華章科技控股有限公司

Huazhang Technology Holding Limited

(Incorporated in Cayman Islands with limited liability)
Stock code : 8276

2013
ANNUAL REPORT

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This report, for which the directors (the "Directors") of Huazhang Technology Holding Limited (the "Company" and together with its subsidiaries, the "Group") collectively and individually accept full responsibility, include particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("the GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication and the Company's website at www.hzeg.com.

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BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr Zhu Gen Rong *(Chairman)*
Mr Zhong Xin Gang
Mr Jin Hao

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Dai Tian Zhu
Ms Chen Jin Mei
Mr Kong Chi Mo

COMPLIANCE ADVISER

Guotai Junan Capital Limited

AUTHORISED REPRESENTATIVES

Mr Zhu Gen Rong
Mr So, Alan Wai Shing

COMPANY SECRETARY

Mr So, Alan Wai Shing

AUDIT COMMITTEE

Mr Kong Chi Mo *(Chairman)*
Ms Chen Jin Mei
Mr Dai Tian Zhu

CORPORATE INFORMATION *(Continued)*

REMUNERATION COMMITTEE

Ms Chen Jin Mei *(Chairman)*
Mr Kong Chi Mo
Mr Dai Tian Zhu

NOMINATION COMMITTEE

Mr Dai Tian Zhu *(Chairman)*
Mr Kong Chi Mo
Ms Chen Jin Mei
Mr Zhu Gen Rong

COMPLIANCE OFFICER

Mr Jin Hao

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong Law
Stevenson Wong & Co.

PRINCIPAL BANKERS

China CITIC Bank International
China Construction Bank Corporation (Tongxiang Sub-Branch)

CORPORATE INFORMATION *(Continued)*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 5A, 8th Floor
Tower 1, South Seas Centre
75 Mody Road
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

WEBSITE

www.hzeg.com

STOCK CODE

8276

FINANCIAL SUMMARY

Year ended 30 June	**2013** ***HK$***	2012 *HK$*	2011 *HK$*
Major Items of Consolidated Statements of Comprehensive Income			
Revenue	**251,362,209**	229,520,229	99,115,212
Gross profit	**71,672,996**	64,348,803	28,760,539
Gross profit margin	**28.5%**	28.0%	29.0%
Profit attributable to the owners of the Company	**17,682,187**	19,083,369	545,350
Net profit margin	**7.0%**	8.3%	0.6%
Major Items of Consolidated Balance Sheets			
Non-current assets	**49,671,908**	50,513,239	40,131,361
Current assets	**244,241,640**	199,612,318	181,194,694
Non-current liabilities	**807,350**	—	—
Current liabilities	**116,898,276**	171,789,787	185,900,173
Capital and reserves attributable to the owners of the Company	**176,207,922**	78,335,770	35,425,882
Gearing ratio *(Note 2)*	**–**	23.9%	33.7%

Notes

(1) The results and summary of assets and liabilities for the year ended 30 June 2011 and 2012 which were extracted from the Prospectus have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at time when the Company's shares were listed on the GEM of the Stock Exchange, had been in existence through those years.

(2) Gearing ratio is calculated based on the total debt at the end of the year divided by total debt plus total equity at the end of the respective year and multiplied by 100%. Total debt represents bank borrowings. As the Group had repaid all bank borrowings as at 30 June 2013, the gearing ratio was not applicable to the Group for the year ended 30 June 2013.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Huazhang Technology Holding Limited, I am pleased to report the results for the year ended 30 June 2013 (the "Reporting Period") of the Company and Group.

This is the first annual report since the listing of the Group on GEM of the Stock Exchange on 16 May 2013. After being listed, fund raised through placing amounted to approximately HK$81,600,000, manifesting the support and trust of investors to the Group. In particular, it was planned that approximately 30% of the proceeds would be used on building new production plants, improving road and increasing the greenery in the factory area, and approximately 30% would be used to build a new production line and numerical control equipment for the production of cabinets.

Being listed on GEM of the Stock Exchange is an important milestone on our development over the years. We are inspired by this success and are pleased that the investors acknowledged our down-to-earth and progressive strategy. Being listed is a turning point for the business development of the Company. After being listed, we will seize every business opportunity while continue consolidating the existing market of the Group in order to gain ideal returns.

The Group is principally engaged in the research and development, manufacture and sale of industrial automation systems and sludge treatment products for the paper-making industry and other industries such as metallurgy and electricity in the PRC. Our industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers and are mainly sold to customers in the paper-making industry in the PRC.

For the year ended 30 June 2012 and 30 June 2013, the Group's sales of industrial automation systems amounted to approximately HK$200,761,000 and HK$174,946,000 respectively, representing a decrease of approximately 12.9%, while that of sludge treatment products increased significantly from approximately HK$14,465,000 for the year ended 30 June 2012 to approximately HK$54,852,000 for the year ended 30 June 2013, representing an increase of approximately 279.2%. Meanwhile, the Group also provided after-sales services to its existing customers. Revenue from after-sales maintenance services grew from HK$14,294,000 for the year ended 30 June 2012 to approximately HK$21,564,000 for the year ended 30 June 2013, representing an increase of approximately 50.9%.

Since mid-2012 till now, though still in the aftermath of the European debt crisis and the slowing down of growth in consumer consumption of Western countries, the global economy has been regaining stability as compared with the severe condition last year. The PRC market is also gaining momentum compared with its state under macro-control in the past, which helped the paper-making industry showing signs of moderate recovery from the bottom. That elevated the selling price of the automation system products for the paper-making industry of the Group, and also drove up the gross profit rate.

We are committed to becoming a leading provider of industrial automation systems and sludge treatment products in the PRC. By adopting various business strategies, we plan to strengthen the market position of existing products and services in the PRC, and to develop new products and new markets at the same time.

At present, the Group's production facilities are located at Zhenhua Road, No. 2 Industrial Zone, Tongxiang Economic & Technical Development Zone, Tongxiang, Zhejiang Province, the PRC. There are in total nine buildings used for production, ancillary office and dormitory purposes. The Group's production process mainly involves the assembly of various parts and components.

Labour and availabilty of production plants and manufacturing equipment are the two major factors determining production capacity. As at 30 June 2013, the Group's estimated maximum annual production capacity for the production of industrial automation systems and sludge treatment products are 2,500 units and 42 units respectively.

The Group plans to build a new production plant on its existing factory site before December 2014 and set up a new production line for cabinets which is expected to be put into production before December 2014. In addition, the Group will also contribute capitals to improve its production process and add new laboratory facilities and equipment. Meanwhile, the Group will also increase its investment in technological research in developing new products and enhancing our existing products. In terms of branding and sales, the Group will improve its image through various advertising and sales promotion, and will upgrade the current enterprise resources planning system to provide more comprehensive services to our customers.

China has maintained a rapid economic growth in recent years, which has provided advantageous conditions for the development of the paper-making industry and the environment-protection products industry. The paper-making enterprises intend to increase the investment in environment-protection facilities, which has provided room for the development of the sludge treatment products industry. The PRC government, with increasing concerns over environment issues, has promulgated several policies and plans as the new requirements and guidance for energy-saving and emission reduction in the paper-making industry, thus encouraged the paper-making enterprises to use sludge treatment products.

I am convinced that the need for industrial automation in the paper-making industry will be more pronounced, as the environmental protection standards keep rising and the industry on the whole will be more intensive resulting small-scale paper-making plants exiting from the market gradually. These changes will provide a favorable market environment for the Group. The expanding domestic market promises strong growth potential for the paper-making industry, and will pose a positive influence on the Group in terms of various aspects such as capacity and scale, product diversification and customer basis. Such influence will enhance the operating results of the Group in terms of sales, market share, profit and other aspects.

In the future, we will expand the overall business of the Group both in depth and in breadth, and actively seek cooperation opportunities. The Group plans to establish a General Business Division in 2014 to boost its market share in automation control systems for non paper-making industries. It will establish a Motor Distribution Division mainly responsible for the sales of variable frequency motors, constant velocity motors and high-voltage motors. It will keep developing the market of paper for daily use and exploring the business mode of "system+installation+testing". Moreover, it will promote the environmental protection business steadily at the encouragement of favourable national policies.

The Board recommends distribution of final dividends for 2013 at HK$3.3 cents per share (2012: Nil).

Finally, I would like to express my gratitude to every director and the conscientious management and staff for their contribution to the development of the Group. I would also like to extend my heartfelt thanks to all the business partners, customers and shareholders which have been supporting the Group.

Regards,

Mr Zhu Gen Rong
President

Hong Kong, 25 September 2013

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr ZHU Gen Rong（朱根榮）, aged 50, is the chairman of our board and an executive Director. He is also a member of the Nomination Committee and one of our Controlling Shareholders. Mr Zhu oversees the overall operation and is responsible for the overall strategic planning, development, and management of our Group. Mr Zhu has approximately 20 years of experience in the mechanical and engineering industry. Prior to founding our Group, Mr Zhu worked at Hangzhou Project and Research Institute of Electro-mechanic in Light Industry（輕工業杭州機電設計研究院）from 1984 to 1993, a state-owned entity principally engaged in the business of , among others, researches in the technology for wood pulp, paper-making and the automation of electric instruments and he took up several positions including the deputy head of the product development department. He then worked as general manager at Hangzhou Microelectronics Company Limited（杭州華章微電子公司）from 1993 to 1996, a company principally engaged in the business of manufacturing of mixed integrated circuit and electrical ballast, accepting tenders for projects of industrial automation system, and the purchasing of materials and equipment for industrial automation systeMs He also founded Hangzhou Yiyi Consultation (then known a Hangzhou Huazhang Electric Engineering Company Limited) in December 1996, Hangzhou Rongtai Electric in December 1998 and Shanghai Yunjie Consultation (then known as Shanghai Huazhang Electric Control Engineering Company Limited) in May 1999, of which the businesses of all three companies were then transferred to Huazhang Automation (Zhejiang) in November 2006. Hangzhou Rongtai Electric has been deregistered. Mr Zhu founded Zhejiang Huazhang Technology Limited（浙江華章科技有限公司）, the PRC operating subsidiary of our Company, in July 2001. Mr Zhu obtained a diploma in industrial electrical automation（工業電氣自動化）from Nanjing Electrical School（南京機電學校）in July 1984. He has been the vice president of the China Association of the Federation of Industry and Commerce（中華全國工商業聯合會紙業商會所）since October 2009.

Mr ZHONG Xin Gang（鍾新鋼）, aged 44, is an executive Director. Mr Zhong oversees and is responsible for the strategic planning, execution and day-to-day management and administration of our Group's sludge treatment products department. Mr Zhong has approximately 22 years of experience in the filter and engineering industry. Mr Zhong joined our Group in July 2011 and is currently the general manager of environmental protection department at Huazhang Technology. Prior to joining our Group, Mr Zhong worked at Hangzhou Better Filter Press Company Limited（杭州貝特過濾機有限公司）which is principally engaged in the manufacture and sale of filter presses, in 2003 and held the position of director. He previously worked at Hangzhou Xingyuan Filter Technology Company Limited（杭州興源過濾科技有限公司）which is principally engaged in the manufacture and sale of filter presses, from August 1991 to April 2003 and was the chief of the technical department. Mr Zhong graduated from Zhejiang University（浙江大學）specialised in chemical mechanic in July 1991. Mr Zhong has been a member of the executive council and the experts committee of the forth (from 2003 to 2006), fifth (from 2007 to 2011) and sixth (from 2012 to 2015) of 全國分離行業協會; and committee member of the forth (from 2003 to 2006), fifth (2007 to 2011) and sixth (2012 to 2015) of 全國分離機械標準化技術委員會.

Mr JIN Hao (金皓), aged 42, is an executive Director. Mr Jin oversees and is responsible for the strategic planning, execution and day-to-day management and administration of our Group's industrial automation system department. Mr Jin has approximately 20 years of experience in the electric and engineering industry. Mr Jin joined our Group in 2001. Mr Jin worked at Hangzhou Huazhang Microelectronics Company Limited (杭州華章微電子公司) from July 1993 to December 1995 as project person in charge. Mr Jin joined Hangzhou Yiyi Consultation (formerly known as Hangzhou Huazhang Electric Engineering Company Limited) in 1996 and worked as the general manager in the engineering department until 2001. He served as the engineering general manager at Huazhang Technology from 2001 to 2009 and served as the general manager of the industrial automation department of Huazhang Technology since 2009. Mr Jin obtained a bachelor's degree in electrical engineering from Zhejiang University (浙江大學) in June 1993.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr DAI Tian Zhu (戴天柱), aged 59, is an independent non-executive Director and the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee respectively. Mr DAI was appointed as an independent non-executive Director on 6 May 2013. Mr DAI obtained a graduate certificate in pulp from the Zhejiang University of Technology(浙江工業大學)(formerly known as Zhejiang Institute of Technology(浙江工業學院)) in January 1982. He then obtained a master degree in economy planning and management from the Chinese Academy of Social Sciences Graduate School (中國社會科學院研究生院) in January 1989. Mr DAI obtained a doctorate degree in economics from the Chinese Academy of Social Sciences Graduate School (中國社會科學院研究生院) in July 1997. He was a member of the Eight Chinese People's Political Consultative Conference of Zhejiang Province (中國人民政治協商會議浙江省第八屆委員會), and a member of the Economic Commission of Zhejiang Province (浙江省第八屆省政協經濟委員會委員) in 1998. Mr Dai was the deputy director of Centre of Scientific Research of Zhejiang University of Finance and Economics (浙江財經學學院科研所) in 1998, a professor of the department of finance and a member of the academic committee of the Shanghai University of International Business and Economics (previously known as Shanghai Institute of Foreign Trade (上海對外貿易學院)) from March 2006. Mr DAI served as an independent director in Tian He Securities Company Limited (天和證券經紀有限公司) from December 2003 to December 2006. He was the main editor of teaching material "Theory and practice of investment banking operations" (投資銀行運作理論與實務) for high school students.

Ms CHEN Jin Mei (陳錦梅), aged 61, is an independent non-executive Director, and is the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee respectively. Ms CHEN was appointed as an independent non-executive Director on 6 May 2013. Ms CHEN began to work in November 1969, and joined the Hangzhou Municipal Finance Bureau (杭州市財政局) in July 1980. Ms CHEN was the deputy director general of Hangzhou Municipal Finance Bureau from July 1997 to June 2002 and the director general of Hangzhou Local Tax Bureau from June 2002 to April 2011. She then retired from her duties at the Hangzhou Municipal Finance Bureau in August 2012. Ms CHEN obtained a bachelor's degree in accounting from the Hangzhou Institute of Electronic Engineering (杭州電子工程學院) in July 1997. She (i) completed all the courses for a post graduate degree in management engineering from Zhejiang University (浙江大學) in June 1998; (ii) graduated with a post graduate degree in political economics from Zhejiang Provincial Party School (中共浙江省委黨校) in July 2000; and (iii) obtained a master's degree in business administration from the Macau University of Science and Technology (澳門科技大學) in August 2005. She also obtained the qualification of a professor-level senior accountant (教授級高級會計師) in December 2010. As at the latest Practicable Date, Ms CHEN was an independent director of Shenzhen Victor Onward Textile Industrial Co., Ltd, a company listed on Shenzhen Stock Exchange (stock code: 000018).

Mr KONG Chi Mo（江智武）, aged 38, *FCCA, FCIS, FCS(PE) & MHKIoD* is an independent non-executive Director. He is the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee respectively. Mr Kong was appointed as an independent non-executive Director on 6 May 2013. He has over 15 years of experience in accounting, corporate governance and capital market. Mr Kong has been the chief financial officer of China Vanadium Titano-Magnetite Mining Company Limited (Stock code: 00893)("China VTM") since May 2008. Prior to joining China VTM, Mr Kong joined KPMG in October 1999 and was a senior manager when he left in December 2007. Prior to joining KPMG, Mr Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited from June 1997 to March 1998 and as a tax associate in PricewaterhouseCoopers from March 1998 to October 1999. Mr Kong has been a fellow member of the Association of Chartered Certified Accountants since February 2008, a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since February 2012, and a member of the Hong Kong Institute of Directors ("HKIoD") since May 2010. Mr Kong received bronze certificates of merit in continuing professional development in 2010 and 2011 as well as silver certificate of merit in continuing professional development in 2012 from the HKIoD. Mr Kong obtained a bachelor's degree in business administration from The Chinese University of Hong Kong on 11 December 1997.

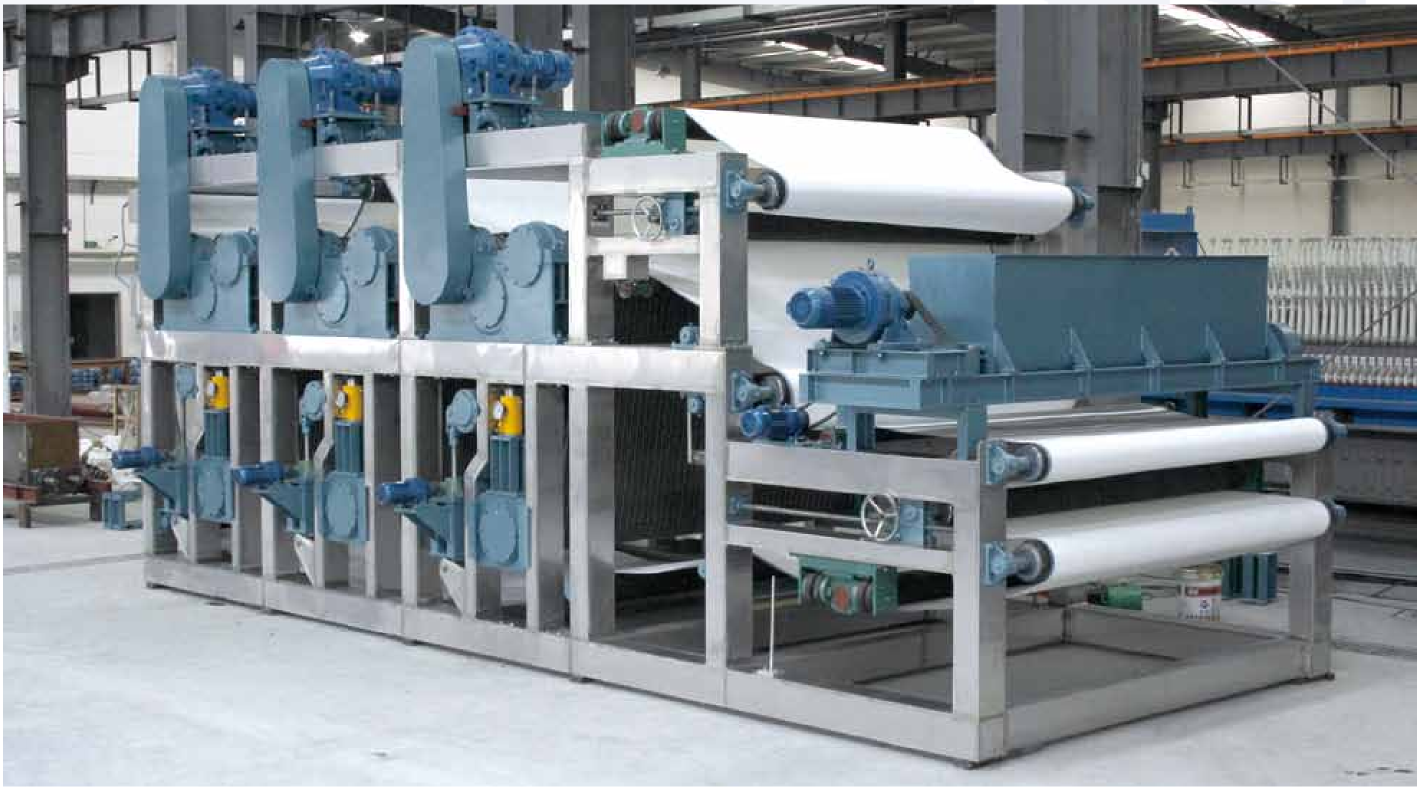
SENIOR MANAGEMENT

Mr Liu Chuan Jiang（劉川江）, aged 50, is the deputy general manager and quality assurance director of Huazhang Technology. Mr Liu has approximately 21 years of experience in the mechanical and engineering industry. He joined our Group in 2001 and is currently the deputy general manager and quality assurance director of Huazhang Technology and was also previously the technical director of Huazhang Technology. Mr Liu obtained a bachelor's degree in electrical engineering and computer science from the Southwest Jiaotong University（西南交通大學電氣工程及計算機科學學士）in August 1984 and a master's degree in electrical engineering from Shanghai Railway Institute（上海鐵道學院電氣工程系碩士學位）in October 1989. Mr Liu obtained his professional qualification as an engineer by the Department of Light Industry（中華人民共和國輕工業部）of the PRC in July 1991.

Mr Tang Zhi Chao（唐志超）, aged 54, is the deputy general manager and procurement director of Huazhang Technology. Mr Tang has over nine years of experience in the mechanical and engineering industry. Mr Tang joined our Group in 2003 and worked as the general manager of the sludge treatment products department of Huazhang Technology. Mr Tang obtained a diploma in pulp and paper technology from Zhejiang Institute of Technology, Hangzhou Campus（浙江工業學院杭州分校）in January 1982.

Mr So Alan Wai Shing（蘇偉成）, aged 46, joined our Group in May 2012 and is the chief financial controller and the company secretary of the Group. He has approximately 19 years of experience in audit work and has been an associate of the Hong Kong Institute of Certified Public Accountants since May 1999, as well as a registered practising member of the Hong Kong Institute of Certified Public Accountants since January 2012. Prior to joining our Group, Mr So worked at various institutions, including accounting firms, and held the position of Audit Assistant Manager at RSM Nelson Wheeler from January 1999 to February 2001. Mr So obtained a bachelor's degree in business majoring in accounting from Edith Cowan University, West Australia, Australia, in February 1993, and a master's degree in business administration from the Open University of Hong Kong in December 2003.

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

The Group is principally engaged in research and development, manufacture and sale of industrial automation systems and sludge treatment products. Our industrial automation systems and sludge treatment products are custom-built in accordance with the specifications and requirements provided by our customers. Moreover, we are also engaged in the provision of after-sales services to our existing customers.

Majority of the Group's industrial automation systems are made from our self-developed software and hardware sourced from our suppliers, and are used in industrial production applications to improve production line efficiency by controlling the production process. Meanwhile, the Group also provides customers with hardware assembly services of automation system, which do not contain our self-development software. The Group's industrial automation system consists of the following four products:

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

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

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

The Group also provides after-sales services to the existing customers of industrial automation systems and sludge treatment products. Depending on the requirements of the Group's customers, our after-sales services include the provision of on-site engineering and maintenance services and/or the repair and replacement of spare parts and components.

The Group believes that after-sales service will allow us to utilise our technical and engineering expertise, and enable us to retain our customers and better understand their needs.

The Group's customers are mainly engaged in the PRC's paper-making industry, in addition, some of its customers are engaged in other industries such as metallurgical and power industries.

The Group conducts business on a project basis and all of the products are custom-made to meet the needs and specifications of our customers. The Group identifies most of our potential projects through business discussions, although a few of them were identified through competitive bidding in open tenders marketed by tendering companies. Our customers can usually choose the method of identifying suppliers at their discretion, unless they are required under the PRC laws to carry out competitive bidding.

The Group aims to improve the market position and customers' awareness of industrial automation systems and sludge treatment products with unrelenting efforts. The Group recorded a steady growth in revenue for the financial year ended 30 June 2013.

FINANCIAL REVIEW

Revenue

Revenue of the Group mainly came from three business segments: (i) industrial automation system; (ii) sludge treatment products; and (iii) after-sales services.

Revenue of the Group increased by approximately 9.5% from approximately HK$229,520,000 for the year ended 30 June 2012 to approximately HK$251,362,000 for the year ended 30 June 2013. The increase was mainly attributable to the increase in sales from sludge treatment products and after-sales services.

Revenue from the sales of industrial automation systems

Revenue of the Group mainly came from the sales of industrial automation system, while sales accounted for approximately 69.6% of the total revenue for the year ended 30 June 2013 (30 June 2012: 87.5%). Revenue from sales of industrial automation systems decreased by approximately 12.9% from approximately HK$200,761,000 for the year ended 30 June 2012 to approximately HK$174,946,000 for the year ended 30 June 2013. The decrease in the sales of industrial automation systems was mainly attributable to the delay in completion of construction work for several customers during the year, so the acceptance procedures could not be finalised until the relevant construction work is completed.

Revenue from the sales of sludge treatment products

Revenue from the sales of sludge treatment products of the Group increased by approximately 279.2% from approximately HK$14,465,000 for the year ended 30 June 2012 to approximately HK$54,852,000 for the year ended 30 June 2013. Sales of sludge treatment products accounted for approximately 21.8% of the total revenue for the year ended 30 June 2013 (30 June 2012: 6.3%). Such increase was mainly attributable to the effort of our marketing staff as well as the Group's research and development results that led to an increase in sales contracts obtained.

Revenue from the provision of after-sale services

Revenue from after-sale services provided by the Group to customers for industrial automation system and sludge treatment products increased by approximately 50.9% from approximately HK$14,294,000 for the year ended 30 June 2012 to approximately HK$21,564,000 for the year ended 30 June 2013. The Group expects that the revenue generated from the provision of after-sales services will continue to provide a steady income stream in future based on the fact that the warranty periods of the products that were sold to customers prior to the year ended 30 June 2011 had gradually expired after 30 June 2012 and in order to ensure the normal operation of their equipment, most of the customers will request the Group to provide after-sale maintenance services, resulting in an increase in the revenue of sales from this segment.

Cost of sales

Cost of sales of the Group increased by approximately 8.8% from approximately HK$165,171,000 for the year ended 30 June 2012 to approximately HK$179,689,000 for the year ended 30 June 2013. The Group's cost of sales mainly comprised adjusted cost of raw materials, direct labour costs, such as wages and benefits offered to the workers and engineers, and manufacturing overhead costs, such as depreciation charges relating to its production facilities, electricity and water, and travelling expenses incurred by its engineers and technicians visiting our customers to discuss product specifications. Since the adjusted cost of raw materials accounted for more than 80% of the Group's cost of sales, any changes of raw materials price may result in significant impact to the cost of sales of the Group.

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

Gross profit and gross profit margin

Gross profit for the year ended 30 June 2013 is approximately HK$71,673,000 (30 June 2012: HK$64,349,000), representing an increase of 11.4% as compared to the same period of last year. The overall gross profit margin of the Group increased slightly from approximately 28.0% for the year ended 30 June 2012 to approximately 28.5% for the year ended 30 June 2013. Such increase was mainly attributable to the Group's efforts in controlling costs and expenditures.

Other income

For the years ended 30 June 2012 and 2013, other income of the Group amounted to approximately HK$1,474,000 and HK$8,214,000 respectively. The increase was mainly attributable to the one-off subsidy for listing received from Tongxiang municipal government of Zhejiang province during the year.

Administrative expenses

Administrative expenses mainly include the basic salary, social welfare contributions and year-end bonus paid to or provided for back office personnel and management team, depreciation, auditor's fees, professional service fees incurred for the listing application to the Stock Exchange and office expenses, which include property management fee, management meeting expenses and general administrative expenses.

The administrative expenses of the Group increased from approximately HK$22,123,000 for the year ended 30 June 2012 to approximately HK$35,265,000 for the year ended 30 June 2013. The increase was mainly attributable to the expenses of approximately HK$12,479,000 (30 June 2012: HK$2,194,000) incurred in connection with the listing of the Company on GEM of the Stock Exchange on 16 May 2013, which was charged to professional service fees for the year ended 30 June 2013 in accordance with accounting standards.

Finance costs

Finance costs of the Group decreased from approximately HK$1,580,000 for the year ended 30 June 2012 to approximately HK$838,000 for the year ended 30 June 2013. The decrease was mainly due to the fact that the Group has fully repaid its bank borrowings during the year.

Profit before tax

Our profit before tax increased from HK$22,872,000 for the year ended 30 June 2012 to approximately HK$23,813,000 for the year ended 30 June 2013. If excluding the expenses of approximately HK$12,479,000 incurred in connection with the listing of the Company on GEM of the Stock Exchange on 16 May 2013 and the one-off subsidy for listing received from Tongxiang municipal government of Zhejiang province amounting to approximately HK$7,678,000, our profit before tax will increase to approximately HK$28,614,000, representing an increase of approximately 25.1% as compared to the previous financial year.

Income tax expense

For the years ended 30 June 2012 and 2013, income tax expense of the Group amounted to HK$3,788,000 and HK$6,131,000 respectively. The increase was mainly attributable to the increase in taxable profit earned by the Company's operating subsidiary for the year ended 30 June 2013.

The effective tax rates of the Group for the years ended 30 June 2012 and 2013 were 16.6% and 25.7% respectively. The notable increase was mainly due: (i) deferred tax liability was recognised in respect of the dividends declared by the PRC subsidiary, excluding this impact, the effective income tax rate would be 22.4% (30 June 2012: 16.6%) and (ii) the tax loss incurred by the Company was not deductable for income tax purpose, and no deferred income tax assets was recognised for the tax loss incurred by Huazhang Electric excluding these impacts, the effective income tax rate would be 15.4% (30 June 2012: 15.7%).

Profit attributable to the owners of the Company

Profit attributable to the owners of the Company decreased by approximately 7.3% from approximately HK$19,083,000 for the year ended 30 June 2012 to approximately HK$17,682,000 for the year ended 30 June 2013. The change was mainly attributed to the increase in income tax expenses of our Group during the year.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

Our cash and bank balances as at 30 June 2012 and 2013 amounted to approximately HK$43,817,000 and HK$80,921,000 respectively. The major capital resources of the Group included cash generated from operating activities and the proceeds raised by the Group in Hong Kong.

Bank borrowings and charge on the Group's assets

As at 30 June 2013, the Group had no bank borrowings or charge on its assets.

Gearing ratio

The gearing ratio was not applicable as at 30 June 2013 while the ratio as at 30 June 2012 was 23.9%.

Gearing ratio is calculated based on the total debt at the end of the year divided by total debt plus total equity at the end of the respective year and multiplied by 100%. Total debt represents bank borrowings. As the Group had repaid all bank borrowings as at 30 June 2013, the gearing ratio was not applicable to the Group for the year ended 30 June 2013.

Foreign exchange risk

The Group has two operating subsidiaries. One is established in the Hong Kong Special Administrative Region, and the other in the People's Republic of China. Both of the subsidiaries generate revenues and incur costs in their respective local currencies. The directors are of the opinion that the Group exposes to minimal foreign exchange risk.

Contingent liabilities

As at 30 June 2013, the Group had no material contingent liabilities.

Significant investments held, material acquisitions or disposals of subsidiaries and joint ventures, and future plans for material investments or capital assets

The Group did not hold any material investments, significant acquisitions or disposals of subsidiaries and joint ventures for the year ended 30 June 2013 apart from the group restructuring for the preparation of listing on GEM of the Stock Exchange on 16 May 2013.

Save as disclosed in this annual report, the Group had no plan for material investments or capital assets as at 30 June 2013.

Employee and remuneration policies

As at 30 June 2013, the Group has approximately 202 employees (30 June 2012: 153). The employee benefit expenses (including directors' remuneration) amounted to approximately HK$30,771,000 (30 June 2012: HK$28,003,000).

The remuneration of employees is determined based on job nature and market conditions, combined with increment on performance appraisal and year-end bonus which are designed to stimulate and award employee's individual performance. During the period, the Group continued its commitment to employee's training and development programme.

FUTURE PROSPECTS

Establish a general business division for expanding the market share of industrial automation systems for non-paper making industries

At present, revenue from the sales of automation systems in the paper-making industry accounts for approximately 96% of revenue from sales of automation systems, while the proportion of automation sales in non-paper making industry is insignificant, thus there is huge room for development. The Group will establish a general business division in 2014 aiming to explore the sale of automation control systems to non-paper making industries, such as metallurgy, electricity, chemicals and other industries, while specialized sales and technical staff will be allocated accordingly. The Group strives to improve sales of automation systems to the non-paper making industry so as to take up around 20% to 30% of sales of automation system within two years.

Establish a motor distribution division that is mainly engaged in sales of inverter motor, fixed speed motors and high voltage motors

At present, it is estimated that there are more than 2.5 million motors in the paper factories across the country. The demand for motors has increased sharply as obsolete capacity is phased out by the state and new projects come on stream. If the demand for motors in other industries is taken into account, the market potential is huge. The Group plans to establish a motor distribution division to expand its efforts in the following aspects: i) principally, the sales of inverter motors, fixed speed motors, high voltage motors and other types of motors; and ii) the seeking of partners and exclusive distribution rights and expansion in breadth. Thus far, the Group has entered into the "Framework Agreement on Industry Distribution" with a major motor manufacturer based in Shanghai, PRC, becoming the exclusively authorized distributor of that manufacturer in the paper-making industry. The Group will also cooperate with another major manufacturer based in Germany in motor areas so as to improve the types and production lines of motors. The major marketing strategies adopted at the early stage was to i) take advantage of our project resources to sell along with new projects of automation systems of Huazhang; ii) to sell specifically to the existing automation customers of the Group in the paper-making industry; and iii) to target at the entire paper-making industry (excluding automation customers of the Group in the paper-making industry). In the future, we will focus on the sales to customers in the non-paper making industry.

Continue to expand the market of household paper and explore the business model of "System + Installation + Testing"

From the year of 2011 to now, the growth rate of household paper has grown significantly to more than 17%. During the results period, the Group conducted projects with several leading manufactures in the paper-making industry. Nonetheless, it is expect the Group's existing toilet paper projects will generate more sales to the Group. We plan to continue exploring the household paper market in 2014, and increase the share of household paper project in the sales of automation system. To develop household paper project is the long-term strategic direction of the Group in the future. The Group will actively obtain relevant qualifications for installation projects through the implementation of automation system projects and take advantage of the Group's projects to provide one-stop "System + Installation + Testing" services.

Continue to promote environmental protection business steadily

Having finished several technology sophisticated projects, the technology of all-extended high-pressure automatic membrane filter press (全曲張型高壓隔膜自動壓濾機) has been increasingly advanced with better squeezing results, efficient pie-discharging and obvious competitive advantages. The Group expects that this series of filter press will record a more considerable sales volume in 2014. With the completion of certain steel-belt filter press projects, steel-belt filter press in the municipal sector and sludge drying BOT projects will hit record high in sales volume. In the meantime, steel-belt filter press has gradually become mature after many improvements. Moreover, having concluded several filter press projects for the metallurgy industry it is expected that, sales of filter press for this industry will improve, especially in the sales of non-ferrous metallurgy. With the delivery of export projects for large chemical groups to the U.S., the membrane filter press serves as a role model of filtering in alcohol trough while several projects are being followed up. The application of a number of new patents and new technology will help improve the competitiveness of products. The Group will continue to maintain the stable development momentum of the environmental protection business and strive to double its revenue in 2014 as compared to 2013.

BUSINESS PLAN AND ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the year ended 30 June 2013. Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the context requires otherwise.

Business plan up to 30 June 2013 as set out in the Prospectus	Actual business progress up to 30 June 2013
Increase production capacity	
— Build a new production plant of approximately 11,000 sq. m. and improve the roads and increase the greenery in the factory area	The Group has commenced the preliminary work for the construction of the new factory plant. It is expected that the construction work should commence during the fourth quarter in the year of 2013. The construction work should complete and put into use during the fourth quarter in the year of 2014.
— Improve the production process using the high/low voltage power supply systems; addition of new laboratory facilities; and addition of testing facilities	The improvement will be done in line with the completion of the new production plant, which is expecting to be done by the end of 2014. The Group has commenced the acquisition of the new laboratory and testing facilities and is expected to be fitted to the laboratory facilities during the first half of the year of 2014.
Cost saving construction	
— A new production line and numerical control centre equipment for production of cabinets	Preliminary work will commence toward the end of 2013 and is expecting to commence the construction during the first half of 2014.
Continuous product development and innovation	
— Design and development of (i) RGU; (ii) newer models of our existing industrial automation systems	(i) The development of RGU has reached the testing and modification state. It is expected that trial production should commence later of the year. (ii) Feasibility study on new industrial automation system has commenced. It is expected that the new model development should take approximately 6 to 9 months and the Group will introduce the new model(s) to the market during the second half in the year of 2014.

Business plan up to 30 June 2013 as set out in the Prospectus	**Actual business progress up to 30 June 2013**
— Design and development of new sludge treatment products	Feasibility study on new sludge treatment products has commenced. It is expected that the new model development should take approximately 6 to 9 months and the Group will introduce the new model(s) to the market during the second half in the year of 2014.
Increase market awareness and enhance image/reputation	The Group has applied funding aiming to increase market awareness and enhance its image/reputation through placing advertisements in trade magazines for the paper-making industry and attending trade exhibition.
Improve the current information management system	
— Upgrade the current ERP system	Liaisons with software vendors has commenced and is expecting that the system can be upgraded and implemented during the first half in the year of 2014.

From the listing date to 30 June 2013, the proceeds from the global offering were used as follows:

	Use of proceeds in the same manner and proportion as shown in the prospectus from the listing date to 30 June 2013 *HK$000*	**Actual use of the proceeds from the listing date to 30 June 2013** *HK$000*
Increase production capacity	11,200	20
Cost saving construction	—	—
Continuous product development and innovation	1,100	951
Increase market awareness and image of the Group	600	28
Improve the current information management system	300	—
	13,200	999

The unused net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong and the PRC.

The Directors will constantly evaluate the business targets of the Group and adjust their plans according to the ever-changing market conditions, so as to ensure the growth of Group's business.

DIRECTORS' REPORT

The Board of the Company hereby presents its first report and the audited consolidated financial statements of the Group for the year ended 30 June 2013.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 June 2012. Through a group reorganisation (the "Reorganisation") as fully explained in the Company's prospectus dated 9 May 2013, the Company has since 13 July 2012 become the holding company of the Group. The Company has completed its placing on 16 May 2013 (the "Listing Date") and the shares of the Company were listed on GEM of the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 27 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by segments is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 30 June 2013 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 44 to 49.

SUBSIDIARIES

Details of the subsidiaries at 30 June 2013 are set out in note 27 to the consolidated financial statements.

FINAL DIVIDENDS

The board of directors recommended to pay the final dividends for 2013 at HK$3.3 cents per share (2012: Nil). The proposed dividends account for approximately 50.8% of the profit attributable to equity owners of the Company of the year. The proposed distribution of final dividends is subject to the approval of the annual general meeting.

FINANCIAL SUMMARY

A summary of the results and of the assets and Liabilities of the Group for the last three financial years as extracted from the audited consolidated financial statements and the Prospectus is set out on page 5. This summary does not form part of the audited financial statements in this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 12 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the shares of the Company were listed on GEM on 16 May 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any securities of the Company during the year ended 30 June 2013.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 12, 13 and 14 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 30 June 2013, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amount to HK$61,031,000 million. The amount of HK$61,031,000 million represents the Company's share premium, net of accumulated losses, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 30 June 2013 represented approximately 6.2% (30 June 2012: 14.3%) and 26.4% (30 June 2012: 48.0%), respectively, of the Group's total revenue from sales operations.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 30 June 2013 represented approximately 38.5% (30 June 2012: 42.3%) and 53.6% (30 June 2012: 55.4%) of the Group's total purchases.

To the best of the Directors' knowledge, except for Mr Zhu Gen Rong, Mr Wang Ai Yan, Mr Liu Chuan Jiang and Ms Zhu Ling Yun, who are the Company's controlling shareholders, none of the Directors or their respective associates, and none of the existing shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers and suppliers.

BANK BORROWINGS

Particulars of bank borrowings of the Group and banking facilities as at 30 June 2013 are set out in note 16 to the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr Zhu Gen Rong *(Chairman)*
Mr Zhong Xin Gang
Mr Jin Hao

Independent non-executive Directors

Mr Dai Tian Zhu
Ms Chen Jin Mei
Mr Kong Chi Mo

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 8 to 10 in this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 18.39B of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 30 June 2013.

DIRECTORS' SERVICE CONTRACTS

Each of executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter until terminated in accordance with the terms of the agreement.

Independent non-executive Directors are appointed for a term up to 30 June 2015 and will continue thereafter unless terminated by either party giving at least one month's notice in writing.

Other than as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director that had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

On 6 May 2013, the Company entered into (i) a master supply agreement in relation to the provision of industrial automation system by the Group from time to time (the "Master Supply Agreement"); and (ii) a master purchase agreement in relation to the purchase of branded industrial automation products as well as other hardware and components by the Group from time to time with Zhejiang Huazhang Automation Equipment Company Limited (浙江華章自動化設備有限公司) ("Huazhang Automation (Zhejiang)") for a term of approximately 36 months, expiring on 30 June 2015. Huazhang Automation (Zhejiang) is indirectly owned as to 30% by Huazhang Overseas Holding, Inc., which is in turn owned as to approximately 77.9% in aggregate by our Controlling Shareholders, and therefore Huazhang Automation (Zhejiang) is a connected person to the Company under the GEM Listing Rules. Details of the continuing connected transactions are as stated in the section headed "Continuing connected transactions" in the Company's prospectus dated 9 May 2013.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions with Huazhang Automation (Zhejiang), which constituted continuing connected transactions under the GEM Listing Rules. Details of such transactions are as follows:

Nature of transactions	**Amount**
Sales of industrial automation system	5,971,272
Purchases of branded industrial automation products, hardware and components	56,595,524

Save as disclosed therein, there were no transactions required to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The continuing connected transactions have been subject to annual review by the Independent Non-executive Directors of the Company pursuant to Rule 20.37 of the GEM Listing Rules and confirmation of the auditor of the Company pursuant to Rule 20.38 of the GEM Listing Rules.

In respect of the financial year ended 30 June 2013, the Independent Non-executive Directors of the Company have concluded that the continuing connected transaction has been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board has engaged the auditor of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditor has issued a confirmation letter to the Board in accordance with Rule 20.38 of the GEM Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors of the Company and five highest paid individuals are set out in note 22 to the consolidated financial statements in this annual report.

No Director has waived or has agreed to waive any emoluments during the year ended 30 June 2013.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of which are set out in the paragraph headed "Share Option Scheme" below.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

In order to protect the Group's interest in its business activities, on 6 May 2013, each of Florescent Holdings Limited, Lian Shun Limited, Mr Zhu Gen Rong, Mr Wang Ai Yan, Mr Liu Chuan Jiang and Ms Zhu Ling Yun, the controlling shareholders of the Company, has given a non-competition undertaking in favour of the Company, pursuant to which each of them undertakes and covenants with the Company that, for so long as it/he and/or its/his associates, directly or indirectly, whether individually or taken together, remain to be the controlling shareholder, it/he will not and will procure its/his associates not to directly or indirectly carry on, participate, engage or otherwise be interested in any business which is or may be in competition with the business of any members of the Group from time to time.

To further delineate the respective business of Zhejiang Huazhang Automation Equipment Company Limited ("Huazhang Automation (Zhejiang)") and the Group and to protect the Group from any potential competition from Huazhang Automation (Zhejiang), Huazhang Electric Automation Holding Company Limited ("Huazhang Automation (Hong Kong)") and Huazhang Automation (Zhejiang) have entered into a deed of non-competition in favour of the Company on 6 May 2013, pursuant to which, they will not, and any company directly or indirectly controlled by any of them (excluding any member of the Group) will not, either on its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of the Group) to conduct any business which, directly or indirectly, competes or may compete with the business of supply and sale of industrial automation systems and sludge treatment products in the PRC (including Hong Kong) from time to time after listing of the Company.

Details of the undertaking have been set out in the section headed "Relationship with Controlling Shareholders" of the prospectus.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as the information set out in the section headed "Compliance of Non-competition Undertakings", during the year ended 30 June 2013 and up to the date of this report, none of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 6 May 2013 and effective on the Listing Date.

1. Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to eligible persons as incentives or rewards for their contributions to the Group.

2. Participants

The Board may, at its discretion, invite any full-time or part-time employees including any executive, non-executive Directors, advisors, consultants of the Group to take up options.

3. Total number of shares available for issue under the Share Option Scheme

The maximum number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the Listing Date (i.e. a total of 27,200,000 shares).

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options granted to a participant under the Share Option Scheme (including both exercise and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time.

5. Period within which the shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option subject to the achievement of performance target and/or any other conditions to be notified by the Board to each participant, which the board may in its absolute discretion determine.

6. Time of acceptance and the amount payable on acceptance of the option

The option will be offered for acceptance for a period of 28 days from the date on which the option is granted. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

7. Basis of determining the subscription price

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a day on which trading of the Company's shares takes place on the Stock Exchange (the "Trading Date"); (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

8. Life of the Share Option Scheme

The Share Option Scheme became valid and effective for a period of ten years commencing on the Listing Date subject to the early termination by passing an ordinary resolution in general meeting. After such period no further options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

As at 30 June 2013, no option under the Share Option Scheme has been granted by the Company.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 9 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") required to be notified to the Company and the Stock Exchange, are as follows:

Long positions in the Shares

Name of Director	Company/name of associated company	Natural of interest	Number of securities	Approximate percentage of shareholding
Mr Zhu Gen Rong	The Company	Interest of a controlled corporation	204,000,000 Shares *(Note 1)*	75.00%
	Florescent Holdings Limited	Interest of a controlled corporation	779 shares of US$1.00 each *(Note 2)*	77.90%
	Lian Shun Limited	Beneficial interest	5,005,500 shares of US$0.001 each *(Note 3)*	53.79%

Notes:

1. The Shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 53.79% by Mr Zhu Gen Rong. Mr Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited.

2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited and as to 22.10% by Qunyu Limited.

3. Lian Shun Limited is owned as to 53.79% by Mr Zhu, as to 20.74% by Mr Wang Ai Yan, as to 17.95% by Mr Liu Chuan Jiang and as to 7.52% by Ms Zhu Ling Yun.

Save as disclosed above, as at 30 June 2013, none of the Directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 30 June 2013, so far as the Directors are aware, the interests and short positions owned by the following persons (other than the Directors and chief executive of the Company) in the shares, underlying shares and debentures of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name of Director	Capacity/ Natural of interest	Number of Shares directly or indirectly held	Approximate percentage of shareholding
Florescent Holdings Limited	Beneficial owners	204,000,000	75%
Lian Shun Limited	Interest of a controlled corporation	204,000,000 *(Note 1)*	75%
Mr Zhu Gen Rong	Interest of a controlled corporation	204,000,000 *(Note 2)*	75%
Mr Wang Ai Yan	Interest of a controlled corporation	204,000,000 *(Note 3)*	75%
Mr Liu Chuan Jiang	Interest of a controlled corporation	204,000,000 *(Note 4)*	75%
Ms Zhu Ling Yun	Interest of a controlled corporation	204,000,000 *(Note 5)*	75%

Notes:

1. The Shares are registered in the name of Florescent Holdings Limited, a company owned as to 77.90% by Lian Shun Limited. Under the SFO, Lian Shun Limited is deemed to be interested in the Shares held by Florescent Holdings Limited.

2. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 53.79% by Mr Zhu Gen Rong. Under the SFO, Mr Zhu is deemed to be interested in the Shares held by Florescent Holdings Limited.

3. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 20.74% by Mr Wang Ai Yan. Mr Wang is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings Limited.

4. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 17.95% by Mr Liu Chuan Jiang. Mr Liu is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings Limited.

5. Florescent Holdings Limited is owned as to 77.90% by Lian Shun Limited, which in turn is owned as to 7.52% by Ms Zhu Ling Yun. Ms Zhu is regarded as one of the parties acting in concert with Mr Zhu under the Takeovers Code and is therefore deemed to be interested in the Shares held by Florescent Holdings Limited.

Save as disclosed above, as at 30 June 2013, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under Section 336 of the SFO.

INTERESTS OF THE COMPLIANCE ADVISER

As at 30 June 2013, as notified by the Company's compliance adviser, Guotai Junan Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 8 May 2013, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee was established with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and Paragraph C.3.3 of the Corporate Governance Code on 6 May 2013. The primary duties of the audit committee, among other things, are to review and supervise the financial reporting process and internal control systems of the Company. As at 30 June 2013, the audit committee consists of three independent non-executive Directors, namely, Mr Kong Chi Mo, Ms Chen Jin Mei and Mr Dai Tian Zhu.

The audit committee had reviewed the consolidated financial statements of the Group for the year ended 30 June 2013.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 30 June 2013 are set out in note 30 to the financial statements. None of these related party transactions constitutes a connected transaction upon Listing as defined under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

AUDITOR

PricewaterhouseCoopers was appointed by the Directors as the first auditor of the Company. PricewaterhouseCoopers will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 30 June 2013 have been audited by PricewaterhouseCoopers.

On behalf of the Board
Zhu Gen Rong
Chairman

25 September 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value.

The Board has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules of the Stock Exchange. Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the code provisions of the CG Code for the period from the Listing Date (16 May 2013) to 30 June 2013 (the "Period"), except where otherwise stated.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the directors (the "Required Standard of Dealings"). The Company has confirmed, having made specific enquiry of the directors, all the directors have complied with the Required Standard of Dealings throughout the Period.

BOARD OF DIRECTORS

The Board comprises:

Executive Directors:	Mr Zhu Gen Rong *(Chairman)* Mr Zhong Xin Gang Mr Jin Hao
Independent Non-executive Directors:	Mr Dai Tian Zhu Ms Chen Jin Mei Mr Kong Chi Mo

An updated list of directors and their role and functions is maintained at the websites of the Company and the Stock Exchange and the independent non-executive Directors are identified by name in all corporate communications.

Each independent non-executive Director has given an annual confirmation of his/her independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

As the Company was listed less than 2 months before its financial year end date, no Board meeting was held during the Period. Prior to the Listing Date, one Board meeting was held on 6 May 2013 and all Directors attended the meeting.

Up to the date of this report, the Company had not held its annual general meeting or any extraordinary general meetings.

RESPONSIBILITIES OF THE BOARD

All the directors (including the independent non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. Every director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

Apart from the Audit Committee, Remuneration Committee and Nomination Committee (as defined below), the Company did not set up any other board committees for dealing with any matters during the Period.

The Company has in force appropriate insurance coverage on Director's and Officer's liabilities arising from the Group's business. The Company reviews the extent of insurance coverage on an annual basis.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

The Board holds meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings would be given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers would be sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents. The Chairman would also ensure that all directors are properly briefed on matters arising at board meetings.

Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes. The duly signed minutes are open for inspection by any director. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. The Board members are enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to discharge their duties. They are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Zhu Gen Rong is the Chairman of the Board of the Company and is responsible for the overall strategy planning and policy making of the Group.

The Chairman also takes the lead to ensure that the Board works effectively and acts in the best interest of the Company by encouraging the directors to make active contribution in Board's affairs and promoting a culture of openness and debate.

The Company has no such position as the chief executive and therefore the daily operation and management of the Company is monitored by the executive directors as well as the senior management.

The Board is of the view that although there is no chief executive, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals who would meet from time to time to discuss issues affecting operation of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The current articles of association of the Company (the "Articles") provide that at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and that every director shall be subject to retirement by rotation at least once every 3 years.

Independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his/her independence and must provide an annual confirmation of his/her independency to the Company. Up to the date of this report, no independent non-executive director has served the Company more than 9 years.

PROFESSIONAL DEVELOPMENT

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. Directors also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. Records of the training received by the respective directors are kept and updated by the company secretary of the Company.

The individual training record of each director received for the year ended 30 June 2013 is summarised below:

Name of director	Attending seminar(s)/ programme(s)/ conference(s) relevant to the business or directors' duties
Mr Zhu Gen Rong	✓
Mr Zhong Xin Gang	✓
Mr Jin Hao	✓
Mr Dai Tian Zhu	✓
Ms Chen Jin Mei	✓
Mr Kong Chi Mo	✓

All directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 6 May 2013 comprising 3 independent non-executive Directors namely, Mr Kong Chi Mo, Ms Chen Jin Mei and Mr Dai Tian Zhu. Mr Kong Chi Mo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee are available at the Company's website and on the website of the Stock Exchange.

The major roles and functions of the Audit Committee are to review and supervise the financial reporting process, financial controls, internal control and risk management system of the Company and to provide recommendations and advices to the Board on the appointment, re-appointment and removal of the external auditor as well as their terms of appointment.

According to the current terms of reference, meetings of the Audit Committee shall be held at least four times a year. As the Audit Committee was established less than 2 months before the Company's financial year end date, no Audit Committee meeting was held during the Period.

In performing its duties in accordance with its terms of reference, the work to be performed by the Audit Committee includes:

(a) review and supervise the financial reporting process and internal control system of the Company and its subsidiaries;

(b) recommendation to the Board, for the approval by shareholders, of the re-appointment of external Auditor and approval of their remuneration;

(c) determination of the nature and scope of the audit; and

(d) review the financial statements for the relevant financial period and discuss corporate governance practice.

Draft and final versions of the minutes of the Audit Committee meetings will be sent to all committee members for their comment and records within a reasonable time after the meetings and the full minutes will be kept by the company secretary who is also the secretary of the Audit Committee.

The Audit Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 6 May 2013 comprising the 3 independent non-executive Directors. Ms Chen Jin Mei is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of the Stock Exchange.

The roles and functions of the Remuneration Committee include consulting the Chairman of the Board about their remuneration proposals for other executive directors, having the delegated responsibility to determine the specific remuneration packages of all executive directors of the Group and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of the non-executive Directors.

As the Remuneration Committee was established less than 2 months before the Company's financial year end date, no Remuneration Committee meeting was held during the Period.

The emolument payable to directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee. Details of the directors' emolument are set out in note 22 to the financial statements.

The Remuneration Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 6 May 2013 comprising the 3 independent non-executive directors and Mr Zhu Gen Rong. Mr Dai Tian Zhu is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of the Stock Exchange.

The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman. In considering the nomination of new directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in industrial automation systems and sludge treatment products and/or other professional areas.

As the Nomination Committee was established less than 2 months before the Company's financial year end date, no Nomination Committee meeting was held during the Period.

The Nomination Committee is provided with sufficient resources to perform its duties and is enabled to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge its responsibilities.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibilities (as set out in the Independent Auditor's Report) for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditor about their reporting responsibility is set out in the Independent Auditor's Report.

Internal Control and Risk Management

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group as well as the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system includes a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

The Board reviews the effectiveness of the Group's material internal controls. Based on information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

AUDITOR'S REMUNERATION

During the financial year ended 30 June 2013, the fees paid/payable to the Company's auditor are set out as follows:

Services rendered	Fees paid/ payable *(HK$'000)*
Audit services — Statutory annual audit	1,365
Non-audit services — Reporting accountants for the Company's listing exercise	5,141
	6,506

COMPANY SECRETARY

Mr So Alan, Wai Shing ("Mr So") was appointed as the company secretary of the Company on 6 May 2013. The selection, appointment or dismissal of the company secretary is approved by the Board. Mr So is an employee of the Company and has day-to-day knowledge of the Company's affairs. The biographical details of Mr So are set out under the section headed "Biographical Details of Directors and Senior Management".

For the year under review, Mr So has confirmed that he has taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

Any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal office as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business at Unit No. 5A, 8th Floor, Tower 1, South Seas Centre, 75 Mody Road, Kowloon, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within twenty-one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

(a) At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company;

(b) At least 21 clear days' notice in writing (and not less than 20 business days) if calling for an annual general meeting or the proposal constitutes a special resolution of the Company in EGM.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by e-mail to swc@hzeg.com for the attention of the company secretary.

Right to put forward proposals at general meetings

There are no provisions allowing shareholders to purpose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 58 of the Company's Articles for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 85 of the Articles, no person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election as a director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 17.50(2) of the GEM Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual, interim and quarterly reports, notices, announcements and circulars and the Company's website at www.hzeg.com.

From the Listing Date to the year ended 30 June 2013, there had been no significant change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

TO THE SHAREHOLDERS OF HUAZHANG TECHNOLOGY HOLDING LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Huazhang Technology Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 112, which comprise the consolidated and company balance sheets as at 30 June 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for each of the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 September 2013

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2013

		As at 30 June	
		2013	2012
	Note	***HK$***	*HK$*
ASSETS			
Non-current assets			
Land use rights	6	**9,039,689**	9,077,521
Property, plant and equipment	7	**38,194,654**	39,702,425
Deferred income tax assets	17	**1,175,292**	1,086,721
Trade and other receivables	8	**828,573**	294,122
Prepayments — non-current portion	9	**433,700**	352,450
		49,671,908	50,513,239
Current assets			
Inventories	10	**95,032,774**	111,170,507
Trade and other receivables	8	**52,072,397**	33,262,407
Prepayments	9	**11,190,500**	9,834,523
Restricted cash	11	**5,025,347**	1,527,484
Cash and cash equivalents	11	**80,920,622**	43,817,397
		244,241,640	199,612,318
Total assets		**293,913,548**	250,125,557

CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2013

	Note	As at 30 June 2013 HK$	2012 HK$
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	12	**2,720,000**	–
Share premium	12	**70,910,254**	–
Other reserves	14	**60,488,810**	51,468,818
Retained earnings	13	**42,088,858**	26,866,952
Total equity		**176,207,922**	78,335,770
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	**807,350**	–
Current liabilities			
Trade and other payables	15	**116,122,519**	147,170,666
Current income tax liabilities		**775,757**	–
Borrowings	16	**–**	24,619,121
		116,898,276	171,789,787
Total liabilities		**117,705,626**	171,789,787
Total equity and liabilities		**293,913,548**	250,125,557
Net current assets		**127,343,364**	27,822,531
Total assets less current liabilities		**177,015,272**	78,335,770

The notes on pages 50 to 112 are an integral part of these consolidated financial statements.

Zhu Gen Rong	Jin Hao
Director	*Director*

BALANCE SHEET OF THE COMPANY

AS AT 30 JUNE 2013

		As at 30 June	
		2013	2012
	Note	**HK$**	HK$
ASSETS			
Non-current assets			
Investments in subsidiaries	27	**66,697,008**	–
Current assets			
Trade and other receivables	8(b)	**518,081**	–
Prepayments	9(b)	**50,000**	–
Cash and cash equivalents		**4,067,174**	–
		4,635,255	–
Total assets		**71,332,263**	–
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	12	**2,720,000**	–
Share premium	12	**70,910,254**	–
Accumulated losses		**(9,878,927)**	–
Total equity		**63,751,327**	–
LIABILITIES			
Current liabilities			
Other payables	15(b)	**7,580,936**	–
Total equity and liabilities		**71,332,263**	–
Net current liabilities		**(2,945,681)**	–
Total assets less current liabilities		**63,751,327**	–

The notes on pages 50 to 112 are an integral part of these consolidated financial statements.

Zhu Gen Rong
Director

Jin Hao
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

		Year ended 30 June	
		2013	2012
	Note	***HK$***	*HK$*
Revenue	18	**251,362,209**	229,520,229
Cost of sales	20	**(179,689,213)**	(165,171,426)
Gross profit		**71,672,996**	64,348,803
Distribution costs	20	**(11,765,216)**	(12,224,321)
Administrative expenses	20	**(35,265,116)**	(22,123,362)
Research and development expenses	20	**(8,566,882)**	(7,437,497)
Other income	19	**8,213,826**	1,474,156
Other gains/(losses) — net		**180,631**	(607)
Operating profit		**24,470,239**	24,037,172
Finance income	23	**180,992**	414,721
Finance costs	23	**(838,332)**	(1,580,076)
Finance costs – net	23	**(657,340)**	(1,165,355)
Profit before income tax		**23,812,899**	22,871,817
Income tax expense	24	**(6,130,712)**	(3,788,448)
Profit for the year, all attributable to the owners of the Company		**17,682,187**	19,083,369
Other comprehensive income for the year			
Currency translation differences		**1,359,711**	1,315,342
Other comprehensive income for the year, net of tax		**1,359,711**	1,315,342
Total comprehensive income for the year, all attributable to the owners of the Company		**19,041,898**	20,398,711
Earnings per share for profit attributable to the owners of the Company			
— Basic earnings per share	25	**0.08**	0.09
— Diluted earnings per share	25	**0.08**	0.09

The notes on pages 50 to 112 are an integral part of these consolidated financial statements.

		Year ended 30 June	
		2013	2012
	Note	***HK$***	*HK$*
Dividends	26	**8,976,000**	12,713,596

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	Attributable to the owners of the Company				
	Par value of ordinary shares	Share Premium	Other Reserves	Retained Earnings	Total Equity
	HK$	HK$	HK$	HK$	HK$
Balance at 1 July 2012	0.01	–	51,468,818	26,866,952	78,335,770
Comprehensive income					
Profit for the year	–	–	–	17,682,187	17,682,187
Translation differences	–	–	1,359,711	–	1,359,711
Total comprehensive income	–	–	1,359,711	17,682,187	19,041,898
Transactions with owners					
Issuance of ordinary shares *(Note 12)*	680,000.00	80,920,000.00	–	–	81,600,000
Share issuance costs *(Note 12)*	–	(7,969,746.00)	–	–	(7,969,746)
Capitalisation issue *(Note 12)*	2,039,999.99	(2,039,999.99)	–	–	–
Capitalisation of loan from the former parent company *(Note 14)*	–	–	5,200,000	–	5,200,000
Profit appropriation to statutory reserves *(Note 13)*	–	–	2,460,281	(2,460,281)	–
Balance at 30 June 2013	2,720,000.00	70,910,254.01	60,488,810	42,088,858	176,207,922
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					
Issuance of ordinary shares to the then shareholder *(Note 12)*	0.01	–	–	–	–
Capitalisation of loan from the former parent company *(Note 14)*	–	–	35,224,773	–	35,224,773
Profit appropriation to statutory reserves *(Note 13)*	–	–	1,025,039	(1,025,039)	–
Dividends declared *(Note 26)*	–	–	–	(12,713,596)	(12,713,596)
Total transactions with owners	0.01	–	36,249,812	(13,738,635)	22,511,177
Balance at 30 June 2012	0.01	–	51,468,818	26,866,952	78,335,770

The notes on pages 50 to 112 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Year ended 30 June 2013 HK$	2012 HK$
Cash flows from operating activities			
Cash generated from operations	28(a)	**480,410**	32,931,316
Interest paid	23	**(838,332)**	(1,716,098)
Income tax paid		**(3,735,855)**	(3,822,164)
Net cash (outflow)/inflow from operating activities		**(4,093,777)**	27,393,054
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,226,521)**	(10,366,708)
Interest received	23	**164,027**	414,721
Loans to related parties		**–**	(45,420,320)
Repayment of loans from related parties		**–**	55,244,544
Net cash outflow from investing activities		**(1,062,494)**	(127,763)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net		**61,946,829**	–
Proceeds from borrowings		**6,204,359**	45,019,553
Repayments of borrowings		**(31,108,657)**	(38,862,306)
Dividends paid to the former owners of Hua Zhang Electric Holding Company Limited	26	**–**	(12,713,596)
Loan from a related party		**5,200,000**	5,612,000
Repayment of loans to related parties		**–**	(2,500,000)
Net cash inflow/(outflow) from financing activities		**42,242,531**	(3,444,349)
Net increase in cash and cash equivalents		**37,086,260**	23,820,942
Effect of foreign exchange rate changes		**16,965**	(50,584)
Cash and cash equivalents at beginning of the year		**43,817,397**	20,047,039
Cash and cash equivalents at end of the year	11	**80,920,622**	43,817,397

The notes on pages 50 to 112 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

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 (together, the "Group") are principally engaged in the research and development, manufacture and sale of industrial automation and sludge treatment products and the provision of after-sales service 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 "Persons Acting in Concert", or "Controlling Shareholders").

The Company's ordinary shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "SEHK") on 16 May 2013 (the "Listing") by way of placing (the "Placing").

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 25 September 2013.

1.2 Reorganisation

In preparation for the listing of the Company's shares on the SEHK, the Company underwent a group reorganisation (the "Reorganisation") on 3 May 2013, pursuant to which Likwin Limited ("Likwin"), subsidiary of the Company, acquired 3,000,001 shares of Hua Zhang Electric Holding Company Limited ("Huazhang Electric") from Huazhang Overseas Holding, Inc. ("Huazhang Overseas"), the former parent company, 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 ("Florescent"), Likwin's ultimate holding company, to allot and issue 7,789 shares to Lian Shun Limited, a company incorporated on 25 May 2012, and 2,210 shares to Qunyu Limited, a company incorporated on 10 April 2012 and 100% owned by the non-controlling shareholders, respectively. As a result of the Reorganisation, the Company became the holding company of the companies now comprising the Group.

The Company and Likwin have not been involved in any business prior to the Reorganisation and do not meet the definition of having a business. The Reorganisation is merely a reorganisation of the Group's businesses with no change in management of such businesses. The companies now comprising the Group were under the common control of the Controlling Shareholders before and after the Reorganisation. Accordingly, the Reorganisation has been accounted for as a reorganisation of businesses under common control in a manner similar to a uniting of interests. The consolidated financial statements of the Group for the year ended 30 June 2013 including the comparative figures have been prepared on the merger basis as if the Company has been the holding company of these companies comprising the Group since 1 July 2011, or since the dates of their incorporation or establishment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements 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 consolidated financial statements are disclosed in Note 4 below.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group in the year ended 30 June 2013

The following new and amendment to standards are mandatory for the first time for the financial year beginning on 1 July 2012.

- Amendment has been made to HKAS 1 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from the amendment is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The Group applied the amendment to standard on 1 July 2012 and it does not have any impact on the Group's consolidated financial statements.

- HKFRS 10 'Consolidated Financial Statements'. Under HKFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group applied HKFRS 10 from 1 January 2013. There is no impact on the Group's consolidated financial statements as the new principle of the control does not change the classification of the subsidiaries which are consolidated in the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures *(continued)*

(a) New and amended standards adopted by the Group in the year ended 30 June 2013 *(continued)*

- HKFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group applied HKFRS 13 from 1 January 2013, and there is no impact on the Group's consolidated financial statements.

- HKAS 27 (revised 2011) 'Separate financial statements' includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. The Group applied HKAS 27 (revised 2011) from 1 January 2013. There's no impact on the Company's separate financial statements.

- Amendment to HKFRS 7 'Financial instruments: Disclosures' on asset and liability offsetting requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group applied the amendment to HKFRS 7 from 1 January 2013, and there's no impact on the Group's consolidated financial statements.

- Apart from the above, the Hong Kong Institute of Certified Public Accountants (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. The Group applied these amendments from 1 January 2013, and there is no impact on the Group's consolidated financial statements.

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

There are no other new standards and amendments to standards which are mandatory for the first time for the financial year beginning on 1 July 2012 which had a material impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures *(continued)*

(b) New and amended standards which have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 July 2012 and have not been early adopted by the Group

- Amendment to HKAS 32 'Financial instruments: Presentation' on asset and liability offsetting. These amendments are to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. Amendment to HKAS 32 is effective for annual periods beginning on or after 1 January 2014.

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (revised 2011). The amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (revised 2011) are effective for annual periods beginning on or after 1 January 2014.

- HK (IFRIC) Interpretation 21. The interpretation clarifies the accounting for levies in the financial statements of the entity that is paying the levy. HK (IFRIC) Interpretation 21 is effective for annual periods beginning on or after 1 January 2014.

- HKFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010, and revised in December 2011. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than as a profit or loss item, unless this creates an accounting mismatch. HKFRS 9 is effective for annual periods beginning on or after 1 January 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures *(continued)*

(b) New and amended standards which have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 July 2012 and have not been early adopted by the Group *(continued)*

- HKFRS 7 and HKFRS 9 (Amendments) 'Mandatory effective date and transition disclosures' delay the effective date to annual periods beginning on or after 1 January 2015, and also modify the relief from restating prior periods. As part of this relief, additional disclosures on transition from HKAS 39 to HKFRS 9 are required.

The Group will apply the new/amended standards described above when they become effective. The Group is in the process of making an assessment on the impact of these new/amended standards and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position.

2.2 Consolidation

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 and the combining entities have been consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Consolidation *(continued)*

Subsidiaries *(continued)*

(ii) Business combinations under non-common control

The Group uses the acquisition method of accounting to account for business combinations under non-common control. 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 consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Consolidation *(continued)*

Subsidiaries *(continued)*

(ii) Business combinations under non-common control *(continued)*

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.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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 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$, and the consolidated financial statements are presented in HK$.

(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 consolidated statement of comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 Foreign currency translation *(continued)*

(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 are stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the iteMs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to 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 consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 Property, plant and equipment *(continued)*

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 and vehicles	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 consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 consolidated 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 consolidated 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 consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 Impairment of financial assets carried at amortised cost *(continued)*

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 consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 consolidated 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 consolidated statement of comprehensive income in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 consolidated 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 consolidated 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 consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 consolidated statements of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 consolidated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 consolidated 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 consolidated balance sheets (Note 7). See Note 2.21 for the recognition of rental income.

2.23 Dividend distribution

Dividend distribution to the owners 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 Zhejiang Huazhang Technology Limited ("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.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

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 2013 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	
	2013	2012
	HK$	*HK$*
Owners' equity increase/(decrease)		
— Strengthened 5%	**67,986**	65,767
— Weakened 5%	**(67,986)**	(65,767)

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(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 16.

As at 30 June 2013 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	
	2013	2012
	HK$	*HK$*
Post-tax profit increase/(decrease)		
— 10% higher	**–**	(130,007)
— 10% lower	**–**	130,007

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(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.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the consolidated 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 2013				
Trade and other payables	**41,041,266**	**–**	**–**	**41,041,266**
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

* 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 consolidated balance sheets. Total capital is calculated as 'equity' as shown in the consolidated balance sheets plus total debt.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital risk management *(continued)*

During year ended 30 June 2013 and 2012, the Group's strategy is to maintain the gearing ratio below 50%. The gearing ratio at 30 June 2013 and 2012 were as follows:

	As at 30 June	
	2013	2012
	HK$	*HK$*
Total debt – total borrowings *(Note 16) (a)*	**–**	24,619,121
Total equity	**176,207,922**	78,335,770
Total capital *(b)*	**176,207,922**	102,954,891
Gearing ratio ((a)/(b))	**–**	24%

As at 30 June 2013, the Group has repaid all the bank borrowings, which led to the gearing ratio decrease from 24% as at 30 June 2012 to zero.

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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

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 noncurrent 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 20% and 15% of the trade receivables were past due over one year but not considered as impaired as at 30 June 2013 and 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

4.1 Critical accounting estimates and assumptions *(continued)*

(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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

4.2 Critical judgements in applying the Group's accounting policies

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 years ended 30 June 2013 and 2012, 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.

No revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for the year ended 30 June 2013. 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.

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 consolidated financial statements. 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 and tax liabilities.

5 SEGMENT INFORMATION *(CONTINUED)*

The segment results for the year ended 30 June 2013:

	Industrial Automation systems	Sludge treatment products	After-sales service	Total
	HK$	HK$	HK$	HK$
Segment revenue from external customers	174,946,086	54,851,876	21,564,247	251,362,209
Segment cost of sales	(126,016,342)	(40,375,705)	(13,297,166)	(179,689,213)
Segment gross profit	48,929,744	14,476,171	8,267,081	71,672,996
Segment results	33,796,200	6,029,449	7,195,767	47,021,416
Common administrative expenses				(30,945,634)
Other gains — net				180,631
Other income				8,213,826
Finance costs — net				(657,340)
Profit before income tax				23,812,899
Income tax expense				(6,130,712)
Profit for the year				17,682,187

Other segment items included in the consolidated statement of comprehensive income:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	HK$	HK$	HK$	HK$
Capital expenditure	–	734,568	–	235,979	970,547
Depreciation of property, plant and equipment	1,327,375	1,068,968	–	984,070	3,380,413
Amortization of land use rights	70,302	93,276	–	84,116	247,694

5 SEGMENT INFORMATION *(CONTINUED)*

The segment assets and liabilities as at 30 June 2013 are as follows:

	Industrial Automation systems	Sludge treatment products	After-sales service	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Segment assets	**103,332,857**	**66,819,376**	**18,306,231**	**105,455,084**	**293,913,548**
Segment liabilities	**(84,198,828)**	**(27,347,693)**	**(624,542)**	**(5,534,563)**	**(117,705,626)**

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

5 SEGMENT INFORMATION *(CONTINUED)*

Other segment items included in the consolidated statement of comprehensive income:

	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$*	*HK$*
Segment assets	108,515,713	56,812,792	10,378,407	74,418,645	250,125,557
Segment liabilities	(118,750,364)	(25,383,709)	–	(27,655,714)	(171,789,787)

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:

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
At beginning of year		
Cost	**10,156,817**	9,956,519
Accumulated amortisation	**(1,079,296)**	(817,983)
Net book amount	**9,077,521**	9,138,536
Opening net book amount	**9,077,521**	9,138,536
Amortisation for the year *(Note 20)*	**(247,694)**	(242,418)
Foreign exchange difference	**209,862**	181,403
Closing net book amount	**9,039,689**	9,077,521
At end of year		
Cost	**10,394,878**	10,156,817
Accumulated amortisation	**(1,355,189)**	(1,079,296)
Net book amount	**9,039,689**	9,077,521

Amortisation expense has been charged to "administrative expenses" in the consolidated 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	
	2013	2012
	HK$	*HK$*
Cost of land use rights	**–**	3,936,382
Net book value of land use rights	**–**	3,201,316

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machineries and vehicles	Furniture, fittings and equipment	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1 July 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**
Year ended 30 June 2013					
Opening net book amount	**28,027,467**	**6,200,537**	**5,474,421**	**–**	**39,702,425**
Additions	**–**	**734,568**	**235,979**	**–**	**970,547**
Depreciation *(Note 20)*	**(1,442,411)**	**(729,983)**	**(1,208,019)**	**–**	**(3,380,413)**
Foreign exchange difference	**640,017**	**145,387**	**116,691**	**–**	**902,095**
Closing net book amount	**27,225,073**	**6,350,509**	**4,619,072**	**–**	**38,194,654**
At 30 June 2013					
Cost	**34,178,410**	**8,143,563**	**6,955,349**	**–**	**49,277,322**
Accumulated depreciation	**(6,953,337)**	**(1,793,054)**	**(2,336,277)**	**–**	**(11,082,668)**
Net book amount	**27,225,073**	**6,350,509**	**4,619,072**	**–**	**38,194,654**

7 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Buildings	Machineries and vehicles	Furniture, fittings and equipment	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1 July 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 20)*	(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

7 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

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

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Cost of sales	**874,409**	847,761
Administrative expenses	**2,340,588**	1,480,808
Research and development expenses	**165,416**	75,373
	3,380,413	2,403,942

During the year ended 30 June 2013, the Group did not capitalise any interest expense.

During the year ended 30 June 2012, the Group has capitalised HK$186,606 on qualifying assets. Borrowing costs were capitalised at the weighted average rate of 7.00%.

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

	As at 30 June	
	2013	2012
	HK$	*HK$*
Cost of buildings	**–**	20,173,288
Net book value of buildings	**–**	16,396,001

8 TRADE AND OTHER RECEIVABLES

(a) Group

	As at 30 June	
	2013	2012
	HK$	*HK$*
Warranty receivables — due from third parties *(i)*	**23,040,517**	16,438,956
Other trade receivables — due from third parties	**24,282,747**	8,232,616
Other trade receivables — due from related parties *(Note 30)*	**2,152,565**	3,526,507
	49,475,829	28,198,079
Less: provision for impairment of trade receivables	**(3,617,438)**	(3,493,754)
Trade receivables – net	**45,858,391**	24,704,325
Bills receivable	**4,748,783**	7,986,315
Trade and bills receivables	**50,607,174**	32,690,640
Other receivables due from related parties *(Note 30)*	**21,880**	80,960
Other receivables due from the sponsor	**518,081**	—
Others	**1,753,835**	784,929
	2,293,796	865,889
Total trade and other receivables	**52,900,970**	33,556,529
Less: trade receivables — non-current portion	**(828,573)**	(294,122)
	52,072,397	33,262,407

(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).

8 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Group *(continued)*

As at 30 June 2013 and 2012, the ageing analysis of the warranty receivables and other trade receivables (including non-current portion) is as follows:

	As at 30 June	
	2013	2012
	HK$	*HK$*
Warranty receivables		
Up to 3 months	**5,130,520**	6,668,215
3 months to 6 months	**1,708,071**	1,652,124
6 months to 1 year	**4,098,100**	2,725,965
1 year to 2 years	**7,964,120**	3,470,137
Over 2 years	**4,139,706**	1,922,515
	23,040,517	16,438,956

	As at 30 June	
	2013	2012
	HK$	*HK$*
Other trade receivables		
Up to 3 months	**7,653,062**	6,335,809
3 months to 6 months	**1,244,621**	1,000,651
6 months to 1 year	**14,014,175**	684,836
1 year to 2 years	**1,956,242**	2,563,262
Over 2 years	**1,567,212**	1,174,565
	26,435,312	11,759,123

8 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Group *(continued)*

As at 30 June 2013 and 2012, trade receivables of HK$34,921,700 and HK$13,658,022 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	
	2013	2012
	HK$	*HK$*
Past due within 3 months	**7,653,062**	6,335,810
Past due in 3 months to 6 months	**1,244,621**	1,000,651
Past due in 6 months to 1 year	**14,014,175**	684,836
1 year to 2 years	**7,623,765**	5,099,246
Over 2 years	**4,386,077**	537,479
	34,921,700	13,658,022

As at 30 June 2013 and 2012, trade receivables of HK$3,617,438 and HK$3,493,754 were impaired. The amount of the provision was HK$3,617,438 and HK$3,493,754 as at 30 June 2013 and 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	
	2013	2012
	HK$	*HK$*
1 year to 2 years	**2,296,597**	934,153
Over 2 years	**1,320,841**	2,559,601
	3,617,438	3,493,754

8 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Group *(continued)*

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

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
At 1 July	**3,493,754**	3,026,175
Provision for receivables impairment *(Note 20)*	**41,312**	402,650
Foreign exchange difference	**82,372**	64,929
At 30 June	**3,617,438**	3,493,754

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

The carrying amounts of the Group's trade and other receivables are denominated in RMB.

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.

(b) Company

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Other receivables due from the sponsor	**518,081**	–

9 PREPAYMENTS

(a) Group

	As at 30 June	
	2013	2012
	HK$	*HK$*
Non-current		
Prepayments for operating lease payment – non-current portion	**433,700**	352,450
	433,700	352,450
Current		
Prepayments for raw materials	**11,015,461**	7,546,375
Prepaid income tax	**–**	882,074
Prepayments for operating lease payment – current portion	**125,039**	92,736
Prepaid and deferred professional service fees for initial public offerings	**–**	1,313,338
Prepaid service fees to SEHK	**50,000**	–
	11,190,500	9,834,523
	11,624,200	10,186,973

(b) Company

	As at 30 June	
	2013	2012
	HK$	*HK$*
Prepaid service fees to SEHK	**50,000**	–

10 INVENTORIES

	As at 30 June	
	2013	2012
	HK$	*HK$*
Raw materials	**28,960,234**	30,231,314
Work in progress	**39,939,254**	47,006,534
Finished goods	**26,133,286**	33,932,659
	95,032,774	111,170,507

The cost of inventories recognised as expense and included in 'cost of sales' amounted to HK$178,418,336 and HK$163,940,057, which included provision for write-down of inventories of HK$299,396 and HK$113,570 for the years ended 30 June 2013 and 2012 respectively (Note 20).

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

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
At 1 July	**2,369,463**	3,761,082
Provision for write-down of inventories *(Note 20)*	**299,396**	113,570
Written-off provision for inventories write-down	**–**	(1,566,239)
Foreign exchange difference	**59,046**	61,050
At 30 June	**2,727,905**	2,369,463

As at 30 June 2013, a batch of raw materials with cost of HK$4,374,567 was considered as obsolete. A provision of HK$2,727,905 was made as at 30 June 2013. The Group provided for inventory write-down of HK$299,396 for the year ended 30 June 2013. The amount charged has been included in 'cost of sales' in the consolidated 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 consolidated statement of comprehensive income for the year ended 30 June 2012.

11 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 30 June	
	2013	2012
	HK$	*HK$*
Cash at bank and on hand *(a)*	**85,945,969**	45,344,881
Less: Restricted cash *(b)*	**(5,025,347)**	(1,527,484)
Cash and cash equivalents *(c)*	**80,920,622**	43,817,397

(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. All restricted cash is denominated in RMB.

(c) Cash and cash equivalents are denominated in the following currencies:

	As at 30 June	
	2013	2012
	HK$	*HK$*
RMB	**76,157,229**	42,079,570
HK$	**4,738,348**	766,419
USD	**25,018**	5,899
EURO	**27**	965,509
	80,920,622	43,817,397

12 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

(a) Authorized shares

	Number of authorized shares
	(thousands)
At 26 June 2012 (date of incorporation) *(i)* and 30 June 2012	38,000
Capital increase on 6 May 2013 *(ii)*	7,962,000
At 30 June 2013	8,000,000

(i) Upon incorporation on 26 June 2012, the authorized share capital was HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each.

(ii) Pursuant to a shareholder's resolution dated 6 May 2013, the authorised share capital of the Company increased from HK$380,000 divided into 380,000,000 ordinary shares, to HK$80,000,000 divided into 8,000,000,000 ordinary shares of par value HK$0.01 each.

(b) Issued shares

	Number of issued shares	Ordinary shares	Share premium	Total
		HK$	*HK$*	*HK$*
At 1 July 2012	**1**	**0.01**	**–**	**0.01**
Issuance of ordinary shares *(iii)*	**68,000,000**	**680,000.00**	**80,920,000.00**	**81,600,000.00**
Share issuance costs *(iii)*	**–**	**–**	**(7,969,746.00)**	**(7,969,746.00)**
Capitalisation issue *(iv)*	**203,999,999**	**2,039,999.99**	**(2,039,999.99)**	**–**
At 30 June 2013	**272,000,000**	**2,720,000.00**	**70,910,254.01**	**73,630,254.01**
Representing:				
Proposed dividends *(v)*			**8,976,000.00**	
Others			**61,934,254.01**	
At 30 June 2013			**70,910,254.01**	
At 26 June 2012 (date of incorporation)	–	–	–	–
Issuance of ordinary shares to the then shareholder *(i)*	1	0.01	–	0.01
At 30 June 2012	1	0.01	–	0.01

12 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY *(CONTINUED)*

(b) Issued shares *(continued)*

(i) Upon incorporation on 26 June 2012, the Company issued 1 ordinary share to the then shareholder, Mr Zhu at the par value of HK$ 0.01 per share, with a total consideration of HK$0.01.

(ii) On 13 July 2012, Mr Zhu transferred the 1 ordinary share to Florescent, the sole shareholder prior to the Listing of the Company.

(iii) On 16 May 2013, the Company issued 68,000,000 new ordinary shares of HK$ 0.01 each at HK$1.2 per share in connection with its Placing and the commencement of the Listing of its shares on the SEHK, and raised gross proceeds of approximately HK$81,600,000. The excess over the par value of HK$680,000 for the 68,000,000 ordinary share issued net of transaction costs HK$7,969,746 was credited to "share premium" with amount of HK$72,950,254.

(iv) On 16 May 2013, pursuant to a shareholder's resolution dated 6 May 2013 and a board resolution dated 14 May 2013, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the Placing, the Company capitalised an amount of HK$2,039,999.99, standing to the credit of its share premium account by applying such sum to pay up in full at par a total of 203,999,999 shares for allotment and issue to Florescent.

(v) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company. Details of the proposed dividends are set out in Note 26.

13 RETAINED EARNINGS

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
At 1 July	**26,866,952**	21,522,218
Profit for the year	**17,682,187**	19,083,369
Dividends declared *(Note 26)*	**–**	(12,713,596)
Appropriation to statutory reserves *(Note 14)*	**(2,460,281)**	(1,025,039)
At 30 June	**42,088,858**	26,866,952

14 OTHER RESERVES

	Reorganisation reserve (I)	Merger reserve (II) HK$	Statutory reserves (III) HK$	Translation differences HK$	Total HK$
At 1 July 2012	**3,000,000**	**35,224,773**	**2,812,658**	**10,431,387**	**51,468,818**
Translation differences	**–**	**–**	**–**	**1,359,711**	**1,359,711**
Capitalisation of loan from the former parent company *(II)*	**–**	**5,200,000**	**–**	**–**	**5,200,000**
Appropriation to statutory reserves *(Note 13)*	**–**	**–**	**2,460,281**	**–**	**2,460,281**
At 30 June 2013	**3,000,000**	**40,424,773**	**5,272,939**	**11,791,098**	**60,488,810**
At 1 July 2011 *(I)*	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 *(II)*	–	35,224,773	–	–	35,224,773
Appropriation to statutory reserves *(Note 13)*	–	–	1,025,039	–	1,025,039
At 30 June 2012	3,000,000	35,224,773	2,812,658	10,431,387	51,468,818

(I) Reorganisation reserve

The reorganisation reserve represented the share capital of Huazhang Electric with amount of HK$3,000,000 prior to the capital reorganisation as explained in Note 1.2.

14 OTHER RESERVES *(CONTINUED)*

(II) Merger reserve

Additions in the year ended 30 June 2013 and 2012 represent the capitalised amount of loans from Huazhang Overseas.

Pursuant to the board resolution of Huazhang Electric on 30 June 2012, Huazhang Electric capitalised 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.

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.

(III) 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.

15 TRADE AND OTHER PAYABLES

(a) Group

	As at 30 June	
	2013	2012
	HK$	*HK$*
Trade payables — due to third parties	**20,193,031**	15,126,400
Trade payables — due to a related party *(Note 30)*	**968,581**	19,461,417
Bills payable	**15,757,999**	1,545,227
	36,919,611	36,133,044
Other taxes payable	**2,564,940**	1,908,860
Employee benefit payables	**2,510,828**	2,453,325
Accrued operating expenses	**50,000**	90,800
Advances from customers *(a)*	**68,465,543**	101,701,793
Provision for warranty expenses	**1,489,942**	1,381,593
Payables for property, plant and equipment	**2,053,096**	2,309,070
Payables for service fees to the compliance adviser	**45,000**	—
Others	**2,023,559**	1,192,181
	79,202,908	111,037,622
	116,122,519	147,170,666

(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.

15 TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) Group *(continued)*

At 30 June 2013 and 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	
	2013	2012
	HK$	*HK$*
Up to 3 months	**18,215,552**	32,356,979
3 months to 6 months	**895,368**	249,237
6 months to 1 year	**1,196,756**	1,428,736
1 year to 2 years	**552,177**	337,404
Over 2 years	**301,759**	215,461
	21,161,612	34,587,817

(b) Company

	As at 30 June	
	2013	2012
	HK$	*HK$*
Other payables – due to fellow subsidiaries	**7,469,120**	–
Payables for service fees to the compliance adviser	**45,000**	–
Others	**66,816**	–
	7,580,936	–

16 BORROWINGS

	As at 30 June	
	2013	2012
	HK$	*HK$*
Short-term bank borrowings		
— Secured bank borrowings *(i)*	**–**	18,399,941
— Unsecured bank borrowings	**–**	6,219,180
	–	24,619,121

(i) As at 30 June 2012, bank borrowings are secured by the land use rights (Note 6), property, plant and equipment of the Group (Note 7) and are guaranteed by Mr Zhu, a related party (Note 30).

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

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

	As at 30 June	
	2013	2012
Short-term bank borrowings	**–**	7.00%

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

As at 30 June 2013, the Group has the following unutilised banking facilities:

	As at 30 June	
	2013	2012
	HK$	*HK$*
Authorised banking facilities — expiring within one year	**62,770,699**	–
Less: used banking facilities	**(12,505,932)**	–
	50,264,767	–

17 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 2013 and 2012, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	As at 30 June	
	2013	2012
	HK$	*HK$*
Deferred tax assets		
— to be recovered after more than 12 months	**–**	–
— to be recovered within 12 months	**1,175,292**	1,086,721
	1,175,292	1,086,721
Deferred tax liabilities		
— to be recovered after more than 12 months	**–**	–
— to be recovered within 12 months	**807,350**	–
	807,350	–

17 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(CONTINUED)*

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

	Provision for warranty expenses HK$	Provision for impairment HK$	Withholding tax on unremitted earnings of Huazhang Technology HK$	Total HK$
At 1 July 2012	**207,238**	**879,483**	**–**	**1,086,721**
Credited/(Charged) to the consolidated statement of comprehensive income *(Note 24)*	**11,262**	**51,107**	**(797,998)**	**(735,629)**
Foreign exchange difference	**4,990**	**21,212**	**(9,352)**	**16,850**
At 30 June 2013	**223,490**	**951,802**	**(807,350)**	**367,942**
At 1 July 2011	77,546	1,018,089	–	1,095,635
Credited/(Charged) to the consolidated statement of comprehensive income *(Note 24)*	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

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 2013 and 2012, the Group did not recognise deferred income tax assets of HK$420,039 and HK$222,631 in respect of tax losses amounting to HK$2,545,690 and HK$1,349,280 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 2012, the undistributed profit of the PRC subsidiary subject to local tax authority's review was HK$21,545,919. The corresponding unrecognised deferred income tax liability was HK$2,154,592 as at 30 June 2012.

The Company intends to declare dividends of 30% of the net profit for each of the financial year starting from the year ended 30 June 2013, subject to the approval of the Board and Shareholders. The remaining 70% of the net profit is intended to be reinvested in PRC permanently. As at 30 June 2013, unremitted earnings of the PRC subsidiary subject to local tax authority's review was HK$13,732,696. The corresponding unrecognised deferred income tax liabilities were HK$1,373,270.

18 REVENUE

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Revenue from sales of industrial automation systems	**174,946,086**	200,760,826
Revenue from sales of sludge treatment products	**54,851,876**	14,465,470
Revenue from provision of after-sales service	**21,564,247**	14,293,933
	251,362,209	229,520,229

19 OTHER INCOME

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Government grants *(i)*	**7,677,770**	960,722
Operating lease income	**536,056**	391,990
Others	**–**	121,444
	8,213,826	1,474,156

(i) For the year ended 30 June 2013, government grants represent the subsidies received from local finance bureau for the Listing on the SEHK.

20 EXPENSES BY NATURE

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Raw materials used	**150,253,892**	148,734,138
Change in inventories of finished goods and work in progress *(Note 10)*	**14,866,653**	4,156,680
Employee benefit expenses *(Note 21)*	**30,771,384**	28,002,950
Amortisation of land use rights *(Note 6)*	**247,694**	242,418
Depreciation of property, plant and equipment *(Note 7)*	**3,380,413**	2,403,942
Transportation expenses	**3,787,698**	3,466,593
Utilities	**675,583**	444,822
Travelling expenses	**4,138,850**	3,605,827
Advertising costs	**319,946**	303,861
Provision for impairment of trade receivables *(Note 8)*	**41,312**	402,650
Provision for write-down of inventories *(Note 10)*	**299,396**	113,570
Miscellaneous tax charges other than value added tax and income tax	**1,825,082**	1,822,904
Warranty expenses	**3,274,628**	4,755,445
Office expenses	**3,284,497**	2,599,633
Entertainment expenses	**1,541,412**	1,731,574
Auditor's remuneration	**1,364,959**	85,011
Professional service fees	**12,478,682**	2,193,887
Other expenses	**2,734,346**	1,890,701
Total cost of sales, distribution costs, administrative expenses and research and development expenses	**235,286,427**	206,956,606

21 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Wages and salaries	**17,079,347**	15,006,605
Bonus	**5,445,263**	4,336,970
Social security costs	**5,413,969**	4,227,068
Other benefits	**2,832,805**	4,432,307
	30,771,384	28,002,950

22 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of each director of the Company paid/payable by the Group for the year ended 30 June 2013 is set out as follows:

Name	Fees HK$	Salary HK$	Bonus HK$	Other Benefits HK$	Total HK$
Mr Zhu *(i)*	–	972,813	168,753	45,260	1,186,826
Mr Jin Hao	–	465,313	481,704	53,839	1,000,856
Mr Zhong Xin Gang	–	342,470	28,539	49,237	420,246
Mr Kong Chi Mo *(ii)*	18,387	–	–	–	18,387
Mr Dai Tian Zhu *(ii)*	18,387	–	–	–	18,387
Ms Chen Jin Mei *(ii)*	18,387	–	–	–	18,387
	55,161	1,780,596	678,996	148,336	2,663,089

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

Name	Fees HK$	Salary HK$	Bonus HK$	Other Benefits HK$	Total 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

22 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(CONTINUED)*

(a) Directors' emoluments *(continued)*

(i) The chief executive officer 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 independent directors on 6 May 2013.

For the years ended 30 June 2013 and 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 2013 and 2012 include three and two directors respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two and three individuals during the years ended 30 June 2013 and 2012 respectively are as follows:

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Fees	**–**	–
Salary	**1,275,013**	1,457,336
Bonus	**186,125**	285,395
Other benefits	**55,187**	196,851
	1,516,325	1,939,582

The emoluments fell within the following bands:

	Number of individuals Year ended 30 June	
	2013	2012
Emolument bands (in HK$)		
HK$500,001 — HK$1,000,000	**2**	3

For the years ended 30 June 2013 and 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.

23 FINANCE COSTS – NET

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Finance costs		
— Interest expenses on bank borrowings	**838,332**	1,716,098
— Net foreign exchange loss	**–**	50,584
	838,332	1,766,682
Less: amounts capitalised on qualifying assets *(Note 7)*	**–**	(186,606)
	838,332	1,580,076
Finance income		
— Interest income on bank deposits	**(164,027)**	(414,721)
— Net foreign exchange gain	**(16,965)**	–
	(180,992)	(414,721)
Net finance costs	**657,340**	1,165,355

24 INCOME TAX EXPENSE

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Current income tax		
— PRC enterprise income tax	**5,395,083**	3,757,802
Deferred income tax *(Note 17)*	**735,629**	30,646
Income tax expense	**6,130,712**	3,788,448

(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 year ended 30 June 2013 and 2012.

24 INCOME TAX EXPENSE *(CONTINUED)*

(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 years ended 30 June 2013 and 2012, 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 declared dividends based on the dividends to be received from its PRC subsidiary. The PRC subsidiary, Huazhang Technology intends to declared dividends of 30% of its net profit for each of the financial year starting from the year ended 30 June 2013, subject to the approval of the Board and Shareholders. The remaining 70% of the net profit is intended to be reinvested in PRC permanently. As at 30 June 2013, unremitted earnings of the PRC subsidiary subject to local tax authority's review was HK$13,732,696. The corresponding deferred income tax liabilities were HK$1,373,270 but has not been recognised.

24 INCOME TAX EXPENSE *(CONTINUED)*

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 consolidated entities as follows:

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Profit before income tax	**23,812,899**	22,871,817
Tax calculated at tax rates applicable to profits in the respective jurisdiction	**8,524,651**	5,832,643
Tax effects of:		
Effect of preferential tax rate	**(3,555,142)**	(2,525,632)
Expenses not deductible for tax purposes	**165,797**	258,806
Tax losses for which no deferred income tax asset was recognised *(Note 17)*	**197,408**	222,631
Effect of withholding tax on the expected distributable profits of the subsidiary in mainland China *(Note 17)*	**797,998**	–
Tax charges	**6,130,712**	3,788,448

25 EARNINGS PER SHARE

Basic earnings per share for the years ended 30 June 2013 and 2012 is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue. In determining the weighted average number of ordinary shares in issue during the years ended 30 June 2013 and 2012, the 203,999,999 shares issued and allotted through capitalisation of the share premium account of the Company upon Listing on 16 May 2013 (Note 12(b)(iv)) have been regarded as if these shares were in issue since 1 July 2011.

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Profit attributable to the owners of the Company	**17,682,187**	19,083,369
Weighted average number of ordinary shares in issue	**212,500,000**	204,000,000
Basic earnings per share	**0.08**	0.09

As there were no dilutive options and other dilutive potential shares in issue during the years ended 30 June 2013 and 2012, diluted earnings per share is the same as basic earnings per share.

26 DIVIDENDS

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Proposed final dividend	**8,976,000**	12,713,596

At a meeting held on 25 September 2013, the Board proposed a final dividend of HK$8,976,000, representing HK$3.3 cents per share using the share premium account.

Such dividend is to be approved by the shareholders at the forthcoming Annual General Meeting. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 30 June 2014.

Divided during the year ended 30 June 2012 represented divided declared by the Group to the then owners of the respective companies for the year then ended, after elimination of intra-group divided.

27 INVESTMENTS IN SUBSIDIARIES — COMPANY

	As at 30 June	
	2013	2012
	HK$	*HK$*
Due from a subsidiary *(i)*	**66,697,000**	–
Unlisted equity investments, at cost	**8**	–
	66,697,008	–

(i) These amounts due from a subsidiary represent equity funding by the Company to the subsidiary and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured and non-interest bearing.

27 INVESTMENTS IN SUBSIDIARIES — COMPANY *(CONTINUED)*

The Company's direct and indirect interests in its subsidiaries as at 30 June 2013 and 2012 are set out 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 2013	2012	Principal activities
Huazhang Technology	PRC, 19 July 2001	Foreign investment enterprise	USD16,300,000	USD13,578,280	**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%	Investment holding
Likwin	BVI, 8 June 2012	Investment enterprise	USD50,000	USD1	**100%**	N/A	Investment holding

* As at 30 June 2013, Likwin is directly held by the Company, all other subsidiaries of the Group are indirectly held by the Company.

28 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of Profit before income tax to net cash generated from operations

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Profit before income tax	**23,812,899**	22,871,817
Adjustments for:		
— Depreciation of property, plant and equipment *(Note 7)*	**3,380,413**	2,403,942
— Amortisation of land use rights *(Note 6)*	**247,694**	242,418
— Provision for impairment of receivables *(Note 8)*	**41,312**	402,650
— Provision for write-down of inventories *(Note 10)*	**299,396**	113,570
— Finance income *(Note 23)*	**(180,992)**	(414,721)
— Finance costs *(Note 23)*	**838,332**	1,580,076
Changes in working capital:		
— Restricted cash	**(3,497,863)**	(975,538)
— Inventories	**15,779,291**	(6,657,330)
— Trade and other receivables and prepayments	**(21,843,287)**	3,506,004
— Trade and other payables	**(18,396,785)**	9,858,428
Cash generated from operations	**480,410**	32,931,316

(b) Non-cash transactions

The principal non-cash transaction during the years ended 30 June 2013 and 2012 is the capitalisation of loan from the former parent company, Huazhang Overseas discussed in Note 14(II), and the capitalisation issue of 203,999,999 shares through the share premium account of the Company upon the Listing on 16 May 2013 (Note 12(b)(iv)).

29 COMMITMENTS

(a) Capital commitments

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

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Property, plant and equipment	**–**	1,151,478

(b) Operating lease commitments

The Group leases a warehouse, 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. The minimum lease payments under operating lease as at the years ended 30 June 2013 and 2012 are summarized as follows:

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Not later than 1 year	**377,939**	92,736

30 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 2013 and 2012, and balances arising from related party transactions as at 30 June 2013 and 2012.

(a) Name and relationship with related parties

Company name	**Relationships**
Mr Zhu *(i)*	Person Acting in Concert, key management, chairman of the Company
Mr Wang *(i)*	Person Acting in Concert
Mr Liu *(i)*	Person Acting in Concert, key management
Ms Zhu *(i)*	Person Acting in Concert
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 Controlling Shareholders
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
Hangzhou Rong Wei Industrial Investment Company Limited ("Hangzhou Rong Wei")	Controlled by the chairman 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

30 RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(a) Name and relationship with related parties *(continued)*

(i) Mr Zhu, Mr Wang, Mr Liu and Ms Zhu form the Persons Acting in Concert.

(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 interests in Hangzhou Yiyi Consultation to Mr Wang. Hangzhou Yiyi Consultation ceased to be the related party of the Group since 15 August 2012.

(b) Transactions with related parties

The Group's pricing policy on products sell to and purchase from related parties are determined on a case by case and arm's length basis, with reference to prevailing market price of similar or comparable products and mutually agreed by both parties.

(i) Sales of goods and services

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Huazhang Automation (Zhejiang)	**5,971,272**	5,805,000

(ii) Purchases of goods and services

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Huazhang Automation (Zhejiang)	**56,595,524**	67,909,396

(iii) Rental income

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Huazhang Automation (Zhejiang)	**189,175**	165,110
Hangzhou Rong Wei	**–**	119,411
	189,175	284,521

30 RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(b) Transactions with related parties *(continued)*

(iv) Key management compensation

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Salaries	**3,365,818**	3,157,266
Bonus	**865,122**	980,104
Other benefits	**252,425**	376,013
	4,483,365	4,513,383

(v) Dividend declared to the former parent company of Huazhang Electric

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Huazhang Overseas	**–**	12,713,596

(vi) Loan from a related party

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Huazhang Overseas	**5,200,000**	5,612,000

(vii) Loan to related parties

	Year ended 30 June	
	2013	2012
	HK$	*HK$*
Tongxiang Modern Eco-Agriculture	**–**	24,288,941
Huazhang Automation (Zhejiang)	**–**	12,144,471
Hangzhou Tiger Power	**–**	8,501,129
Hangzhou Yiyi Consultation	**–**	485,779
	–	45,420,320

30 RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(c) Balances with related parties

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

	As at 30 June	
	2013	2012
	HK$	*HK$*
Included in trade receivables		
— Huazhang Automation (Zhejiang)	**2,152,565**	3,526,507

	As at 30 June	
	2013	2012
	HK$	*HK$*
Included in other receivables		
— Mr Zhu Genyi	**21,880**	—
— Huazhang Automation (Zhejiang)	**—**	80,960
	21,880	80,960

(ii) Due to related parties (Note 15):

	As at 30 June	
	2013	2012
	HK$	*HK$*
Included in trade payables		
— Huazhang Automation (Zhejiang)	**968,581**	19,461,417

The receivables from and payables to related parties as at 30 June 2013 and 2012 arise mainly from ordinary course of businesses.

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$18,399,941 as at 30 June 2012 were guaranteed by Mr Zhu (Note 16), which was released on 31 July 2012.