2012.

3.3 Fair value estimation

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents and restricted cash) and short term liabilities (including trade and other payables and short term borrowings) are assumed to approximate their fair values due to their short-term maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Critical accounting estimates and assumptions

(a) Carrying value of non-current assets

Non-current assets, including land use rights and property, plant and equipment are carried at cost less accumulated amortisation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(b) Useful lives of property, plant and equipment

The management determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. The management will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment of trade receivables

Over 30%, 15% and 10% of the trade receivables were past due over one year but not considered as impaired as at 30 June 2011, 2012 and 31 December 2012 respectively. The management estimates the provision of impairment of such receivables by assessing their recoverability individually with reference to their past repayment history as well as subsequent settlement status. Provisions are applied to these receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade receivable and impairment charge in the period in which such estimate has been changed.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

(e) Current and deferred income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

(f) Warranty claims

The Group generally offers one to two years warranties for its products sold. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. However, in so far as the factors changes, the estimate of the associated expenses may be subject to revision from time to time.

4.2 Critical judgements in applying the Group's accounting policies

(a) Revenue recognition in respect of sales of goods

The Group manufactures and sells a range of industrial automation systems and sludge treatment products. Cash collection is in accordance with the milestone specified in each sales contract (Note 3.1(b)). Under respective contracts, the Group is obliged to design and manufacture the products, and complete the functional testing after the customer's whole production line including the Group's products has been installed, for which the duration of each contact fluctuated and may last over one year. As such, the revenue to be recognised in future periods maybe related to products delivered in earlier periods.

The Group determines whether the sales contract is sales of goods or qualifies as construction contract. In making its judgement, the Group considers whether the sales contract is specifically negotiated for construction of a product. If the major structural elements of the products are designed by the Group directly with limited custom-built features based on the customer's requirements, revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually upon delivery of products to the customer and completion of the installation and debugging (if required), and the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Otherwise, the sales contract qualifies as construction contract and revenue is recognised applying the percentage of completion method. Judgment is applied in determining whether the customers' specifications are limited and that a sales contract does not qualify as construction contract. The

Group considers each sales contract separately in making its judgment. During the Relevant Periods, all the sales of the industrial automation systems and sludge treatment products made by the Group are recognised as sales of goods under HKAS 18 Revenue.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

The Board considers the business from a product perspective. The Board assesses the performance of the operating segments based on a measure of segment profit or loss.

The reportable operating segments derive their revenue primarily from the research and development, supply and sale of (i) industrial automation systems, (ii) sludge treatment products and (iii) provision of after-sales service.

No geographical segment information is presented as all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

Revenue from one customer of the industrial automation systems segment represents HK$10,057,239 of the Group's total revenue for the year ended 30 June 2011. Revenue from two customers of the industrial automation systems segment represents HK$59,163,241 of the Group's total revenue for the year ended 30 June 2012. Revenue from two customers of the sludge treatment segment represents HK$26,574,447 of the Group's total revenue for the six months ended 31 December 2012, and revenue from two customers of the industrial automation systems segment represents HK$37,019,707 (unaudited) of the Group's total revenue for the six months ended 31 December 2011.

The Board assesses the performance of the operating segments based on a measure of adjusted operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the combined financial information. The common administrative expenses, other losses, other income, financing (including finance costs and interest income) and income taxes are managed on a group basis and are not allocated to operating segments.

Segment assets consist primarily of land use rights, property, plant and equipment, inventories, trade and other receivables and prepayment. They exclude deferred income tax assets and prepaid tax, restricted cash and the cash and cash equivalents.

Segment liabilities comprise operating liabilities. They exclude borrowings, tax liabilities and other payables due to related parties.

Revenue

Turnover of the Group consists of the following revenues for the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012.

	Years ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Sales of industrial automation systems	84,716,265	200,760,826	92,367,906	69,381,447
Sales of sludge treatment products	2,362,602	14,465,470	5,455,220	41,839,930
Provision of after-sales service	12,036,345	14,293,933	5,429,864	8,428,781
	99,115,212	229,520,229	103,252,990	119,650,158

The segment results for the year ended 30 June 2011:

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	84,716,265	2,362,602	12,036,345	99,115,212
Segment cost of sales	(62,322,733)	(1,767,725)	(6,264,215)	(70,354,673)
Segment gross profit	22,393,532	594,877	5,772,130	28,760,539
Segment results	13,611,793	(7,318,940)	5,456,050	11,748,903
Common administrative expenses				(11,829,367)
Other income				1,595,800
Finance costs – net				(557,470)
Profit before income tax				957,866
Income tax expense				(412,516)
Profit for the year				545,350

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	1,992,724	5,904,126	–	683,716	8,580,566
Depreciation of property, plant and equipment	599,997	242,018	–	533,672	1,375,687
Amortization of land use rights	64,968	86,198	–	77,733	228,899

The segment assets and liabilities as at 30 June 2011 are as follows:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Total assets	146,057,537	12,907,993	10,066,363	52,294,162	221,326,055
Total liabilities	(107,804,248)	(24,218,915)	–	(53,877,010)	(185,900,173)

The segment results for the year ended 30 June 2012:

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	200,760,826	14,465,470	14,293,933	229,520,229
Segment cost of sales	(145,916,569)	(10,637,530)	(8,617,327)	(165,171,426)
Segment gross profit	54,844,257	3,827,940	5,676,606	64,348,803
Segment results	39,569,610	(7,155,329)	5,303,180	37,717,461
Common administrative expenses				(15,153,838)
Other losses				(607)
Other income				1,474,156
Finance costs – net				(1,165,355)
Profit before income tax				22,871,817
Income tax expense				(3,788,448)
Profit for the year				19,083,369

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	1,081,201	7,022,388	–	4,701,255	12,804,844
Depreciation of property, plant and equipment	823,139	676,421	–	904,382	2,403,942
Amortization of land use rights	68,805	91,289	–	82,324	242,418

The segment assets and liabilities as at 30 June 2012 are as follows:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Total assets	108,515,713	56,812,792	10,378,407	74,418,645	250,125,557
Total liabilities	(118,750,364)	(25,383,709)	–	(27,655,714)	(171,789,787)

The segment results for the six months ended 31 December 2012:

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	69,381,447	41,839,930	8,428,781	119,650,158
Segment cost of sales	(49,081,870)	(30,949,432)	(5,105,164)	(85,136,466)
Segment gross profit	20,299,577	10,890,498	3,323,617	34,513,692
Segment results	11,073,015	4,560,581	3,275,942	18,909,538
Common administrative expenses				(10,801,021)
Other income				373,169
Finance costs – net				(479,816)
Profit before income tax				8,001,870
Income tax expense				(1,753,328)
Profit for the period				6,248,542

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	–	576,803	–	164,337	741,140
Depreciation of property, plant and equipment	596,579	574,597	–	493,454	1,664,630
Amortization of land use rights	34,842	46,228	–	41,689	122,759

The segment assets and liabilities as at 31 December 2012 are as follows:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Total assets	119,596,047	53,290,562	12,131,886	48,873,744	233,892,239
Total liabilities	(117,159,467)	(17,080,798)	–	(9,431,655)	(143,671,920)

The segment results for the six months ended 31 December 2011 (Unaudited):

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue from external customers	92,367,906	5,455,220	5,429,864	103,252,990
Segment cost of sales	(68,986,312)	(4,247,071)	(3,148,919)	(76,382,302)
Segment gross profit	23,381,594	1,208,149	2,280,945	26,870,688
Segment results	16,193,397	(5,691,850)	2,239,686	12,741,233
Common administrative expenses				(6,635,079)
Other income				1,076,399
Finance costs – net				(259,595)
Profit before income tax				6,922,958
Income tax expense				(1,145,000)
Profit for the period				5,777,958

Other segment items included in the combined financial information:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Capital expenditure	1,081,572	6,150,349	–	1,442,500	8,674,421
Depreciation of property, plant and equipment	450,985	310,753	–	264,714	1,026,452
Amortization of land use rights	36,583	41,188	–	43,772	121,543

6 LAND USE RIGHTS

Land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in the PRC and are held on leases with remaining periods of between 32 to 42 years.

Movements in land use rights are as follows:

	Years ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
At beginning of year/period				
Cost	9,491,214	9,956,519	9,956,519	10,156,817
Accumulated amortisation	(556,205)	(817,983)	(817,983)	(1,079,296)
Net book amount	8,935,009	9,138,536	9,138,536	9,077,521
Opening net book amount	8,935,009	9,138,536	9,138,536	9,077,521
Amortisation for the year/period *(Note 19)*	(228,899)	(242,418)	(121,543)	(122,759)
Foreign exchange difference	432,426	181,403	234,250	48,593
Closing net book amount	9,138,536	9,077,521	9,251,243	9,003,355
At end of year/period				
Cost	9,956,519	10,156,817	10,213,445	10,211,556
Accumulated amortisation	(817,983)	(1,079,296)	(962,202)	(1,208,201)
Net book amount	9,138,536	9,077,521	9,251,243	9,003,355

Amortisation expense has been charged to "administrative expenses" in the combined statements of comprehensive income.

Pursuant to the mortgage loan agreement entered into between Huazhang Technology and China Construction Bank Corporation Tongxiang Branch (the "Bank"), the land use rights of the property held under State-owned Land Use Rights Certificate, Tong Guo Yong (2011) Di No. 18713 is subject to a mortgage. The mortgage of the land use rights has not been registered in the record of the State-owned Land Resources Bureau of Tongxiang, but the Group pledged the land use rights certificate at the Bank. The land use rights that have been pledged as securities for bank borrowings are as follows:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Cost of land use rights	3,858,754	3,936,382	3,957,744
Net book value of land use rights	3,216,241	3,201,316	3,178,659

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machineries	Furniture, fittings and equipment	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1 July 2010					
Cost	21,234,582	1,354,886	1,027,818	13,698	23,630,984
Accumulated depreciation	(2,700,757)	(335,631)	(347,565)	–	(3,383,953)
Net book amount	18,533,825	1,019,255	680,253	13,698	20,247,031
Year ended 30 June 2011					
Opening net book amount	18,533,825	1,019,255	680,253	13,698	20,247,031
Additions	–	1,207,433	683,716	6,689,417	8,580,566
Depreciation *(Note 19)*	(1,041,798)	(142,149)	(191,740)	–	(1,375,687)
Foreign exchange difference	883,080	76,081	45,410	164,646	1,169,217
Closing net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
At 30 June 2011					
Cost	22,275,603	2,658,339	1,778,683	6,867,761	33,580,386
Accumulated depreciation	(3,900,496)	(497,719)	(561,044)	–	(4,959,259)
Net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Year ended 30 June 2012					
Opening net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Additions	–	4,474,082	1,746,019	6,584,743	12,804,844
Transfers	10,565,660	–	2,955,236	(13,520,896)	–
Depreciation *(Note 19)*	(1,375,398)	(517,430)	(511,114)	–	(2,403,942)
Foreign exchange difference	462,098	83,265	66,641	68,392	680,396
Closing net book amount	28,027,467	6,200,537	5,474,421	–	39,702,425
At 30 June 2012					
Cost	33,395,663	7,230,903	6,563,008	–	47,189,574
Accumulated depreciation	(5,368,196)	(1,030,366)	(1,088,587)	–	(7,487,149)
Net book amount	28,027,467	6,200,537	5,474,421	–	39,702,425

	Buildings	Machineries	Furniture, fittings and equipment	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Six months ended 31 December 2012					
Opening net book amount	28,027,467	6,200,537	5,474,421	–	39,702,425
Additions	–	576,803	164,337	–	741,140
Depreciation *(Note 19)*	(719,904)	(343,880)	(600,846)	–	(1,664,630)
Foreign exchange difference	149,114	34,045	28,327	–	211,486
Closing net book amount	27,456,677	6,467,505	5,066,239	–	38,990,421
At 31 December 2012					
Cost	33,575,647	7,848,229	6,763,159	–	48,187,035
Accumulated depreciation	(6,118,970)	(1,380,724)	(1,696,920)	–	(9,196,614)
Net book amount	27,456,677	6,467,505	5,066,239	–	38,990,421
(Unaudited):					
At 30 June 2011					
Cost	22,275,603	2,658,339	1,778,683	6,867,761	33,580,386
Accumulated depreciation	(3,900,496)	(497,719)	(561,044)	–	(4,959,259)
Net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Six months ended 31 December 2011					
Opening net book amount	18,375,107	2,160,620	1,217,639	6,867,761	28,621,127
Additions	–	3,601,169	1,442,500	3,630,752	8,674,421
Transfers	8,391,603	–	–	(8,391,603)	–
Depreciation *(Note 19)*	(599,856)	(202,963)	(223,633)	–	(1,026,452)
Foreign exchange difference	574,698	99,600	47,147	115,794	837,239
Closing net book amount	26,741,552	5,658,426	2,483,653	2,222,704	37,106,335
At 31 December 2011					
Cost	31,350,298	6,374,570	3,285,695	2,222,704	43,233,267
Accumulated depreciation	(4,608,746)	(716,144)	(802,042)	–	(6,126,932)
Net book amount	26,741,552	5,658,426	2,483,653	2,222,704	37,106,335

Depreciation expense have been charged to the combined statements of comprehensive income as follows:

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Cost of sales	426,263	847,761	362,214	532,056
Administrative expenses	888,794	1,480,808	633,859	1,074,307
Research and development expenses	60,630	75,373	30,379	58,267
	1,375,687	2,403,942	1,026,452	1,664,630

During the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012, the Group has capitalised amounting to HK$183,474, HK$186,606, HK$163,539 and nil, respectively on qualifying assets. Borrowing costs were capitalised at the weighted average rate of 5.62%, 7.00%, 7.54% and nil for the Relevant Periods.

Buildings that have been pledged as securities for bank borrowings are as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Cost of buildings	11,730,921	20,173,288	20,282,011
Net book value of buildings	8,827,518	16,396,001	16,028,020

8 TRADE AND OTHER RECEIVABLES

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Warranty receivables – due from third parties (i)	14,557,301	16,438,956	20,965,592
Other trade receivables – due from third parties	8,663,634	8,232,616	19,305,714
Other trade receivables – due from related parties *(Note 29)*	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
Bills receivable	9,765,882	7,986,315	–
Trade and bills receivables	31,951,553	32,690,640	37,511,260
Other receivables due from related parties *(Note 29)*	11,111,615	80,960	21,493
Others	2,982,736	784,929	691,071
	14,094,351	865,889	712,564
Total trade and other receivables	46,045,904	33,556,529	38,223,824
Less: trade receivables – non-current portion	(30,873)	(294,122)	–
	46,015,031	33,262,407	38,223,824

(i) Warranty receivables represent the approximately 5% to 10% of the contract value which will be collected upon the expiry of the warranty period (which is usually for a period of 18 months from the date of delivery or 12 months after on-site testing, whichever is earlier).

As at 30 June 2011, 2012 and 31 December 2012, the ageing analysis of the warranty receivables and other trade receivables (including non-current portion) is as follows:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Warranty receivables			
Up to 3 months	2,032,890	6,668,215	7,063,399
3 months to 6 months	2,043,680	1,652,124	929,990
6 months to 1 year	1,687,308	2,725,965	7,039,550
1 year to 2 years	3,291,517	3,470,137	4,047,472
Over 2 years	5,501,906	1,922,515	1,885,181
	14,557,301	16,438,956	20,965,592

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Other trade receivables			
Up to 3 months	3,944,320	6,335,809	12,522,335
3 months to 6 months	955,258	1,000,651	2,204,239
6 months to 1 year	3,900,847	684,836	2,199,008
1 year to 2 years	432,326	2,563,262	1,582,965
Over 2 years	1,421,794	1,174,565	854,445
	10,654,545	11,759,123	19,362,992

As at 30 June 2011, 2012 and 31 December 2012, trade receivables of HK$16,421,793, HK$13,658,022 and HK$22,478,321 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 30 June		As at 31 December
	2011	2012	2012
	HK$	*HK$*	*HK$*
Past due within 3 months	3,944,320	6,335,810	12,522,335
Past due in 3 months to 6 months	955,258	1,000,651	2,204,239
Past due in 6 months to 1 year	3,900,847	684,836	2,199,008
1 year to 2 years	2,847,906	5,099,246	4,651,834
Over 2 years	4,773,462	537,479	900,905
	16,421,793	13,658,022	22,478,321

As at 30 June 2011, 2012 and 31 December 2012, trade receivables of HK$3,026,175, HK$3,493,754 and HK$2,817,324 were impaired. The amount of the provision was HK$3,026,175, HK$3,493,754 and HK$2,817,324 as at 30 June 2011, 2012 and 31 December 2012 respectively. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. The ageing of these trade receivables is as follows:

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

Movements on the Group's provision for impairment of trade receivables are as follows:

	Years ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
At 1 July	2,576,635	3,026,175	3,493,754
Provision for/(reversal of) receivables impairment *(Note 19)*	315,487	402,650	(693,390)
Foreign exchange difference	134,053	64,929	16,960
At 30 June/31 December	3,026,175	3,493,754	2,817,324

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the combined statements of comprehensive income.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Years ended 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
RMB	45,724,302	33,556,529	38,223,824
USD	321,602	–	–
	46,045,904	33,556,529	38,223,824

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

9 PREPAYMENTS

	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

10 INVENTORIES

	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

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK$70,167,255, HK$163,940,057 and HK$84,631,892, which included provision for write-down of inventories of HK$1,790,480, HK$113,570 for the years ended 30 June 2011, 2012 respectively and the reversal of inventory provision HK$744,492 for the six months ended 31 December 2012 (Note 19).

Movements on the Group's provision for write-down of inventories are as follows:

	Years ended 30 June		Six months ended 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
At 1 July	1,836,671	3,761,082	2,369,463
Provision for/(reversal of) write-down of inventories *(Note 19)*	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
At 30 June/31 December	3,761,082	2,369,463	1,635,735

As at 30 June 2011, a batch of raw materials with cost of HK$8,519,178 was considered as obsolete. A provision of HK$3,761,082 was made as at 30 June 2011. The Group provided for inventory write-down of HK$1,790,480 for the year ended 30 June 2011. The amount charged has been included in 'cost of sales' in the combined statement of comprehensive income.

As at 30 June 2012, a batch of raw materials with cost of HK$3,321,889 was considered as obsolete. A provision of HK$2,369,463 was made as at 30 June 2012. The Group wrote-off a provision of HK$1,566,239 previously made at 30 June 2011 during the year ended 30 June 2012 as the Group has sold part of these underlying goods to third parties. The Group further provided for inventory write-down of HK$113,570 for the year ended 30 June 2012. The amount charged has been included in 'cost of sales' in the combined statement of comprehensive income for the year ended 30 June 2012.

As at 31 December 2012, a batch of raw materials with cost of HK$1,984,292 was considered as obsolete. A provision of HK$1,635,735 was made as at 31 December 2012. The Group reversed HK$744,492 of a previous inventory write-down in December 2012 as the Group has utilised all of these raw materials. The amount reversed has been included in 'cost of sales' in the combined statement of comprehensive income for the six months ended 31 December 2012.

11 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Cash at bank and on hand *(a)*	20,598,985	45,344,881	24,492,573
Less: Restricted cash *(b)*	(551,946)	(1,527,484)	(1,535,716)
Cash and cash equivalents	20,047,039	43,817,397	22,956,857

(a) All cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates.

(b) Restricted cash represents cash set aside as deposits for issuance of trade facilities such as bills payable and letter of credit.

Cash and cash equivalents are denominated in the following currencies:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
RMB	19,896,590	42,079,570	21,638,448
HK$	144,423	766,419	1,312,514
USD	6,026	5,899	5,895
EURO	–	965,509	–
	20,047,039	43,817,397	22,956,857

All restricted cash is denominated in RMB.

12 RETAINED EARNINGS

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
At 1 July	21,119,211	21,522,218	21,522,218	26,866,952
Profit for the year/period	545,350	19,083,369	5,777,958	6,248,542
Dividends declared *(Note 25)*	–	(12,713,596)	(12,713,596)	–
Appropriation to statutory reserves *(Note 13)*	(142,343)	(1,025,039)	(1,025,039)	(2,445,217)
At 30 June/31 December	21,522,218	26,866,952	13,561,541	30,670,277

13 RESERVES

	Merger reserve (I)	Statutory reserves (II)	Translation differences	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 July 2010	3,000,000	1,645,276	5,993,762	10,639,038
Translation differences	–	–	3,122,283	3,122,283
Appropriation to statutory reserves *(Note 12)*	–	142,343	–	142,343
At 30 June 2011	3,000,000	1,787,619	9,116,045	13,903,664
At 1 July 2011	3,000,000	1,787,619	9,116,045	13,903,664
Translation differences	–	–	1,315,342	1,315,342
Capitalisation of loan from the former parent company *(Note 1.2(b))*	35,224,773	–	–	35,224,773
Appropriation to statutory reserves *(Note 12)*	–	1,025,039	–	1,025,039
At 30 June 2012	38,224,773	2,812,658	10,431,387	51,468,818
At 1 July 2012	38,224,773	2,812,658	10,431,387	51,468,818
Translation differences	–	–	436,007	436,007
Capitalisation of loan from the former parent company *(Note 1.2(f))*	5,200,000	–	–	5,200,000
Appropriation to statutory reserves *(Note 12)*	–	2,445,217	–	2,445,217
At 31 December 2012	43,424,773	5,257,875	10,867,394	59,550,042
(Unaudited):				
At 1 July 2011	3,000,000	1,787,619	9,116,045	13,903,664
Translation differences	–	–	1,493,915	1,493,915
Appropriation to statutory reserves *(Note 12)*	–	1,025,039	–	1,025,039
At 31 December 2011	3,000,000	2,812,658	10,609,960	16,422,618

(I) Merger reserve

The merger reserve represents: (i) the combined share capital of the companies now comprising the Group after elimination of intra-group investments; and (ii) capitalised amount of loans from the former parent company, Huazhang Overseas.

(II) Statutory reserves

Pursuant to the Company Law of the PRC and the Articles of Association of Huazhang Technology, a subsidiary of the Company in the PRC, it is required to appropriate 10% of each year's net profit according to the PRC accounting standard and regulations (after offsetting previous years' losses) to statutory surplus reserve until such reserve reached 50% of its registered capital; after the appropriation to statutory surplus reserve, the subsidiary in the PRC can appropriate profit, subject to respective owners' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to owners. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the PRC subsidiary. The statutory surplus reserve can be transferred to paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of its registered capital.

14 TRADE AND OTHER PAYABLES

	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 *(Note 29)*	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
Other taxes payable	1,005,644	1,908,860	2,351,866
Employee benefit payables	1,889,262	2,453,325	4,933,095
Accrued operating expenses	15,800	90,800	49,600
Advances from customers *(a)*	105,864,057	101,701,793	99,643,170
Amounts due to related parties *(Note 29)*	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
Payables for professional service fees	–	–	942,282
Others	1,224,756	1,923,956	632,735
	142,831,169	111,037,622	113,668,323
	167,863,089	147,170,666	137,290,303

(a) Advances from customers represent the down payment from the customers according to the contract payment schedule. The Group usually requires a down payment of approximately 10% to 30% of the total contract value to be paid 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 sum upon delivery, but before the completion of the installation and debugging.

At 30 June 2011, 2012 and 31 December 2012, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) is as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Up to 3 months	22,063,814	32,356,979	12,375,677
3 months to 6 months	1,517,626	249,237	910,364
6 months to 1 year	979,058	1,428,736	624,604
1 year to 2 years	38,791	337,404	719,551
Over 2 years	276,310	215,461	332,261
	24,875,599	34,587,817	14,962,457

15 BORROWINGS

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Current			
– Secured short-term bank borrowings (i)	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

(i) As at 30 June 2011 and 2012, these short-term bank borrowings are secured by the land use rights (Note 6) and buildings of the Group (Note 7), and is guaranteed by Mr. Zhu, a related party (Note 29).

As at 31 December 2012, these short-term bank borrowings are secured by the land use rights (Note 6) and buildings of the Group (Note 7).

The carrying amounts of the Group's borrowings are all denominated in RMB.

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

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
Bank borrowings – short-term	5.62%	7.00%	7.23%

The fair value of current bank borrowings approximate their carrying amount.

16 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. As at 30 June 2011, 2012 and 31 December 2012, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Deferred tax assets:			
– to be recovered after more than 12 months	–	–	–
– to be recovered within 12 months	1,095,635	1,086,721	1,141,954
	1,095,635	1,086,721	1,141,954
Deferred tax liabilities:			
– to be recovered after more than 12 months	–	–	–
– to be recovered within 12 months	–	–	215,248
	–	–	215,248

The gross movement on the deferred income tax account is as follows:

	Provision for warranty expenses	Provision for impairment	Withholding tax on unremitted earnings of Huazhang Technology	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 July 2010	48,395	661,996	–	710,391
Credited to the combined statement of comprehensive income *(Note 23)*	26,139	315,895	–	342,034
Foreign exchange difference	3,012	40,198	–	43,210
At 30 June 2011	77,546	1,018,089	–	1,095,635
At 1 July 2011	77,546	1,018,089	–	1,095,635
Credited/(Charged) to the combined statement of comprehensive income *(Note 23)*	126,857	(157,503)	–	(30,646)
Foreign exchange difference	2,835	18,897	–	21,732
At 30 June 2012	207,238	879,483	–	1,086,721
At 1 July 2012	207,238	879,483	–	1,086,721
Credited/(Charged) to the combined statement of comprehensive income *(Note 23)*	264,926	(215,682)	(214,671)	(165,427)
Foreign exchange difference	1,830	4,159	(577)	5,412
At 31 December 2012	473,994	667,960	(215,248)	926,706
(Unaudited):				
At 1 July 2011	77,546	1,018,089	–	1,095,635
Credited/(Charged) to the combined statement of comprehensive income *(Note 23)*	188,572	(176,635)	–	11,937
Foreign exchange difference	4,433	23,992	–	28,425
At 31 December 2011	270,551	865,446	–	1,135,997

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 30 June 2011, 2012 and 31 December 2012, the Group did not recognise deferred income tax assets of HK$4,198, HK$222,631 and HK$543,239 in respect of tax losses amounting to HK$25,446, HK$1,349,280 and HK$3,292,357 arising from Huazhang Electric, a company incorporated in Hong Kong, as the management did not expect the tax losses can be realised in the foreseeable future. There is no expiry date for the tax losses of Huazhang Electric.

No deferred tax liabilities for unremitted earnings of the PRC subsidiary that earned on and after 1 January 2008 till 30 June 2012 (the "Unremitted Earnings") have been recognised as there is no plan of the dividends distribution in the foreseeable future for the Unremitted Earnings, which are intended to be reinvested in PRC permanently. As at 30 June 2011 and 2012, the undistributed profit of the PRC subsidiary subject to local tax authority's review was HK$2,138,309 and HK$21,545,919, respectively. The corresponding unrecognised deferred income tax liabilities were HK$213,831 and HK$2,154,592 as at 30 June 2011 and 2012 respectively.

The 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 the Board of Directors and Shareholders. The remaining 75% of the net profit is intended to be reinvested in PRC permanently. As at 31 December 2012, unremitted earnings of the PRC subsidiary subject to local tax authority's review was HK$28,387,148, the corresponding unrecognised deferred income tax liabilities was HK$2,838,715.

17 REVENUE

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Revenue from sales of industrial automation systems	84,716,265	200,760,826	92,367,906	69,381,447
Revenue from sales of sludge treatment products	2,362,602	14,465,470	5,455,220	41,839,930
Revenue from provision of after-sales service	12,036,345	14,293,933	5,429,864	8,428,781
	99,115,212	229,520,229	103,252,990	119,650,158

18 OTHER INCOME

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
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

19 EXPENSES BY NATURE

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Raw materials used	121,014,193	148,734,138	75,069,847	82,919,790
Change in inventories of finished goods and work in progress *(Note 10)*	(60,030,015)	4,156,680	(5,269,310)	(4,971,733)
Employee benefit expenses *(Note 20)*	21,543,621	28,002,950	16,045,173	17,522,010
Amortisation of land use rights *(Note 6)*	228,899	242,418	121,543	122,759
Depreciation of property, plant and equipment *(Note 7)*	1,375,687	2,403,942	1,026,452	1,664,630
Transportation expenses	1,863,135	3,466,593	2,063,788	2,190,546
Utilities	202,201	444,822	154,439	303,916
Travelling expenses	2,943,878	3,605,827	2,025,045	2,175,476
Advertising costs	253,631	303,861	300,514	236,817
Provision for/(reversal of) impairment of trade receivables *(Note 8)*	315,487	402,650	(208,230)	(693,390)
Provision for/(reversal of) write-down of inventories *(Note 10)*	1,790,480	113,570	(969,336)	(744,492)
Miscellaneous tax charges other than value added tax and income tax	578,913	1,822,904	610,605	648,414
Warranty expenses	1,845,897	4,755,445	2,246,435	2,331,773
Office expenses	1,351,292	2,599,633	1,610,971	1,406,857
Entertainment expenses	1,598,486	1,731,574	909,891	769,961
Auditors' remuneration	164,318	85,011	136,392	59,736
Professional service fees	–	2,193,887	–	4,684,906
Other expenses	2,155,573	1,890,701	1,272,617	913,665
Total cost of sales, distribution costs and administrative expenses	99,195,676	206,956,606	97,146,836	111,541,641

20 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Wages and salaries	10,775,819	15,006,605	8,495,196	9,276,214
Bonus	3,875,731	4,336,970	1,913,327	2,459,919
Social security costs	3,300,528	4,227,068	2,673,628	2,981,378
Other benefits	3,591,543	4,432,307	2,963,022	2,804,499
	21,543,621	28,002,950	16,045,173	17,522,010

21 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the year ended 30 June 2011 is set out as follows:

Name	Fees	Salary	Bonus	Other Benefits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	873,234	145,539	57,724	1,076,497
Mr. Jin Hao	–	380,279	266,474	61,239	707,992
Mr. Zhong Xin Gang	–	93,896	11,737	17,555	123,188
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	1,347,409	423,750	136,518	1,907,677

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the year ended 30 June 2012 is set out as follows:

Name	Fees	Salary	Bonus	Other Benefits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	903,549	188,239	57,942	1,149,730
Mr. Jin Hao	–	429,914	457,892	63,881	951,687
Mr. Zhong Xin Gang	–	291,467	48,578	57,339	397,384
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	1,624,930	694,709	179,162	2,498,801

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the six months ended 31 December 2012 is set out as follows:

Name	Fees	Salary	Bonus	Other Benefits	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	458,820	152,940	31,001	642,762
Mr. Jin Hao	–	222,010	74,003	34,275	330,288
Mr. Zhong Xin Gang	–	159,107	56,736	34,768	250,611
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	839,937	283,679	100,044	1,223,661

The remuneration of each director of the Company paid/payable by the companies now comprising the Group for the six months ended 31 December 2011 (Unaudited) is set out as follows:

Name	**Fees**	**Salary**	**Bonus**	**Other Benefits**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Mr. Zhu *(i)*	–	442,044	73,674	29,220	544,938
Mr. Jin Hao	–	192,503	134,894	31,000	358,397
Mr. Zhong Xin Gang	–	142,595	11,883	28,417	182,895
Mr. Kong Chi Mo *(ii)*	–	–	–	–	–
Mr. Dai Tian Zhu *(ii)*	–	–	–	–	–
Ms. Chen Jin Mei *(ii)*	–	–	–	–	–
	–	777,142	220,451	88,637	1,086,230

(i) The chief executive of the Company is Mr. Zhu, who is one of the directors.

(ii) Mr. Kong Chi Mo, Mr. Dai Tian Zhu and Ms. Chen Jin Mei were appointed as directors on 6 May 2013.

For the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012 include two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012 are as follows:

	Years ended 30 June		**Six months ended 31 December**	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Fees	–	–	–	–
Salary	1,380,274	1,457,336	698,715	814,323
Bonus	212,440	285,395	107,540	165,274
Other benefits	176,221	196,851	89,205	71,255
	1,768,935	1,939,582	895,460	1,050,852

The emoluments fell within the following bands:

	Number of individuals Years ended 30 June		Number of individuals Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
			(Unaudited)	
Emolument bands (in HK$)				
HK$200,001 – HK$500,000	–	–	3	3
HK$500,001 – HK$1,000,000	3	3	–	–

For the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012, no emoluments were paid by the Group to the five highest individuals as inducement to join or upon joining the Group or as compensation for loss of office.

22 FINANCE COSTS – NET

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
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 *(Note 7)*	(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

23 INCOME TAX EXPENSE

	Years ended 30 June		Six months ended 31 December	
	2011	2012	2011	2012
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Current income tax				
– PRC enterprise income tax	754,550	3,757,802	1,156,937	1,587,901
Deferred income tax *(Note 16)*	(342,034)	30,646	(11,937)	165,427
Income tax expense	412,516	3,788,448	1,145,000	1,753,328

(i) Cayman Islands profits tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profit tax rate is 16.5% for the Relevant Periods.

(iii) PRC enterprise income tax ("EIT")

EIT is provided on the assessable income of entity within the Group incorporated in the PRC.

Pursuant to the PRC Enterprise Income Tax Law (the "New EIT Law"), the EIT is unified at 25% for all types of entities, effective from 1 January 2008.

Huazhang Technology is qualified as a foreign investment manufacturing enterprise. Huazhang Technology's applicable EIT rate is 25% according to the New EIT Law. Under the relevant regulations of the new EIT Law, Huazhang Technology obtained qualification as High and New Technology enterprise in Calendar Year 2008 and 2011 respectively, with validation period of three years each. The applicable EIT rate of Huazhang Technology will be 15% from 2008 till 2013. For the Relevant Periods, the applicable income tax rate of Huazhang Technology is 15%.

(iv) PRC withholding income tax

According to the new EIT 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.

No deferred tax liabilities for the Unremitted Earnings of the PRC subsidiary that earned on and after 1 January 2008 till 30 June 2012 have been recognised as there is no plan of the dividends distribution in the foreseeable future for the Unremitted Earnings, which are intended to be reinvested in PRC permanently.

The 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 the Board of Directors and Shareholders. The remaining 75% of the net profit is intended to be reinvested in PRC permanently. As at 31 December 2012, unremitted earnings of PRC subsidiary subject to local tax authority's review was HK$27,986,026. The corresponding unrecognised deferred income tax liabilities were HK$2,798,603.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined entities as follows:

	Years 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 rates applicable to profits in the respective jurisdiction	241,629	5,832,643	1,731,782	2,280,318
Tax effects 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 asset was recognised *(Note 16)*	4,198	222,631	2,024	543,239
Tax charges	412,516	3,788,448	1,145,000	1,753,328

24 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the group reorganisation and the preparation of the results for each of the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012 on a combined basis as disclosed in Note 1.3 above.

25 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

Dividends during each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012 represented dividends declared by the companies now comprising the Group to the then owners of the respective companies for each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012, after elimination of intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

26 GROUP ENTITIES

Particulars of the companies now comprising the Group are as follows:

Company name	Place and date of incorporation	Legal status	Registered or authorised capital	Issued and fully paid share capital	Effective interest held * As at 30 June 2011	Effective interest held * As at 30 June 2012	Effective interest held * As at 31 December 2012	Principal activities
Huazhang Technology	PRC, 19 July 2001	Foreign investment enterprise	USD5,300,000	USD5,300,000	100%	100%	100%	Research and development, supply and sale of industrial automation systems and sludge treatment products, and the provision of after-sales service
Huazhang Electric	Hong Kong, 25 March 1993	Investment enterprise	HK$5,000,000	HK$3,000,002	100%	100%	100%	Investment holding
Likwin	BVI, 8 June 2012	Investment enterprise	USD50,000	USD1	N/A	N/A	N/A	Investment holding

* Likwin is directly held by the Company, all other subsidiaries now comprising the Group are indirectly held by the Company.

The companies that have statutory audited financial statements during the Relevant Periods and the name of the auditors are as follows:

Company name	Financial years ended	Name of statutory auditor
Huazhang Technology	31 December 2010 and 2011	China Audit International Certified Public Accountants
	31 December 2012	Qiuzhen Certified Public Accountants

Company name	Financial years ended	Name of statutory auditor
Huazhang Electric	30 June 2011 and 2012	Bentleys C.P.A. Company Limited

Except for the above companies, no audited statutory financial statements were prepared for other group entities as they were either not required to issue audited financial statements under the local statutory requirements or were newly established that their first statutory audits are not yet to come.

The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

27 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from/(used in) operations

	Years ended 30 June		Six months ended 31 December	
Cash generated from operations	**2011**	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Profit before income tax	957,866	22,871,817	6,922,958	8,001,870
Adjustments for:				
– Depreciation of property, plant and equipment *(Notes 7)*	1,375,687	2,403,942	1,026,452	1,664,630
– Amortisation of land use rights *(Notes 6)*	228,899	242,418	121,543	122,759
– Provision for/(reversal of) impairment of receivables *(Note 8)*	315,487	402,650	(208,230)	(693,390)
– Provision for/(reversal of) write-down of inventories *(Note 10)*	1,790,480	113,570	(969,336)	(744,492)
– Finance income *(Note 22)*	(218,467)	(414,721)	(223,356)	(114,557)
– Finance costs *(Note 22)*	775,937	1,580,076	482,951	594,373
Changes in working capital:				
– Restricted cash	786,925	(975,538)	(14,243)	(8,232)
– Inventories	(65,506,983)	(6,657,330)	(8,457,068)	(3,224,407)
– Trade and other receivables and prepayments	(1,254,201)	3,506,004	12,202,889	384,732
– Trade and other payables	73,243,435	9,858,428	(10,095,074)	(10,281,069)
Cash generated from/(used in) operations	12,495,065	32,931,316	789,486	(4,297,783)

(b) Repayment of loan from a third party

This represents Huazhang Technology's collection of loan from a third party with amount of HK$17,625,331. The loan is unsecured, bears no interest and is repayable on demand. The loan has been fully repaid in the year ended 30 June 2011.

(c) Non-cash transactions

The principal non-cash transaction during the Relevant Periods is the capitalisation of loan from the former parent company, Huazhang Overseas discussed in Note 1.2(b) and Note 1.2(f).

28 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

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

(b) Operating lease commitments

The Group leases an office and motor vehicles under non-cancellable operating lease agreements. The lease terms are within 1 year, and the majority of lease agreements are renewable at the end of the lease period at market rate.

	Years ended 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
No later than 1 year	90,907	92,736	227,052

29 RELATED-PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 30 June 2011, 2012 and six months ended 31 December 2011, 2012, and balances arising from related party transactions as at 30 June 2011, 2012 and 31 December 2012.

(a) Name and relationship with related parties

Company name	Relationships
Mr. Zhu (i)	[●], key management, owner of the Company
Mr. Wang (i)	[●]
Mr. Liu (i)	[●], key management
Ms. Zhu (i)	[●]
Mr. Tang Zhi Chao	Key management
Mr. Zhong Xin Gang	Key management
Mr. Jin Hao	Key management
Mr. So, Alan Wai Shing	Key management
Mr. Zhu Genyi	Brother of Mr. Zhu
Huazhang Overseas	The former parent company, controlled by the [●]
Zhejiang Huazhang Automation Equipment Company Limited ("Huazhang Automation (Zhejiang)")	30% of its indirect interests held by Huazhang Overseas
Hangzhou Yiyi Corporate Management Consultation Limited ("Hangzhou Yiyi Consultation") (formerly known as Hangzhou Huazhang Electric Engineering Company Limited) (ii)	39.5% of its direct interests held by Mr. Zhu
Shanghai Yunjie Corporate Management Consultation Limited ("Shanghai Yunjie Consultation") (formerly known as Shanghai Huazhang Electric Control Engineering Company Limited) (iii)	45% of its direct interests held by Mr. Zhu
Hangzhou Rong Wei Industrial Investment Company Limited ("Hangzhou Rong Wei")	Controlled by the owner of the Company, and was deregistered in April 2012
Hangzhou Tiger Power Automation Company Limited ("Hangzhou Tiger Power")	25% of its direct interests held by Mr. Zhu
Tongxiang Modern Eco-Agriculture	Subsidiary of Huazhang Electric before 10 April 2012

(i) Mr. Zhu, Mr. Wang, Mr. Liu and Ms. Zhu form the [●].

(ii) Pursuant to the equity transfer agreement entered into between Mr. Zhu and Mr. Wang on 15 August 2012, Mr. Zhu transferred the 39.5% equity interest in Hangzhou Yiyi Consultation to Mr. Wang. Hangzhou Yiyi Consultation ceased to be the related party of the Group since 15 August 2012.

(iii) Pursuant to the equity transfer agreement entered into between Mr. Zhu and Mr. Wang on 28 August 2012, Mr. Zhu transferred the 45% equity interest in Shanghai Yunjie Consultation to Mr. Wang. Shanghai Yunjie Consultation ceased to be the related party of the Group since 28 August 2012.

(b) Transactions with related parties

Continuing transactions

(i) Sales of goods and services

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Automation (Zhejiang)	10,079,567	5,805,000	2,668,138	2,725,958

(ii) Purchases of goods and services

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Automation (Zhejiang)	54,885,790	67,909,396	31,647,703	31,196,439

(iii) Rental income

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Automation (Zhejiang)	129,107	165,110	80,374	81,177

(iv) Key management compensation

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Salaries	2,727,683	3,157,266	1,276,224	1,654,260
Bonus	636,190	980,104	294,719	448,953
Other benefits	312,739	376,013	149,501	171,299
	3,676,612	4,513,383	1,720,444	2,274,512

(v) Dividend declared to the owner of Huazhang Electric

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Overseas	–	12,713,596	12,713,596	–

Non-continuing transactions

(i) Rental income

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Hangzhou Rong Wei	230,809	119,411	115,404	–
Hangzhou Yiyi Consultation	29,577	–	–	–
	260,386	119,411	115,404	–

(ii) Loan from a related party

	Years ended 30 June		Six months ended 31 December	
	2011	**2012**	**2011**	**2012**
	HK$	*HK$*	*HK$* *(Unaudited)*	*HK$*
Huazhang Overseas	–	5,612,000	2,500,000	5,200,000

(iii) Loan to related parties

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

(c) Balances with related parties

(i) Due from related parties (Note 8):

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Included in trade receivables			
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		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Included in other receivables			
Ms. Zhu	9,619,778	–	–
Shanghai Yunjie Consultation	1,088,847	–	–
Hangzhou Rong Wei	293,325	–	–
Huazhang Automation (Zhejiang)	79,363	80,960	–
Hangzhou Yiyi Consultation	30,302	–	–
Mr. Zhu Genyi	–	–	21,493
	11,111,615	80,960	21,493

(ii) Due to related parties (Note 14):

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Included in trade payables			
Huazhang Automation (Zhejiang)	10,430,769	19,461,417	4,182,465
Hangzhou Yiyi Consultation	4,810	–	–
	10,435,579	19,461,417	4,182,465

	As at 30 June		As at 31 December
	2011	**2012**	**2012**
	HK$	*HK$*	*HK$*
Included in other payables			
Huazhang Overseas	29,631,671	–	–
Mr. Zhu	2,481,102	–	–
	32,112,773	–	–

The receivables from and payables to related parties as at 30 June 2012 and 31 December 2012 arise mainly from ordinary course of businesses. The receivables from and payables to related parties as at 30 June 2011 arise mainly from fund advances among the companies now comprising the Group and related parties, which have been subsequently settled.

The receivables are unsecured, bear no interest and are repayable on demand. There are no provisions made against receivables from related parties.

The payables are unsecured, bear no interest and are repayable on demand.

(d) Borrowings secured by a related party

Bank borrowings of HK$18,037,084 and HK$18,399,941 as at 30 June 2011 and 2012 respectively are guaranteed by Mr. Zhu (Note 15), which has been released as at 31 July 2012.

30 SUBSEQUENT EVENTS

(a) Increase of authorised share capital

Pursuant to a shareholder's resolution dated [●], the authorised share capital of the Company increased from HK$[●] to HK$[●] divided into [●] ordinary shares of par value HK$[●] each.

(b) [●]

[●]

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2012 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2012.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong