The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

[●]

The Directors
D&G Technology Holding Company Limited

BOCOM International (Asia) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to D&G Technology Holding Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") comprising the combined statements of financial position of the Group as at 31 December 2012 and 2013 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2012 and 2013 (the "**Relevant Periods**"), together with the explanatory notes thereto (the "**Financial Information**"), for inclusion in the document of the Company dated [●] (the "**Document**").

The Company was incorporated in the Cayman Islands on 11 September 2014 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. On 31 December 2014, pursuant to the completion of various steps of a group reorganisation (the "**Reorganisation**") as detailed in the section headed "History, Reorganisation and Corporate Structure" in the Document, the Company became the holding company of the companies now comprising the Group, details of which are set out in note 1(b) of Section B below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Rich Benefit International Limited and Hong Kong D&G Machinery Company Limited, as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 27 of section B below. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") or the relevant accounting rules and regulations applicable to entities in the People's Republic of China (the "**PRC**") in which they were incorporated and/or established.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods (the "**Underlying Financial Statements**") on the same basis as used in the preparation of the Financial Information set out in Section B below. The Underlying Financial Statements for each of the years ended 31 December 2012 and 2013 were audited by KPMG Huazhen (Special General Partnership) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The Financial Information has been prepared by the directors of the Company for inclusion in the Document in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, and on the basis of preparation set out in Note 1(b) of Section B below, a true and fair view of the state of affairs of the Group as at 31 December 2012 and 2013 and the Group's combined results and cash flows for the Relevant Periods then ended.

UNAUDITED INTERIM FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited interim financial information of the Group comprising the combined statement of financial position as of 30 September 2014 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the nine months ended 30 September 2013 and 2014, together with the notes thereon (the "**Interim Financial Information**"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Interim Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Interim Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Interim Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A COMBINED FINANCIAL INFORMATION OF THE GROUP

1 Combined statements of profit or loss and other comprehensive income

(Expressed in Renminbi Yuan)

	Note	Years ended 31 December		Nine months ended 30 September	
		2012	2013	2013	2014
		RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Turnover	*3*	364,339	412,260	266,942	298,240
Cost of sales		(214,500)	(238,528)	(159,444)	(174,706)
Gross profit		149,839	173,732	107,498	123,534
Other revenue and net income	*4*	1,763	5,995	1,781	1,429
Distribution costs		(33,281)	(36,254)	(25,394)	(28,193)
Administrative expenses		(46,743)	(53,605)	(34,325)	(34,174)
Profit from operations		71,578	89,868	49,560	62,596
Finance costs	*5(a)*	(11,422)	(3,714)	(2,807)	(1,079)
Profit before taxation	*5*	60,156	86,154	46,753	61,517
Income tax	*6*	(10,438)	(13,662)	(7,258)	(10,789)
Profit for the year/period		49,718	72,492	39,495	50,728
Other comprehensive income for the year/period (after tax and reclassification adjustments) that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of overseas subsidiaries		(11)	(212)	(154)	25
Other comprehensive income for the year/period		(11)	(212)	(154)	25
Total comprehensive income for the year/period		**49,707**	**72,280**	**39,341**	**50,753**

		Years ended 31 December		Nine months ended 30 September	
		2012	**2013**	**2013**	**2014**
	Note	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Profit for the year/period attributable to:					
Equity shareholders of the company		46,279	60,338	32,810	41,896
Non-controlling interests		3,439	12,154	6,685	8,832
		49,718	**72,492**	**39,495**	**50,728**
Total comprehensive income for the year/period attributable to:					
Equity shareholders of the company		46,268	60,126	32,656	41,921
Non-controlling interests		3,439	12,154	6,685	8,832
		49,707	**72,280**	**39,341**	**50,753**
Earnings per share	*9*				
Basic and diluted *(RMB)*		N/A	N/A	N/A	N/A

The accompanying notes form part of the Financial Information.

2 Combined statements of financial position

(Expressed in Renminbi Yuan)

		As at 31 December		As at 30 September
		2012	2013	2014
	Note	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Non-current assets				
Property, plant and equipment	*10*	58,534	68,227	71,223
Investment properties	*11*	7,838	7,193	6,710
Lease prepayments	*12*	6,937	6,737	6,587
Trade and other receivables	*14*	5,322	11,827	15,605
Other non-current assets		4,479	3,691	3,246
Deferred tax assets	*19(b)*	2,664	5,961	7,755
		85,774	103,636	111,126
Current assets				
Inventories	*13*	94,883	104,365	134,162
Trade and other receivables	*14*	162,013	212,698	286,944
Pledged bank deposits	*15*	12,188	8,516	9,686
Cash and cash equivalents	*16*	62,798	67,407	23,713
		331,882	392,986	454,505
Current liabilities				
Loans and borrowings	*17*	39,139	31,836	52,235
Trade and other payables	*18*	104,785	111,701	227,501
Income tax payable	*19(a)*	547	7,620	6,634
		144,471	151,157	286,370
Net current assets		187,411	241,829	168,135
NET ASSETS		273,185	345,465	279,261
Capital and reserves				
Share capital	*20*	93,500	93,500	93,500
Reserves	*21*	95,863	155,989	185,761
Total equity attributable to equity shareholders of the company		189,363	249,489	279,261
Non-controlling interests		83,822	95,976	–
TOTAL EQUITY		273,185	345,465	279,261

The accompanying notes form part of the Financial Information.

3 Combined statements of changes in equity

(Expressed in Renminbi Yuan)

	Attributable to equity holders of the Company							
	Share capital	Capital reserves	PRC statutory reserves	Exchange reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 20	*Note 21(a)*	*Note 21(b)*	*Note 21(c)*				
Balance at 1 January 2012	83,678	26,426	4,155	1,757	12,247	128,263	5,192	133,455
Profit for the year	–	–	–	–	46,279	46,279	3,439	49,718
Other comprehensive income	–	–	–	(11)	–	(11)	–	(11)
Total comprehensive income	–	–	–	(11)	46,279	46,268	3,439	49,707
Capital injection	9,822	–	–	–	–	9,822	–	9,822
Appropriation to general reserve	–	–	6,235	–	(6,235)	–	–	–
Appropriation to maintenance and production funds	–	–	1,566	–	(1,566)	–	–	–
Reclassification of redeemable shares from liability to equity *(Note 22)*	–	5,010	–	–	–	5,010	75,191	80,201
Balance at 31 December 2012	93,500	31,436	11,956	1,746	50,725	189,363	83,822	273,185
Balance at 1 January 2013	93,500	31,436	11,956	1,746	50,725	189,363	83,822	273,185
Profit for the year	–	–	–	–	60,338	60,338	12,154	72,492
Other comprehensive income	–	–	–	(212)	–	(212)	–	(212)
Total comprehensive income	–	–	–	(212)	60,338	60,126	12,154	72,280
Appropriation to general reserve	–	–	7,342	–	(7,342)	–	–	–
Appropriation to maintenance and production funds	–	–	1,620	–	(1,620)	–	–	–
Balance at 31 December 2013	93,500	31,436	20,918	1,534	102,101	249,489	95,976	345,465

	Attributable to equity holders of the Company							
	Share capital	**Capital reserves**	**PRC statutory reserves**	**Exchange reserve**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 20	*Note 21(a)*	*Note 21(b)*	*Note 21(c)*				
Unaudited:								
Balance at 1 January 2014	93,500	31,436	20,918	1,534	102,101	249,489	95,976	345,465
Profit for the period	–	–	–	–	41,896	41,896	8,832	50,728
Other comprehensive income	–	–	–	25	–	25	–	25
Total comprehensive income	–	–	–	25	41,896	41,921	8,832	50,753
Deregistration of a subsidiary	–	–	–	–	–	–	(1,065)	(1,065)
Acquisition of non-controlling interests *(Note 21(f))*	–	(12,149)	–	–	–	(12,149)	(103,743)	(115,892)
Appropriation to maintenance and production funds	–	–	1,276	–	(1,276)	–	–	–
Balance at 30 September 2014	93,500	19,287	22,194	1,559	142,721	279,261	–	279,261
Unaudited:								
Balance at 1 January 2013	93,500	31,436	11,956	1,746	50,725	189,363	83,822	273,185
Profit for the period	–	–	–	–	32,810	32,810	6,685	39,495
Other comprehensive income	–	–	–	(154)	–	(154)	–	(154)
Total comprehensive income	–	–	–	(154)	32,810	32,656	6,685	39,341
Appropriation to maintenance and production funds	–	–	1,211	–	(1,211)	–	–	–
Balance at 30 September 2013	93,500	31,436	13,167	1,592	82,324	222,019	90,507	312,526

The accompanying notes form part of the Financial Information.

4 Combined cash flow statements

(Expressed in Renminbi Yuan)

		Years ended 31 December		Nine months ended 30 September	
		2012	**2013**	**2013**	**2014**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	(Unaudited)
Operating activities:					
Cash generated from/ (used in) operations	*16(b)*	46,339	29,971	(7,532)	(52,326)
Income tax paid	*19(a)*	(13,897)	(9,886)	(8,436)	(13,569)
Net cash generated from/(used in) operating activities		32,442	20,085	(15,968)	(65,895)
Investing activities:					
Payment for purchase of property, plant and equipment		(9,025)	(9,240)	(9,951)	(4,800)
Proceeds from disposal of property, plant and equipment and intangible assets		378	113	113	819
Advances to related parties		(1,211)	–	–	–
Repayments of advances to related parties		–	118	118	6,124
Interest received		539	813	561	548
Net cash (used in)/generated from investing activities		(9,319)	(8,196)	(9,159)	2,691

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Financing activities:				
Proceeds from bank loans and borrowings	48,979	43,336	20,400	41,358
Repayments of bank loans and borrowings	(70,370)	(50,639)	(34,000)	(20,959)
Advances from related parties	–	3,279	2,070	2,759
Repayments of advances from related parties	–	–	–	(2,466)
Capital injection from equity shareholders of the Group	9,822	–	–	–
Dividends paid to then equity holder	(2,189)	–	–	–
Interest paid	(3,526)	(3,154)	(2,337)	(1,119)
Repayment to hire purchase creditor	(79)	(83)	(62)	(67)
Net cash (used in)/generated from financing activities	(17,363)	(7,261)	(13,929)	19,506
Net increase/(decrease) in cash and cash equivalents	5,760	4,628	(39,056)	(43,698)
Cash and cash equivalents at 1 January	57,049	62,798	62,798	67,407
Effect of foreign exchange rate changes	(11)	(19)	(14)	4
Cash and cash equivalents at 31 December/ 30 September	62,798	67,407	23,728	23,713

The accompanying notes form part of the Financial Information.

B NOTES TO COMBINED FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2014. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2014 are set out in note 28.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Interim Financial Information for the nine months ended 30 September 2013 and 2014 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries. The Financial Information has been prepared using the merger basis of accounting as if the Group had always been in existence.

The Company was incorporated in the Cayman Islands on 11 September 2014 and became the holding company of the companies comprising the Group on 31 December 2014 pursuant to the completion of various steps of the Reorganization. The Group is principally engaged in manufacturing, distribution, research and development of asphalt mixing machinery.

During the Relevant Periods, the Group's asphalt mixing machinery businesses were conducted through certain domestic companies established in the PRC (the "**PRC Operating Entities**"), which were ultimately owned and controlled by Choi Hung Nang, Tin Suen Chu, Choi Hon Ting, Derek and Choi Kwan Li, Glendy (referred to as "**the Choi Family Founders**", or "**the Choi Family**" or "**the Controlling Shareholder**").

The companies (including the PRC Operating Entities) that took part in the Reorganization were controlled by the same Controlling Shareholder before and after the Reorganisation. As the control is not transitory and, consequently there was a continuation of the risks and benefits to the Controlling Shareholder, the Reorganisation is considered to be a business combination under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" has been applied.

Accordingly, the Financial Information has been prepared as if the Group had always been in existence and the net assets of the companies now comprising the Group are combined using the existing book values from the Controlling Shareholder's perspective.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and the combined cash flow statements of the Group include the results of operations of the companies now comprising the Group (or where the companies were incorporated/established at a date later than 1 January 2012, for the period from the date of incorporation/establishment to 30 September 2014) as if the current group structure had been in existence throughout the Relevant Periods. The combined statements of financial position of the Group as at 31 December 2012 and 2013 and 30 September 2014 have been prepared to present the state of affairs of the companies now comprising the Group as at those dates as if the current group structure had been in existence at the respective dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The particulars of the Company's subsidiaries as at the date of this report are set out below:

Name of company	Place and date of incorporation/ establishment	Registered capital/issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	*Indirect*	
Rich Benefit International Limited ("**Rich Benefit**") (萬利國際有限公司)	British Virgin Island 23 May 2014	US$100	100%	–	Investment holding
Hong Kong D&G Machinery Company Limited ("**DGHK**") (香港德基機械有限公司)	Hong Kong 4 July 2014	HK$1,000	–	100%	Investment holding
BW Enterprise Company Limited ("**BW Enterprise**") (百威企業有限公司)	Hong Kong 26 April 2006	HK$30,000,000	–	100%	Investment holding
Zacks Vroom Investment Company Limited ("**Zacks Vroom**") (鴻豐隆投資有限公司)	Hong Kong 20 January 2011	HK$3,730,000	–	100%	Investment holding
Well Silver Corporation Limited ("**Well Silver**") (銀佳興業有限公司)	Hong Kong 22 July 2010	HK$12,100,000	–	100%	Investment holding
Denmike Investment Company Limited ("**Denmike**") (丹麥投資有限公司)	Hong Kong 21 January 2011	HK$2,480,000	–	100%	Investment holding
Langfang D&G Machinery Technology Company Limited ("**LFDG**")* (廊坊德基機械科技股份有限公司)	The PRC 21 August 2006	RMB156,000,000	–	100%	Manufacture of asphalt mixing machinery
Tianjin D&G Machinery Equipment Leasing Company Limited ("**TJDG**")* (天津德基機械設備租賃有限公司)	The PRC 27 August 2010	RMB2,563,680	–	100%	Leasing of asphalt mixing machinery

*: The official names of these companies are in Chinese. The English translation of the name is for reference only.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("**RMB**"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the combined Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined statements of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(g)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Business combinations involving entities under common control

The combined Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Controlling Shareholder.

The assets and liabilities of the combining entities or businesses are combined at the carrying amounts previously recognised in the respective Controlling Shareholder's financial statements.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined Financial Information are presented as if the entities or businesses had been combined at the earliest balance sheet date presented or when they first came under common control, whichever is later.

(g) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a jointly venture is accounted for in the combined Financial Information under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all cases, when the Group ceases to have significant influence over an associate or joint control over a jointly venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(h) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(i) Investment property

Investment properties are land and buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are measured at cost less accumulated depreciation and impairment losses (see note 1(m)(ii)). Cost includes expenditure that is directly attributable to the acquisition of the investment property. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of 10 to 20 years. Depreciation methods, useful lives and residual values are re-assessed at each balance sheet date and adjusted if appropriate.

Rental income from investment properties is accounted for as described in note 1(v)(iii).

(j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the combined statements of financial position at cost less accumulated depreciation and impairment losses (see note 1(m)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Plant and buildings	10 – 20 years
Machinery	3 – 10 years
Motors vehicles	5 years
Office equipment and furniture	4 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(m)(ii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(k) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete the development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC governmental authorities or third parties.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 1(m)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights, which are 50 years.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(m) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The Group assess whether objective evidence of impairment exists for each individual financial asset.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment properties;

– lease prepayments;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associates and joint venture.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually to determine whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(m)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(s) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantee issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "**holder**") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(u)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

(ii) Services income

Revenue arising from after-sales services is recognised when the relevant service is rendered without further performance obligations.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except for the rental income of operating leases of machinery which is recognised based on agreed unit rental per tonne of the machinery output. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the combined statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(w) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss and are reported in net finance costs on a net basis.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment of trade receivables

Management estimates impairment losses of trade receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, payment terms, customer credit-worthiness, the status of customer's road construction and maintenance project and financial condition, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

(ii) Warranty provisions

As explained in note 18(ii), the Group makes product warranty provision based on its best estimate of the expected settlement under the sales agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience and historical warranty data. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(iii) Net realisable value of inventories

As described in note 1(n), net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of reporting period to ensure inventory is shown at the lower of cost and net realisable value.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The amount of each significant category of revenue recognised in turnover is as follows:

	Years ended 31 December		Nine months ended 30 September	
	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Sales of asphalt mixing machinery	324,393	350,792	230,638	253,987
Sales of spare parts and provision of equipment modification services	27,404	44,238	26,271	28,579
Operating lease income of asphalt mixing machinery	12,542	17,230	10,033	15,674
	364,339	412,260	266,942	298,240

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sales and operating lease of asphalt mixing machinery and other relevant spare parts and provision of equipment modification services.

(i) Information about geographical area

The following tables set out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the selling location. All specified non-current assets are physically located in the PRC. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment.

	Years ended 31 December		Nine months ended 30 September	
	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Revenue from external customers				
– Mainland China	312,619	354,092	225,016	283,595
– Outside Mainland China	51,720	58,168	41,926	14,645
	364,339	412,260	266,942	298,240

(ii) Information about major customers

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues for each of the periods presented.

4 OTHER REVENUE AND NET INCOME

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Other revenue:				
Interest income	539	813	561	548
Government grants *(Note (a))*	731	3,674	154	286
	1,270	4,487	715	834
Other net income:				
Rental income from investment properties, net of direct operating expenses	1,226	1,281	950	1,017
Net loss on disposal of property, plant and equipment and other assets	(804)	(13)	(2)	(379)
Others	71	240	118	(43)
	493	1,508	1,066	595
	1,763	5,995	1,781	1,429

(a) Government grants

Government grants mainly represent operating subsidies. There were no unfulfilled conditions and other contingencies attached to these grants.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Interest on loans and borrowings wholly repayable within 5 years	3,526	2,471	1,886	1,119
Interest on redeemable shares	7,157	–	–	–
Discounted bills interest	–	683	451	–
Net foreign exchange loss/(gain)	739	560	470	(40)
Total finance costs	11,422	3,714	2,807	1,079

(b) Staff costs

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Salaries and wages	24,848	31,735	23,680	24,399
Contributions to defined contribution plans (i)	6,038	7,788	5,744	6,565
	30,886	39,523	29,424	30,964

(i) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Depreciation				
– assets held for use under operating leases	1,786	2,779	1,744	2,577
– other assets	5,059	5,181	3,985	3,937
	6,845	7,960	5,729	6,514
Amortisation				
– lease prepayments	200	200	150	150
– intangible assets	108	225	162	166
	308	425	312	316
Operating lease charges	900	1,425	784	678
Product warranty costs	978	1,749	1,265	914
Research and development costs	13,432	13,924	9,411	5,831
Impairment losses of trade receivables	4,418	10,389	3,219	3,589
Auditors' remuneration	1,671	1,468	1,331	1,870
Cost of inventories#	209,027	234,577	156,406	171,332

Cost of inventories includes RMB7,404,000 and RMB12,454,000 for the years ended 31 December 2012 and 2013, and RMB11,660,000 (unaudited) and RMB11,074,000 (unaudited) for the nine months ended 30 September 2013 and 2014 respectively, relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in 5(b) for each of these types of expenses.

6 INCOME TAX

(a) Income tax in the combined statements of profit or loss and other comprehensive income represents:

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Current tax:				
Provision for PRC income tax for the year/period	12,146	16,959	9,011	12,480
Under-provision in prior year	74	–	–	103
	12,220	16,959	9,011	12,583
Deferred tax:				
Origination and reversal of temporary differences	(1,782)	(3,297)	(1,753)	(1,794)
	10,438	13,662	7,258	10,789

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Profit before taxation	60,156	86,154	46,753	61,517
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	15,467	21,846	11,897	16,054
Tax effect of preferential tax rate (ii)	(6,439)	(8,047)	(4,597)	(5,799)
Tax effect of non-deductible expenses	2,143	904	666	868
Additional deduction for qualified research and development expenses (iii)	(807)	(1,041)	(708)	(437)
Under-provision in prior year	74	–	–	103
Actual income tax expense	10,438	13,662	7,258	10,789

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

No provision for Hong Kong Profits Tax was made for the subsidiaries incorporated in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the above periods. The payments of dividends by Hong Kong companies are not subject to any withholding tax.

The Group's PRC subsidiaries are subject to the PRC Corporate Income Tax rate of 25%.

(ii) According to the PRC Enterprise Income Tax Law and its relevant regulations, entities that are qualified as high-technology enterprises under the tax law are entitled to a preferential income tax rate of 15%. The Company's subsidiaries, LFDG and BJDG, obtained the approvals of high-technology enterprises in the year 2011 and 2010, respectively. Accordingly, LFDG and BJDG were entitled to preferential income tax at 15% for the years from 2011 to 2013 and 2010 to 2012, respectively. BJDG has further obtained the renewal of such qualification in 2013, and is entitled to preferential income tax rate at 15% for the years from 2013 to 2015. Currently, LFDG is in the progress of applying for renewal of its qualification as a high-technology enterprise from 2014 to 2016. LFDG has received a confirmation letter from the office of the Leading Group on the Administration of the Recognition of High-Technology Enterprise in Hebei Province dated 31 December 2014 confirming that their renewal application has been approved by expert assessment. As such, management expect that LFDG will be able to renew its High-Technology Enterprise qualification and entitled to the preferential income tax rate of 15% for the years from 2014 to 2016.

(iii) Under the PRC Enterprise Income Tax Law and its relevant regulations, a 50% additional tax deduction is allowed for qualified research and development expenses.

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2012				
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Choi Hung Nang	–	–	–	–	–
Mr. Choi Hon Ting, Derek	–	–	–	–	–
Ms. Choi Kwan Li, Glendy	–	300	–	–	300
Mr. Tom Liu Jing-zhi	–	245	–	–	245
Mr. Yu Ronghua	–	213	–	67	280
Mr. Lao Kam Chi	–	249	–	–	249
	–	1,007	–	67	1,074

	Year ended 31 December 2013				
	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Choi Hung Nang	–	–	–	–	–
Mr. Choi Hon Ting, Derek	–	–	–	–	–
Ms. Choi Kwan Li, Glendy	–	293	–	–	293
Mr. Tom Liu Jing-zhi	–	248	–	–	248
Mr. Yu Ronghua	–	204	–	72	276
Mr. Lao Kam Chi	–	311	–	–	311
	–	1,056	–	72	1,128

	Nine months ended 30 September 2013 (Unaudited)				
	Director's fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Choi Hung Nang	–	–	–	–	–
Mr. Choi Hon Ting, Derek	–	–	–	–	–
Ms. Choi Kwan Li, Glendy	–	225	–	–	225
Mr. Tom Liu Jing-zhi	–	193	–	–	193
Mr. Yu Ronghua	–	153	–	55	208
Mr. Lao Kam Chi	–	240	–	–	240
	–	811	–	55	866

	Nine months ended 30 September 2014 (Unaudited)				
	Director's fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Choi Hung Nang	–	–	–	–	–
Mr. Choi Hon Ting, Derek	–	–	–	–	–
Ms. Choi Kwan Li, Glendy	–	218	–	–	218
Mr. Tom Liu Jing-zhi	–	275	–	–	275
Mr. Yu Ronghua	–	153	–	56	209
Mr. Lao Kam Chi	–	240	–	–	240
	–	886	–	56	942

Choi Hung Nang and Choi Hon Ting, Derek did not receive any remuneration from the Group for providing services to the Group during the above periods.

There were no amounts paid during the above periods to the directors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the above periods.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group for the years ended 31 December 2012 and 2013 include one and two (for the nine-month periods ended 30 September 2013 and 2014 (unaudited): two and two) directors respectively, whose emoluments are reflected in note 7 presented above. The aggregate of the emoluments in respect of the remaining four and three (for the nine-month periods ended 30 September 2013 and 2014 (unaudited): three and three) during the respective years/periods are as follows:

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Salaries, allowance and benefits in kind	1,221	897	694	707
Discretionary bonuses	73	59	59	48
Retirement scheme contributions	45	35	27	29
	1,339	991	780	784

The above individuals' emoluments are within the band of Nil to HK$1,000,000.

9 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful due to the Reorganisation and the preparation of the results for each of the years ended 31 December 2012 and 2013 and each of the nine months ended 30 September 2013 and 2014 using the combined basis as disclosed in note 1(b) of section B above.

10 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings	Machinery	Motor vehicles	Office equipment and furniture	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2012	40,544	33,456	3,751	5,423	–	83,174
Additions	–	7,060	1,437	403	3,325	12,225
Disposals	(29)	(8,702)	(474)	(6)	–	(9,211)
At 31 December 2012	40,515	31,814	4,714	5,820	3,325	86,188
At 1 January 2013	40,515	31,814	4,714	5,820	3,325	86,188
Additions	574	9,891	455	364	6,572	17,856
Transferred to fixed assets	970	4,399	–	–	(5,369)	–
Transferred to other assets	–	–	–	–	(722)	(722)
Disposals	(9)	(160)	(875)	(219)	–	(1,263)
At 31 December 2013	42,050	45,944	4,294	5,965	3,806	102,059
Unaudited						
At 1 January 2014	42,050	45,944	4,294	5,965	3,806	102,059
Additions	–	6,813	–	150	3,225	10,188
Transferred to fixed assets	5,318	1,243	–	–	(6,561)	–
Disposals	–	(1,473)	(140)	(324)	–	(1,937)
At 30 September 2014	47,368	52,527	4,154	5,791	470	110,310
Accumulated depreciation:						
At 1 January 2012	(9,009)	(15,962)	(1,909)	(2,616)	–	(29,496)
Charge for the year	(1,906)	(3,058)	(574)	(649)	–	(6,187)
Written back on disposals	26	7,832	165	6	–	8,029
At 31 December 2012	(10,889)	(11,188)	(2,318)	(3,259)	–	(27,654)
At 1 January 2013	(10,889)	(11,188)	(2,318)	(3,259)	–	(27,654)
Charge for the year	(1,957)	(4,071)	(678)	(609)	–	(7,315)
Written back on disposals	9	137	788	203	–	1,137
At 31 December 2013	(12,837)	(15,122)	(2,208)	(3,665)	–	(33,832)
Unaudited						
At 1 January 2014	(12,837)	(15,122)	(2,208)	(3,665)	–	(33,832)
Charge for the period	(1,494)	(3,665)	(435)	(437)	–	(6,031)
Written back on disposals	–	371	130	275	–	776
At 30 September 2014	(14,331)	(18,416)	(2,513)	(3,827)	–	(39,087)
Net book value:						
At 30 September 2014 (unaudited)	33,037	34,111	1,641	1,964	470	71,223
At 31 December 2013	29,213	30,822	2,086	2,300	3,806	68,227
At 31 December 2012	29,626	20,626	2,396	2,561	3,325	58,534

(a) Property, plant and equipment with net book value of RMB14,205,000, RMB13,338,000 and RMB13,150,000 (unaudited) as at 31 December 2012, 2013 and 30 September 2014, respectively, have been pledged as security for bank loans (see note 17(a)(i)).

(b) The Group leases out certain sets of asphalt mixing machineries under operating leases. The leases typically run for an initial period of 4 to 16 months, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties (note 11).

The Group's total future minimum lease payments under non-cancellable operating leases (including machineries and investment properties) are receivable as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Within one year	2,037	2,138	7,197
After one year but within five years	3,705	1,696	–
	5,742	3,834	7,197

11 INVESTMENT PROPERTIES

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Cost:			
At 1 January and 31 December/30 September	12,487	12,487	12,487
Less: Accumulated depreciation			
At 1 January	(3,991)	(4,649)	(5,294)
Charge for the year/period	(658)	(645)	(483)
At 31 December/30 September	(4,649)	(5,294)	(5,777)
Net book value:			
At 31 December/30 September	7,838	7,193	6,710

Investment properties of the Group represent land and buildings that are leased to certain of the Company's related parties and are located in the PRC. The Group leases out investment properties under operating leases. The leases typically carry rentals determined based on the lease contract with related parties for a period of 2 to 5 years.

The aggregate fair value of the investment properties at 31 December 2012, 2013 and 30 September 2014 were approximately RMB16,018,000, RMB16,354,000 and RMB16,813,000 (unaudited), respectively. The valuation was estimated by the directors based on market value benchmarking of similar land and replacement cost of the buildings.

12 LEASE PREPAYMENTS

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Cost:			
At 1 January and 31 December/30 September	8,596	8,596	8,596
Less: Accumulated amortisation			
At 1 January	(1,459)	(1,659)	(1,859)
Charge for the year/period	(200)	(200)	(150)
At 31 December/30 September	(1,659)	(1,859)	(2,009)
Net book value:			
At 31 December/30 September	6,937	6,737	6,587

Lease prepayments represent cost of land use rights in respect of pieces of land located in the PRC with lease periods of 50 years when granted.

Lease prepayments with net book value of RMB5,749,000, RMB5,618,000 and RMB5,520,000 (unaudited) as at 31 December 2012, 2013 and 30 September 2014, respectively, have been pledged as security for bank loans (see note 17(a)(i)).

13 INVENTORIES

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Raw materials	34,058	27,782	37,454
Work in progress	42,476	59,606	54,130
Finished goods	16,349	14,776	38,758
Outsourcing materials	2,000	2,201	3,820
	94,883	104,365	134,162

The inventory as at 31 December 2012, 2013 and 30 September 2014 were stated at cost.

No inventory provision was made as at 31 December 2012, 2013 and 30 September 2014.

14 TRADE AND OTHER RECEIVABLES

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Trade receivables *(Notes (a) and (b))*	135,945	216,800	277,319
Less: unrecognised interest income	(404)	(960)	(1,067)
	135,541	215,840	276,252
Less: provision for impairment *(Note (c))*	(4,733)	(15,122)	(18,711)
	130,808	200,718	257,541
Less: trade receivable due after one year *(Note (a))*	(5,322)	(11,827)	(15,605)
	125,486	188,891	241,936
Bills receivables	10,289	4,507	7,723
Total trade receivables	135,775	193,398	249,659
Prepayments to suppliers	14,277	11,101	29,589
Other receivables and deposits	5,574	2,123	7,696
Amounts due from third parties	155,626	206,622	286,944
Amounts due from related parties *(Note 26(b))*	6,387	6,076	–
Trade and other receivables, net	162,013	212,698	286,944

All of the trade and other receivables, except those described below, are expected to be recovered or recognised as expense within one year.

(a) Payment terms of trade receivables

Trade receivables under credit sales arrangement are due for payment in accordance with specific payment terms as agreed with individual customers on a case by case basis, subject to the fulfillment of conditions as stipulated in the respective sales contracts. Customers are normally required to make an upfront payment or deposit based on certain percentage of the product price as agreed on a case by case basis. The remaining sum is usually being settled by way of instalments up to a period of 18 months after the date of delivery of products. Instalment payments with terms more than one year are discounted at a rate which approximates the debtor's borrowing rate in transactions with an independent lender under comparable terms and conditions. For the years ended 31 December 2012, 2013 and the nine months ended 30 September 2014, the weighted average discount rate was approximately 6.15% per annum. As at 31 December 2012, 2013 and 30 September 2014, trade receivables due after one year of RMB5,322,000, RMB11,827,000 and RMB15,605,000 (unaudited) were presented net of unrecognised interest income of RMB191,000, RMB332,000 and RMB279,000 (unaudited) respectively.

(b) Ageing analysis

Ageing analysis based on billing date of trade receivables (net of provision for impairment) as at the balance sheet date is as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Due within 1 year:			
Less than 3 months	57,250	94,601	100,832
3 to 6 months	26,800	31,867	46,141
6 to 12 months	35,503	28,497	70,448
Over 12 months	5,933	33,926	24,515
	125,486	188,891	241,936
Due after 1 year:	5,322	11,827	15,605
	130,808	200,718	257,541

(c) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 1(m)(i)). The movement in the provision for impairment during the periods is as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Balance at 1 January	315	4,733	15,122
Impairment losses recognised	4,418	10,389	3,589
Balance at 31 December/30 September	4,733	15,122	18,711

(d) Trade receivables that are not impaired:

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Neither past due nor impaired	89,575	90,684	148,659
Less than 3 months past due	18,332	49,433	49,942
3 to 12 months past due	15,395	39,345	29,107
Over 12 months past due	2,089	4,383	7,256
Total amount past due but not impaired	35,816	93,161	86,305
	125,391	183,845	234,964

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good payment track records with the Group and did not encounter financial difficulty or fail to fulfill their repayment plan. Based on past experience with these customers and evaluation of their current creditability, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(e) Bills receivables

Bills receivable represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from banks at maturity, which generally ranges from 3 of 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time discounts bills receivables to banks in order to enhance treasury management.

During the years ended 31 December 2012, 2013 and the nine months ended 30 September 2014, bills receivable of RMB nil, RMB21,719,000 and RMB nil (unaudited) were discounted to banks, where substantially all the risks and rewards of ownership had been transferred. Since the Group did not have continuing involvement in the transferred assets, these discounted bills receivable were therefore derecognised.

15 PLEDGED BANK DEPOSITS

Pledged bank deposits represent cash maintained at banks as security for guarantees of payment relating to the issuance of bills payable to certain vendors of the Group. Upon maturity of the bills payable, which generally range from 3 to 6 months, the restriction on the bank deposits is released.

16 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Cash at bank and on hand	62,798	67,407	23,713

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

		Years ended 31 December		Nine months ended 30 September	
		2012	2013	2013	2014
	Note	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Profit before taxation		60,156	86,154	46,753	61,517
Adjustments for:					
Depreciation	*5(c)*	6,845	7,960	5,729	6,514
Amortisation	*5(c)*	308	425	312	316
Finance costs		10,683	3,154	2,337	1,119
Interest income	*4*	(539)	(813)	(561)	(548)
Loss on disposal of property, plant and equipment and other assets	*4*	804	13	2	379
Changes in working capital:					
Increase in inventories		(12,957)	(14,568)	(27,826)	(35,972)
Increase in trade and other receivables		(44,413)	(59,641)	(45,036)	(84,212)
(Increase)/decrease in pledged bank deposits		(10,006)	3,672	(6,235)	(1,170)
Increase/(decrease) in trade and other payables		35,458	3,615	16,993	(269)
Cash generated from/(used in) operations		46,339	29,971	(7,532)	(52,326)

17 LOANS AND BORROWINGS

(a) Loans and borrowings were repayable within 1 year or on demand and can be analysed as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Unsecured bank loans	5,139	4,336	4,154
Secured bank loans (i)	34,000	27,500	16,499
Loan guaranteed by related parties (ii)	–	–	31,582
	39,139	31,836	52,235

(i) Loans and borrowings were secured by the following assets of the Group:

	Net book value of security assets		
	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Property, plant and equipment	14,205	13,338	13,150
Lease prepayments	5,749	5,618	5,520
	19,954	18,956	18,670

(ii) Loan and borrowing of RMB nil, RMB nil, and RMB31,582,000 (unaudited) were guaranteed by certain related parties as at 31 December 2012, 2013 and 30 September 2014, respectively (see note 26(c)). Such loan was arising from the factoring service provided by HSBC Bank (China) Company Limited to the Group's suppliers which was interest-free to the Group and repayable within one year.

(iii) Certain banking facilities of a subsidiary of the Group are subject to the fulfilment of financial covenants relating to certain of the balance sheet ratios of that subsidiary, as are commonly found in lending arrangements with financial institutions. If the subsidiary were to breach the covenants the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 23(b). As at 31 December 2012 and 2013 and 30 September 2014, none of the covenants relating to drawn down facilities had been breached.

18 TRADE AND OTHER PAYABLES

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Trade payables	18,553	35,564	21,758
Bills payable	51,154	36,603	43,583
Trade and bills payables (i)	69,707	72,167	65,341
Receipts in advance	21,070	16,108	23,122
Accrued expenses and other payables	9,020	11,874	9,624
Payables related to acquisition of non-controlling interests *(Note 21(f))*	–	–	115,892
Accrued staff costs	2,907	4,841	7,367
Product warranty provision (ii)	978	1,421	1,534
Sundry taxes payables	305	861	271
Amounts due to third parties	103,987	107,272	223,151
Amounts due to related parties *(Note 26(b))*	798	4,429	4,350
Trade and other payables	104,785	111,701	227,501

(i) All trade and bills payables are expected to be settled within one year.

An ageing analysis of trade and bills payables is as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Within 3 months	54,185	55,247	53,196
After 3 months but within 6 months	15,344	16,658	11,915
After 6 months but within 1 year	178	262	230
Trade and bills payables	69,707	72,167	65,341

(ii) Product warranty provision

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Balance at 1 January	883	978	1,421
Provision for the year/period	978	1,749	914
Utilisation during the year/period	(883)	(1,306)	(801)
Balance at 31 December/30 September	978	1,421	1,534

A provision for warranties is recognised when the underlying products are sold. Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within the warranty period, which is usually a period of 15 months from the date of product delivery or 12 months from the date of customer acceptance whichever is earlier. For overseas customers or customers with overseas projects, the Group offers a longer warranty period of 18-24 months. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of products sold which are still within warranty period. The amount of provision takes into account the Group's recent claim experience and historical warranty data.

19 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the combined statements of financial position represent:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Balance at beginning of the year/period	2,224	547	7,620
Provision for current income tax for the year/period	12,220	16,959	12,583
Payment during the year/period	(13,897)	(9,886)	(13,569)
Income tax payable	547	7,620	6,634

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the combined statements of financial position and the movements during the following periods are as follows:

Deferred tax assets arising from:	Impairment losses on receivables	Unrealised profit due to intra-group transaction	Accrued expenses and other payables	Product warranty provision	Others	Total
Balance at 1 January 2012	79	671	–	132	–	882
Credited to profit or loss	753	626	327	15	61	1,782
Balance at 31 December 2012	832	1,297	327	147	61	2,664
Balance at 1 January 2013	832	1,297	327	147	61	2,664
Credited to profit or loss	1,635	285	1,228	66	83	3,297
Balance at 31 December 2013	2,467	1,582	1,555	213	144	5,961
Unaudited						
Balance at 1 January 2014	2,467	1,582	1,555	213	144	5,961
Credited to profit or loss	539	331	890	17	17	1,794
Balance at 30 September 2014	3,006	1,913	2,445	230	161	7,755

(ii) Reconciliation to the combined statements of financial position:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Deferred tax assets recognized in the combined statements of financial position	2,664	5,961	7,755

(c) Deferred tax liabilities not recognised:

The PRC Enterprise Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities in respect of PRC subsidiaries' undistributed earnings of RMB69,224,000, RMB137,148,000 and RMB192,159,000 (unaudited), at 31 December 2012, 2013 and 30 September 2014 respectively as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

20 SHARE CAPITAL

As disclosed in 1(b) above, the Financial Information has been prepared under the merger accounting method such that the financial statements of the companies now comprising the Group during the above periods were combined as if the Group had always been in existence.

The reorganisation of the Group was not completed. For the purpose of this report, share capital as at 31 December 2012, 2013 and 30 September 2014 represents the issued and paid-up capital of the aggregate amount of the companies comprising the Group at the respective dates, after elimination of investments in subsidiaries.

21 RESERVES

(a) Capital reserves

Capital reserve comprises contributions by the Controlling Shareholder at the respective dates and balances arising from transactions with owners in their capacity as the equity owners.

(b) PRC statutory reserves

Statutory general reserve

Statutory general reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective companies' boards of directors.

For the entities concerned, statutory general reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations, the PRC companies comprising the Group are required to transfer maintenance and production funds at fixed rates based on production volume to a specific reserve accounts. The production and maintenance funds could be utilised when expenses or capital expenditures on maintenance, production and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's subsidiaries outside the mainland China which are dealt with in accordance with the accounting policies set out in note 1(w).

(d) Distributable reserve

The Company was incorporated on 11 September 2014. There were no reserves available for distribution to equity shareholders as at 30 September 2014.

(e) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Management actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Management monitors its capital structure on the basis of a net debt-to-capital ratio. This ratio is calculated as net debt divided by shareholders' equity. The Group defines net debt as loans and borrowings and bills payable, less pledged bank deposits and cash and cash equivalents.

The net debt-to-equity ratios at 31 December 2012, 2013 and 30 September 2014 were as follows:

		At 31 December		At 30 September
		2012	**2013**	**2014**
	Note	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Loans and borrowings	*17*	39,139	31,836	52,235
Bills payable	*18*	51,154	36,603	43,583
Total debt		90,293	68,439	95,818
Less: Pledged bank deposits	*15*	(12,188)	(8,516)	(9,686)
Cash and cash equivalents	*16(a)*	(62,798)	(67,407)	(23,713)
Net debt		15,307	(7,484)	62,419
Total equity		273,185	345,465	279,261
Net debt-to-capital ratio		0.06	(0.02)	0.22

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(f) Acquisition of non-controlling interests in LFDG

On 30 September 2014, Hong Kong D&G Machinery Company Limited ("**DGHK**") acquired all equity interests in LFDG held by certain private equity investors for an aggregated cash consideration of RMB115.9 million as part of the Group reorganisation. At the acquisition date, the Group recognised an increase in liability of RMB115.9 million, and decreases in non-controlling interests of RMB103.7 million and capital reserve of RMB12.1 million respectively.

22 WRITTEN PUT OPTIONS TO CERTAIN NON-CONTROLLING EQUITY HOLDERS

In April and May 2011, the Group's Controlling Shareholder (i.e. the Choi Family), LangFang D&G Machinery Technology Company Limited ("**LFDG**"), the subsidiary of the Group, and BW Enterprise Company Limited ("**BW Enterprise**"), LFDG's shareholder, granted written put options to a number of private equity investors, collectively the non-controlling equity holders of LFDG, in concurrent with these non-controlling equity holders' investments into LFDG. The put options gave these non-controlling equity holders the rights to transfer their equity interests in LFDG to the Group's Controlling Shareholder or BW Enterprise, or put back the shares to LFDG at cash consideration contingent upon occurrence of certain specified events.

Management consider the occurrence or non-occurrence of certain specified events are beyond the control of LFDG, BW Enterprise, the Controlling Shareholder and the relevant private equity investors, therefore the Group including LFDG and BW Enterprise did not have the unconditional right to avoid making payments for redemption of shares under the contingent settlement provision when the above specified events occurred. Accordingly, the investments made by the aforementioned non-controlling equity holders were presented as redeemable shares and recorded as liabilities in the statement of financial position since the date of such investments.

In October 2012, the Choi Family, LFDG and BW Enterprise signed supplemental agreements with the aforementioned non-controlling equity holders of LFDG. According to those supplemental agreements, the put options were cancelled and the relevant redeemable shares presented as financial liabilities were extinguished and reclassified as non-controlling interests within equity since the date of such supplemental agreements. The resulting gain on the extinguishment of such liability being the difference between the carrying amount of redeemable shares and the fair value of non-controlling interests was recognised as capital reserve.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial assets of the Group include cash and cash equivalent, pledged bank deposits, trade and other receivables. Financial liabilities of the Group include loans and borrowings, and trade and other payables.

The Group has exposure to the following risks from its use of financial instruments:

– credit risk

– liquidity risk

– interest rate risk

– foreign currency risk

The Company's board of directors (the "**Board**") has overall responsibility for the establishment and oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The risks are mitigated by various measures as disclosed below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Bank deposits are placed with financial institutions that have high credit ratings. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

In respect of trade and other receivables, as part of the Group's ongoing credit control procedures, management monitors the creditworthiness of customers to whom it grants credit in the normal course of business. Credit exposure limits are established to avoid concentration risk with respect to any single customer.

Before the Group's acceptance of orders from customers, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's background and financial strengths, historical repayment records and current repayment ability, and take into account information specific to the economic environment in which the customer operates. Trade receivables under credit sales arrangement are due in accordance with specific payment terms agreed with individual customer on a case by case basis subject to the fulfilment of conditions as stipulated in the respective sales contracts. If the customers request for more favourable credit terms than what the Group would offer under its established policies, depending on the terms that the customers request for, the sales personnel must seek approvals from the Group's regional manager, sales director and/or executive director. Normally, the Group does not obtain collateral from customers.

With respect to the collection of trade receivables, the Group sends payment reminder to its customers one month before the due date for payment. The Group's sales personnel are responsible for follow-up of overdue balances on a regular basis. They may liaise with the customers enquiring about the status of their road construction or maintenance projects, or visit the customers in person if necessary. The Group's finance department sends payment reminder letters to customers for any overdue balance. The collection status and overdue analysis is reported to sales department on a bi-weekly basis. The Group management reviews overdue balances to make appropriate assessment and determine whether or not provision for impairment of trade receivables should be made on a case-by-case basis. The management team works closely with sales personnel to conduct regular reviews of repayment status of customers with overdue trade receivable balances. Management will from time to time review, and if appropriate, revise and update the Group's credit policy and internal control procedures for trade receivables collection.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. As at 31 December 2012, 2013 and 30 September 2014, 7% and 5% and 4% of the total trade and bills receivables was due from the Group's largest customer and 29% and 20% and 16% of the total trade and bills receivables was due from the Group's five largest customers respectively.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash and committed lines of funding from financial institutions to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of the Group's financial liabilities at the respective balance sheet dates, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	At 31 December 2012			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	40,564	–	40,564	39,139
Trade and other payables	104,785	–	104,785	104,785
	145,349	–	145,349	143,924

	At 31 December 2013			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	33,651	–	33,651	31,836
Trade and other payables	111,701	–	111,701	111,701
	145,352	–	145,352	143,537

	At 30 September 2014 (unaudited)			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	52,555	–	52,555	52,235
Trade and other payables	227,501	–	227,501	227,501
	280,056	–	280,056	279,736

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, pledged bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank and pledged bank deposits are with fixed interest rates ranging from 0.35% to 0.50% per annum as at 31 December 2012, 2013 and 30 September 2014, respectively.

The Group's interest-bearing borrowings and interest rates as at 31 December 2012, 2013 and 30 September 2014 are set out as follows:

	At 31 December 2012		At 31 December 2013		At 30 September 2014 (unaudited)	
	Interest rate %	*RMB'000*	*Interest rate %*	*RMB'000*	*Interest rate %*	*RMB'000*
Fixed rate borrowings						
Bank loans	6.60–7.20	39,139	6.60–7.20	31,836	6.60–7.20	20,653

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of equity that would arise assuming that the change in interest rates had occurred at the end of the following periods and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the following periods.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax and retained earnings for the year/period
		RMB'000
At 31 December 2012		
Basis points	100	(297)
Basis points	(100)	297
At 31 December 2013		
Basis points	100	(369)
Basis points	(100)	369
At 30 September 2014 (unaudited)		
Basis points	100	162
Basis points	(100)	(162)

(d) Foreign currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars ("**USD**"), Euros ("**EUR**") and Australian Dollars ("**AUD**").

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	At 31 December 2012			At 31 December 2013			At 30 September 2014 (unaudited)		
	United States Dollars	Euros	Australian Dollars	United States Dollars	Euros	Australian Dollars	United States Dollars	Euros	Australian Dollars
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	289	1,604	110	672	2,646	95	6,386	1,599	–
Cash and cash equivalents	1,556	1,488	–	10,153	539	47	254	–	26
Trade and other payables	(8,177)	–	(3,553)	(3,894)	–	–	(225)	–	(8)
Gross exposure arising from recognised assets and liabilities	(6,332)	3,092	(3,443)	6,931	3,185	142	6,415	1,599	18

The following table indicates the change in the Group's profit after taxation (and retained earnings) and other components of equity that would arise if foreign exchange rates to which the Group's financial assets and liabilities have significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant:

	Year ended 30 December 2012		Year ended 30 December 2013		Nine months ended 30 September 2014 (unaudited)	
	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained earnings	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained earnings	Increase/ decrease in foreign exchange rates	Effect on profit after taxation and retained earnings
		RMB'000		*RMB'000*		*RMB'000*
USD	5%	(271)	5%	295	5%	273
	–5%	271	–5%	(295)	–5%	(273)
EUR	5%	132	5%	135	5%	68
	–5%	(132)	–5%	(135)	–5%	(68)
AUD	5%	(147)	5%	6	5%	1
	–5%	147	–5%	(6)	–5%	(1)

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of the respective entity within the Group.

(e) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2012, 2013 and 30 September 2014 given the nature and short-term maturity of these financial instruments.

24 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of plant, property and equipment outstanding at each of the balance sheet dates not provided for in the Financial Information were as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Contracted for	7,172	8,947	7,696
Authorised but not contracted for	1,092	513	24
	8,264	9,460	7,720

(b) Operating lease commitments

The Group leases business premises through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At each of the balance sheet dates, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Within 1 year	934	928	496
After 1 year but within 5 years	719	247	240
	1,653	1,175	736

25 CONTINGENT LIABILITIES

(a) Financial guarantee issued

Certain customers of the Group finance their purchase of the Group's machinery products through finance leases provided by third-party leasing companies. Under the third party leasing arrangement, the Group provides guarantee to the third-party leasing companies that in the event of customer default, the Group is required to make payment to the leasing companies for the outstanding lease payments due from the customer. At the same time, the Group is entitled to repossess and sell the leased machinery, and retain any net proceeds in excess of the guarantee payments made to the leasing companies. As at 31 December 2012, 2013 and 30 September 2014, the Group's maximum exposure to such guarantees was RMB18,048,000, RMB25,665,000, and RMB42,815,000 (unaudited). The terms of these guarantees coincide with the tenure of the lease contracts which generally range from 1 to 2 years. For the years ended 31 December 2012 and 2013 and the nine months ended 30 September 2014, there was no payment made for repossession of machinery incurred under the guarantee arrangement as a result of customer default.

As at 31 December 2013 and 30 September 2014, one subsidiary of the Group had issued financial guarantees to two banks in respect of two banking facilities granted to a related party of the Group in the aggregated amount of approximately RMB21,227,000 and RMB49,135,000 (unaudited), respectively, among which RMB10,545,000 and RMB18,020,000 (unaudited) have been utilised by the related party as at 31 December 2013 and 30 September 2014, respectively. As at the balance sheet dates, the directors do not consider a claim will be made against the subsidiary under any of the above guarantees.

26 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

During the following periods, the directors are of the view that the following companies and persons are related parties of the Group:

Name of party	Relationship
Choi Hung Nang 蔡鴻能	Controlling Shareholder
Choi Kwan Li, Glendy 蔡群力	Controlling Shareholder
Choi Hon Ting, Derek 蔡翰霆	Controlling Shareholder
Tin Suen Chu 田碹珠	Spouse of Controlling Shareholder (Choi Hung Nang)
Tom Liu Jing-zhi 劉敬之	Member of senior management
Lao Kam Chi 劉金枝	Member of senior management
Balama Prima Holdings Ltd. 百萊瑪控股有限公司	Entity controlled by the Controlling Shareholder
Diamond Strong Limited 常剛有限公司	Entity controlled by the Controlling Shareholder
Treasure Merger Holdings Limited 溢豐集團有限公司	Entity controlled by the Controlling Shareholder
Beijing Weilifei Technical Service Company Limited* 北京威力菲技術服務有限公司	Entity controlled by the Controlling Shareholder
Vermeer Beijing Manufacturing Company Limited * 北京威猛機械製造有限公司	Entity which the Controlling Shareholder has significant influence
Vermeer (Beijing) Trading & Service Company Limited* 威猛(北京)商貿有限公司	Entity which the Controlling Shareholder has significant influence
Balama Prima Shanghai Equipment Limited* 百瑪威(上海)機械設備商貿有限公司	Entity controlled by the Controlling Shareholder
Balama Prima Engineering Company Limited 百萊瑪工程有限公司	Entity controlled by the Controlling Shareholder

*: The official names of these companies are in Chinese. The English translation of the name is for reference only.

(a) Transactions with related parties

	Years ended 31 December		Nine months ended 30 September	
	2012	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)
Recurring transactions:				
Rental income from related parties:				
Vermeer Beijing Manufacturing Company Limited	1,828	1,893	1,409	1,475
Vermeer (Beijing) Trading & Service Company Limited	16	33	25	25
Balama Prima Shanghai Equipment Limited	40	–	–	–
Rental expense to related parties:				
Choi Hung Nang	184	184	138	138
Diamond Strong Limited	425	417	315	315
Beijing Weilifei Technical Service Company Limited	148	150	113	113
Non-recurring transactions:				
Advance to related parties:				
Choi Kwan Li, Glendy	1,211	–	–	–
Repayment of advances to related parties:				
Choi Hung Nang	–	118	118	3,381
Choi Kwan Li, Glendy	–	–	–	2,743
Advance from related parties:				
Balama Prima Holdings Ltd.	–	3,255	2,062	1,919
Treasure Merger Holdings Limited	-	-	-	804
Lao Kam Chi	–	24	8	10
Tom Liu Jing-zhi	–	–	–	26
Repayment of advances from related parties:				
Balama Prima Holdings Ltd	–	–	–	2,466

Advances from/to related parties of the Group are unsecured, interest-free and have no fixed term of repayment during the above periods. The directors of the Company have confirmed that the above non-recurring transactions will not be continued in the future after the listing of the Company's shares on the Stock Exchange.

(b) Balances with related parties

As at the respective balance sheet dates, the Group had the following balances with related parties:

Amounts due from:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
– Choi Hung Nang	3,581	3,354	–
– Choi Kwan Li, Glendy	2,806	2,722	–
	6,387	6,076	–

Amounts due to:

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
– Balama Prima Holdings Ltd.	–	3,255	2,734
– Diamond Strong Limited	348	522	–
– Treasure Merger Holdings Limited	–	–	804
– Choi Hung Nang	367	551	698
– Lao Kam Chi	27	50	54
– Beijing Weilifei Technical Service Company Limited	28	24	–
– Tom Liu Jing-zhi	28	27	60
	798	4,429	4,350

The outstanding balances of amounts due from Choi Hung Nang and Choi Kwan Li, Glendy, and the amounts due to Balama Prima Holdings Ltd., Treasure Merger Holdings Limited, Lao Kam Chi and Tom Liu Jing-zhi are unsecured, interest free and have no fixed terms of repayment. The directors of the Company confirm that these balances will be settled before the listing of the Company's shares on the Stock Exchange.

(c) Guarantees issued by the Group

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)
Guarantees issued by the Group in respect of banking facilities granted to a related party:			
– Balama Prima Engineering Company Limited	–	21,227	49,135
	–	21,227	49,135

The directors have confirmed that the above guarantees will be released before the listing of the Company's shares on the Stock Exchange.

(d) Guarantees issued by related parties

	At 31 December 2012	At 31 December 2013	At 30 September 2014
	RMB'000	*RMB'000*	*RMB'000*
Guarantees issued by related parties in respect of bank loans borrowed by the Group:			
– Tin Suen Chu/Choi Hon Ting, Derek	–	–	31,582
	–	–	31,582

The directors have confirmed that the above guarantees will be released before the listing of the Company's shares on the Stock Exchange.

(e) Key management personnel remuneration

Key management personnel remuneration is disclosed in note 7 and note 8.

27 LIST OF AUDITORS OF THE SUBSIDIARIES

The following list contains details of the companies included in the Financial Information that are subject to audit during the Relevant Periods and the names of the respective auditors.

Name of company	Financial period	Statutory auditor
BW Enterprise Company Limited ("**BW Enterprise**") (百威企業有限公司)	Years ended 31 December 2012 and 2013	Eric Cheung & Co. Certified Public Accountants 張坤會計師行
Zacks Vroom Investment Company Limited ("**Zacks Vroom**") (鴻豐隆投資有限公司)	Years ended 31 December 2012 and 2013	K.W.Chau & Co. Certified Public Accountants 蔡健偉會計師行
Well Silver Corporation Limited ("**Well Silver**") (銀佳興業有限公司)	Years ended 31 December 2012 and 2013	Benson Chan & Co. Certified Public Accountants 盈康會計師事務所
Denmike Investment Company Limited ("**Denmike**") (丹麥投資有限公司)	Years ended 31 December 2012 and 2013	Stephen M.S. Lai & Co. CPA Limited 黎文成會計師事務所有限公司
Langfang D&G Machinery Technology Company Limited ("**LFDG**")* (廊坊德基機械科技股份有限公司)	Years ended 31 December 2012 and 2013	Zhonghui CPA 中匯會計師事務所
Tianjin D&G Machinery Equipment Leasing Company Limited ("**TJDG**")* (天津德基機械設備租賃有限公司)	Years ended 31 December 2012 and 2013	Zhonghui CPA 中匯會計師事務所
Beijing D&G Machinery Company Limited ("**BJDG**")* (北京德基機械有限公司)	Years ended 31 December 2012 and 2013	Zhonghui CPA 中匯會計師事務所

*: The official names of these companies are in Chinese. The English translation of the name is for reference only.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the issuance date of the combined Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 30 September 2014 and which have not been adopted in the combined Financial Information. These include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants	1 January 2016
Amendments to HKAS 27	Equity method in separate financial statements	1 January 2016
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial Instruments (2014)	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application, and is not yet in a position to determine whether or not the adoption of these amendments, new standards and interpretations will have a significant impact on the Group's results of operations and financial position.

C SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 September 2014:

(a) Group reorganisation

The Company was incorporated in the Cayman Islands on 11 September 2014. The companies comprising the Group has undergone and completed various steps of Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" in the Document. As a result of such steps of Reorganisation, the Company became the holding company of the Group on 31 December 2014.

(b) Shareholder's loans

Between 10 October 2014 and 25 November 2014, Prima DG Investment Holding Company Limited, a limited liability company incorporated in the BVI beneficially owned by the Choi Family ("BVI-Prima DG") advanced in tranches an interest-free on-demand shareholder's loan to the Company in the aggregate amount of HK$146,342,101 (equivalent to approximately RMB115,892,301) which was in turn injected by the Company to Rich Benefit, and further by Rich Benefit to DGHK. On 25 November 2014, DGHK applied the full amount of such shareholder's loan from Rich Benefit to settle the payable for acquisition of non-controlling interests in LFDG which were held by certain private equity investors (see note 21(f)).

On 20 November 2014, BVI-Prima DG advanced another shareholder's loan in the amount of HK$1,400,000 (equivalent to approximately RMB1,192,334) to the Company for the purpose of financing the incorporation and maintenance fees payable by the Company, Rick Benefit and DGHK.

D FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated in the Cayman Islands on 11 September 2014 as an exempted company with limited liability with an authorised share capital of HK$10,000 divided into 1,000,000 shares with a par value of HK$0.01 each and 7,900 shares were allotted and issued by the Company on such date of incorporation. On 31 December 2014, pursuant to the completion of various steps of the Reorganisation, the Company became the holding company of the Group.

	Note	**At 30 September 2014** *RMB'000* (Unaudited)
Assets		
Trade and other receivables		499
Liabilities		
Amount due to a related party	*(i)*	1,895
Net Liabilities		(1,396)
Capital and reserves		
Share capital		–
Reserves		(1,396)
Total equity		(1,396)

(i) Amount due to a related party (Balama Prima Holdings Ltd.) is unsecured, interest-free, and has no fixed terms of repayment.

E SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 30 September 2014. No dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to 30 September 2014.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong